Report of the Inter-agency
Task Force on Financing
for Development

FINANCING FOR DEVELOPMENT: PROGRESS AND PROSPECTS 2018

United Nations

This report is a joint product of the members of the Inter-agency Task Force on Financing for Development (members are shown on page xi). The Financing for Development Office of the United Nations Department of Economic and Social Affairs serves as the coordinator and substantive editor of the Task Force report.

The online annex of the Task Force (http://developmentfinance.un.org) comprehensively monitors progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the SDGs. It provides the complete evidence base for the Task Force's annual report on progress in the seven action areas of the Addis Agenda (chapters III.A–III.G). The report is by necessity more concise and selective, and should thus be read in conjunction with the online annex.

The online annex of the Task Force also covers several key cross-cutting initiatives that build on the synergies of the Sustainable Development Goals in-depth:

- Delivering social protection and essential public services
- Ending hunger and malnutrition
- Closing the infrastructure gap
- Promoting inclusive and sustainable industrialization
- Generating full and productive employment for all
- Protecting ecosystems
- Promoting peaceful and inclusive societies
- Gender equality
- Investing in children and youth
- Addressing the diverse needs and challenges faced by countries in special situations
- Global partnership

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Chapter III.C

International development cooperation

1. Key messages and recommendations

In response to the vast investment needs associated with the Sustainable Development Goals (SDGs), international public finance has increased since 2015, and efforts continue to increase its quality and effectiveness. Development cooperation is increasingly focused on strengthening developing countries' capacities to mobilize additional public and private resources for sustainable development, in particular by exploring the catalytic role of official development assistance (ODA) and other flows. The challenging geopolitical environment and increasing intensity and frequency of environmental crises is also contributing to a shift towards linking development cooperation more closely to addressing challenges such as climate change and mitigation of conflict. These priorities are aligned with the 2030 Agenda for Sustainable Development and the SDGs, but there is a risk that changing aid allocation patterns creates funding gaps in countries most in need of support and in investment areas critical to leaving no one behind.

In 2016, ODA increased by 10.7 per cent in real terms, continuing a long-standing trend in rising ODA. The previous decline in ODA to the least developed countries (LDCs) has been reversed, but overall disbursements to countries most in need of concessional resources and most vulnerable to external shocks have stagnated in recent years. ***ODA providers should continue efforts to fulfil the commitments they have made and to further increase their ODA allocations to LDCs and other vulnerable countries.***

Multilateral development banks (MDBs) and development finance institutions have continued to step up efforts to provide financial support, technical assistance and policy advice in support of the 2030 Agenda for Sustainable Development. Together, they have an indispensable role to play in financing the SDGs, including infrastructure in particular, and in ensuring that social and environmental sustainability considerations are embedded in investments that will lock in development paths until 2030 and beyond. ***To this end, MDBs should continue to strengthen their collaboration — including in their diagnostic work, support for project preparation and technical assistance — and to strengthen country capacities.***

Bilateral and multilateral South-South development cooperation is expanding in scope and magnitude, including through intraregional and interregional collaboration. ***Raising the visibility of South-South cooperation and further documenting its added value and impact on sustainable development, would support SDG implementation.***

An increasing share of development finance is dedicated to or aligned with climate purposes. Climate finance is channelled through many multilateral and bilateral mechanisms and funds. This provides recipient countries with a range of options, but also contributes to a complex landscape that makes monitoring and reporting, access, and effective use a challenging endeavour. ***Efforts by the Green Climate Fund (GCF) to enhance access to its funding are critical in this regard and other providers should also work towards simplifying access, particularly for vulnerable countries.***

While humanitarian funding is increasing, it is outpaced by the growth in financing needs. ***Donors should continue efforts to deliver on their Grand Bargain commitments to better humanitarian financing. They should further increase multi-year and flexible humanitarian***

financing, and increase investment in development assistance in crisis contexts, with a view to reducing risk and vulnerability and to building resilience.

As many developing countries have recently graduated or will graduate from concessional financing windows thanks to strong per capita income growth, they are at risk of losing access to sufficient and affordable long-term financing for SDG investments. Many of these are small and climate vulnerable countries. ***To address these concerns, additional support should be provided to countries to manage the transition to new sources of financing as part of their integrated national financing frameworks. A wider use of existing exceptions to eligibility based mainly on per capita income, such as the International Development Association (IDA) small-state exception, should be explored.*** Exceptions have also recently been introduced to make non-concessional financing available to low-income countries for projects with potential for strong returns through the IDA18 Scale-Up Facility. ***Building on this experience, development banks should consider introducing additional flexibilities to access appropriate sources of financing, depending on project characteristics.***

Providers are increasingly focusing on the ability of development finance to mobilize additional private or commercial financing, often referred to as "blended finance," with a view to maximizing the impact of scarce public concessional resources and mobilize funding that would otherwise not have been available for SDG investments. ***Providers should also engage with host countries at the strategic level, to ensure that priorities in their project portfolios align with national priorities and that blending arrangements are in the public interest***. To increase the effectiveness of blended finance, relevant actors have worked on the defining principles for blending. ***The international community should consider how these principles relate to respective commitments in the Addis Ababa Action Agenda (hereafter, Addis Agenda) and the overarching principles of development effectiveness, and discuss this relationship in a universal forum such as the Financing for Development (FfD) Forum or the Development Cooperation Forum.***

Use of blended finance instruments is growing rapidly, but has so far largely bypassed LDCs. ***As blended finance becomes an increasingly important modality, providers will need to take steps to ensure that vulnerable countries, where blending has so far proved to be much more challenging, do not see a fall in their overall share of international development finance, both by increasing complementary public investments and by exploring how to more effectively deploy blending in challenging contexts.***

The 2030 Agenda for Sustainable Development focus on results has made the effectiveness of development cooperation relevant across the agenda and its various means of implementation. In response, many actors are working to improve the quality, impact and effectiveness of development cooperation, including by ensuring that interventions support country ownership. Yet, further efforts are needed — in the area of tied aid, for instance. While the share of tied aid has fallen in 2016, reducing transaction costs and strengthening local economies, ***donors should redouble efforts to fully untie aid, particularly as private sector development becomes a bigger priority.***

2. Trends in international development cooperation

2.1 Official development assistance

In 2016, ODA provided by members of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) amounted to $145.7 billion. This represented an increase of 10.7 per cent in real terms over 2015, and continues a long-standing trend in rising ODA.[1] The increase is partly due to increases in funds for hosting and processing refugees within donor countries; but even without them, ODA still has risen by 8.6 per cent in real terms since 2015. Six DAC mem-

1 Preliminary 2017 ODA figures were published by the Organization for Economic Cooperation and Development (OECD) in April 2018, after this report went to print. An update to this analysis is published in the online annex. Available from https://developmentfinance.un.org/international-development-cooperation.

bers (Denmark, Germany, Luxembourg, Norway, Sweden and the United Kingdom of Great Britain and Northern Ireland) met or exceeded the United Nations target of 0.7 per cent of gross national income (GNI). However, on aggregate, DAC donors combined fell short of that target, providing 0.32 per cent of GNI on average. The aggregate increase is marred, however, by (i) the failure to increase concessional finance to countries most in need and (ii) the decline in the share of ODA over which recipient countries have a significant say.

Disbursements of ODA to countries most in need of concessional resources and most vulnerable to external shocks have stagnated in recent years. Despite an increase in ODA to LDCs in 2016 of less than 1 per cent in real terms to $43.1 billion, the medium-term trend is one of stagnation (see figure 1). Moreover, ODA flows to LDCs are very unevenly allocated, with almost half directed to seven countries in 2014 and 2015.[2] In the Addis Agenda, donors had committed to reversing the decline in ODA to LDCs. While this was achieved on aggregate, nine DAC members saw their aid to LDCs decrease between 2015 and 2016. On the other hand, six donors provided 0.15 per cent or more of their GNI as ODA to LDCs, with five of them exceeding 0.20 per cent of GNI.

Aid to small island developing States (SIDS) did increase significantly, from $5.1 billion in 2015 to $7.1 billion in 2016. This increase was driven by Spain's restructuring of Cuba's debt, which accounted for $2 billion in aid. Short of this exceptional measure and the 2010 spike in ODA inflows to Haiti due to the earthquake, ODA to SIDS has not kept pace with the overall increase in aid flows since 2000, and remains very concentrated in a few SIDS, despite the increasing frequency, volatility, and intensity of weather-related hazards many of them are exposed to. ODA trends to landlocked developing countries (LLDCs) and African countries broadly mirror the patterns for LDCs and SIDS.[3]

This is of concern because vulnerable countries are most reliant on ODA to complement scarce domestic public resources and have only limited access to other forms of external financing. While gross ODA disbursements amount to only 1.3 per cent of government revenue in all developing countries on average, this figure is much higher in LDCs, where ODA represents about 15 per cent of government revenue on average. In 16 LDCs, gross ODA disbursements amount to a fifth of total domestic revenue or more, and in four of them it exceeds 50 per cent.[4] ODA also represents the largest external financial flow for 22 SIDS, accounting for over 40 per cent of all external financing.[5]

The share of aid that providers can programme for individual countries and regions, and over which partner countries could have a significant say—so-called country programmable aid (CPA)—has fallen in recent years. CPA excludes items such as humanitarian aid, in-donor refugee costs and administrative costs. In 2015, CPA amounted to 49 per cent of total gross bilateral ODA, or $52 billion, as compared to 53 to 55 per cent in the five previous years.[6] Budget support, an aid modality particularly well aligned with development effectiveness principles such as country ownership, declined in parallel. In 2016, general and sector budget support amounted to 1.9 per cent of total bilateral aid commitments of DAC donors. ODA spent within donor countries — such as refugee costs, scholarships and administrative costs — accounts for a growing share, increasing from 12 per cent of bilateral aid in 2010 to 20 per cent in 2016 (see figure 2).

2 Organization for Economic Cooperation and Development, *Development Co-operation Report 2017: Data for Development* (Paris, OECD Publishing, 2017). Available from http://www.oecd.org/dac/development-co-operation-report-20747721.htm.

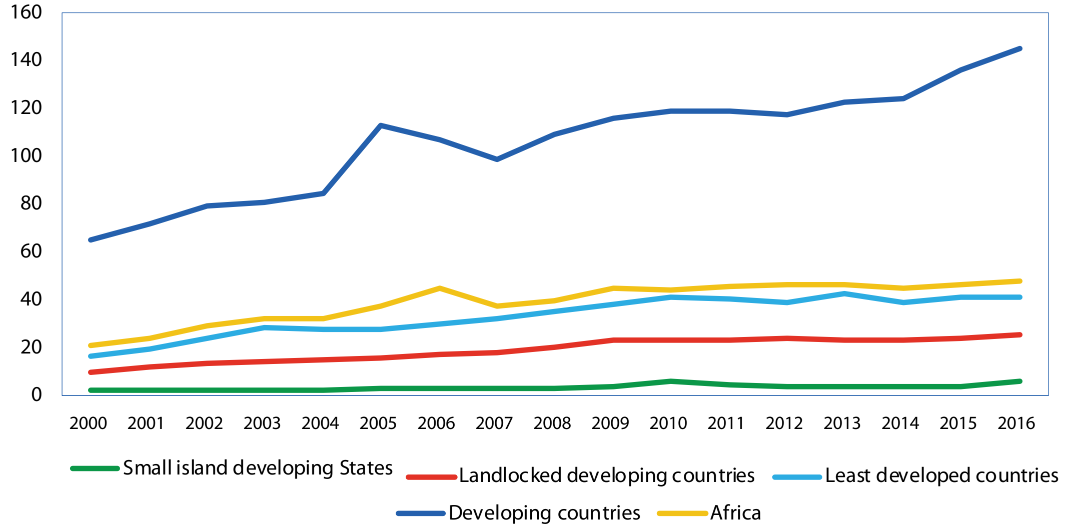
3 For additional details on regional trends and regional distribution of official development assistance (ODA), please refer to the online annex to this Report. Available from https://developmentfinance.un.org/international-development-cooperation.

4 United Nations Department of Economic and Social Affairs (UN/DESA) staff calculations, based on OECD/Development Assistance Committee (DAC) and International Monetary Fund (IMF) data.

5 Organization for Economic Cooperation and Development, *Making Development Co-operation Work for Small Island Developing States* (Paris, OECD Publishing, forthcoming).

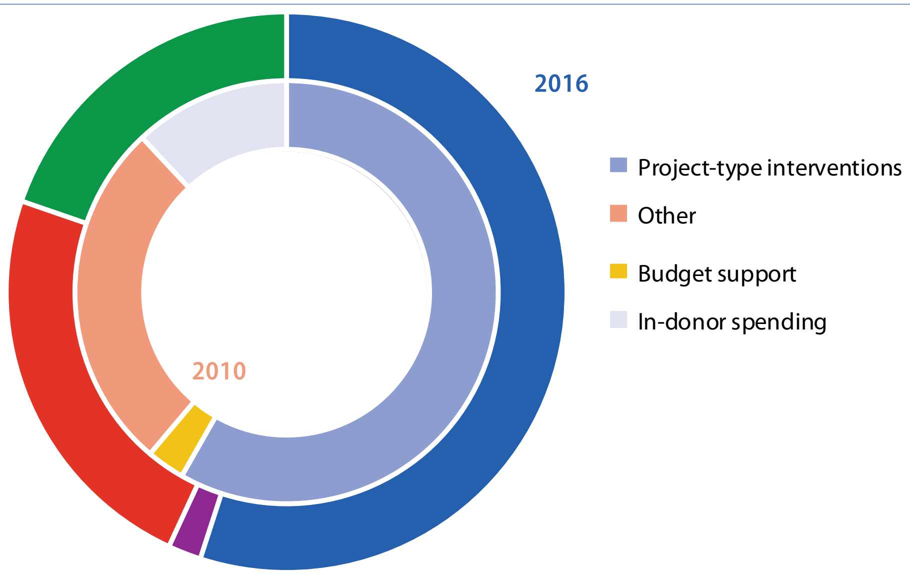
6 Organization for Economic Cooperation and Development, *Development Co-operation Report 2017*.

Figure 1
Net ODA, 2000–2016
(Billions of United States dollars, 2015 constant prices)



Source: OECD/DAC data.

Figure 2
Net bilateral ODA commitments by DAC countries by type of aid
(Share of total)



Source: OECD/DAC data.
Notes: In-donor spending includes scholarships and student costs in donor countries, development awareness, refugees in donor countries, administrative costs not included elsewhere; other aid includes experts and other TA, debt relief, core contributions and pooled programmes and funds.

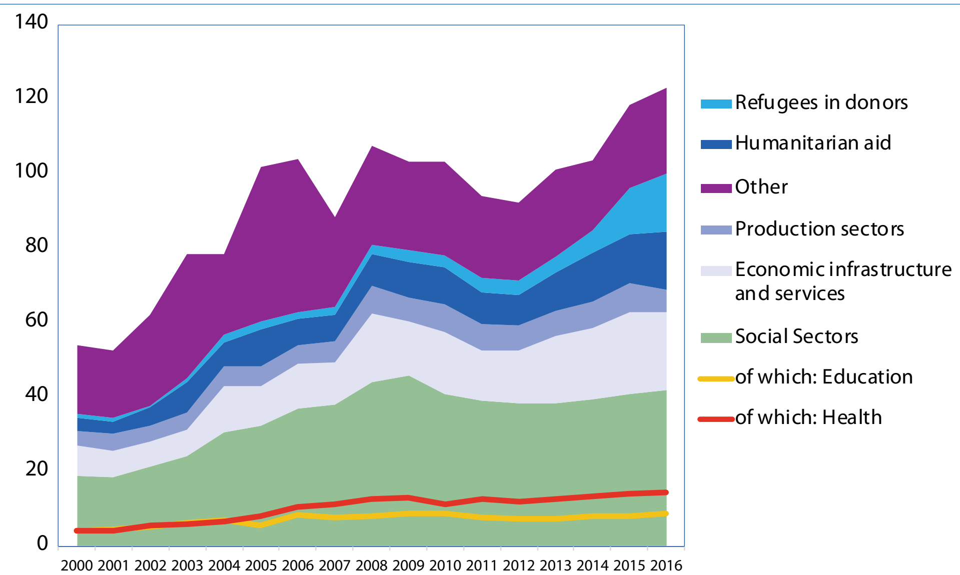
Aid to social sectors such as health and education had grown rapidly in the first decade of the millennium during the era of the Millennium Development Goals, but since its peak in 2009 has decreased slightly in real terms. Donors' focus has shifted to economic aid and support for production sectors, including investments in transport and storage, energy, and other economic sectors (see figure 3), in line with the broader focus of the SDGs.

Gender equality and women's empowerment are key cross-cutting priorities in the Addis Agenda. In 2015-2016, DAC countries committed a total of $41.4 billion of ODA targeting gender equality and women's empowerment on average per year. The DAC country average for the share of development assistance that had a gender equality and women's empowerment objective was 40 per cent in 2015-2016. While DAC peer reviews find that DAC countries' political commitment to gender equality and women's empowerment is strong, implementation remains difficult. This is partly a result of difficulties of mainstreaming gender equality and women's empowerment across development cooperation programmes. Recommendations by the DAC focus on operationalizing the political commitment, noting that DAC members need leadership, guidance, resources, capacity and a stronger focus on the results of investment in gender equality.

2.2 Lending by multilateral development banks

In the Addis Agenda, development banks were requested to update and develop their policies in support of the 2030 Agenda for Sustainable Development, and to better leverage their balance sheets to increase lending in support of sustainable development.[7] In response, the MDBs have stepped up their efforts: in 2016, annual disbursements of non-grant subsidized finance from the seven MDBs reached $65.8 billion, an increase of 15 per cent over 2015 (see figure 4). Two new multilateral institutions were founded that provide additional financing. Efforts have also focused on further increasing the volume of finance directly provided by MDBs, including

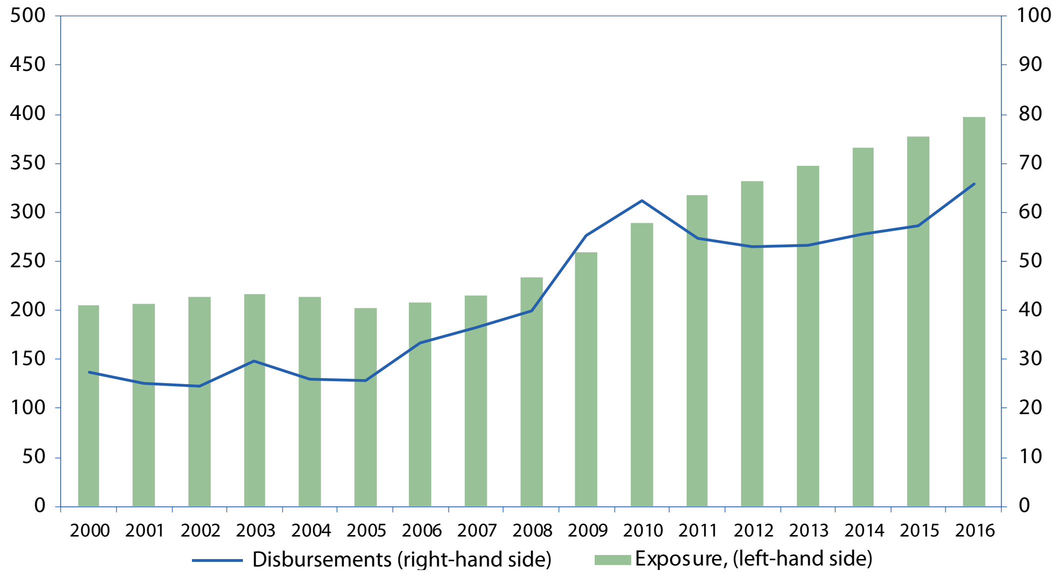
Figure 3
Net bilateral ODA commitments by DAC countries by sector, 2000–2016
(Billions of United States dollars, 2015 constant prices)



Source: OECD/DAC data.
Notes: Other includes multi-sector and cross-cutting aid, commodity aid and general programme assistance, debt relief, administrative costs donors, and unallocated aid.

7 *Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda)* (United Nations publication, Sales. E.16.I.7), para.7.

Figure 4
Multilateral development bank financing, 2000–2016
(Billions of United States dollars)



Source: UN/DESA calculations, based on annual reports from MDBs.
Notes: Concessional lending classified as ODA is excluded. Includes combined non-grant subsidized finance from Asian Development Bank, African Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, Inter-American Investment Corporation, International Bank for Reconstruction and Development, and International Finance Corporation.

making optimal use of balance sheets, on strengthening the catalytic role of MDB actions, and on further enhancing cooperation among MDBs.

In response to calls in the Addis Agenda as well as at the Group of Twenty (G20) to make optimal use of their resources and balance sheets, MDBs have undertaken or are considering a range of actions. They include the merging of concessional windows with ordinary capital or enabling concessional windows to access capital-market resources. The merger of the Asian Development Fund's and Asian Development Bank's core balance sheets expands its lending capacity by 50 per cent[8] while IDA blending of donor contributions with market-issued debt has allowed it to increase its lending capacity.[9] MDBs have also increasingly focused on their ability to mobilize additional private investment—including, for example, in the adoption of the World Bank Group's "Maximizing Finance for Development" approach. In 2016, the MDBs directly mobilized $49.9 billion in private co-financing, of which $7.1 billion went to infrastructure.[10] Yet, only two per cent of this co-financing, or $1 billion was mobilized for low-income and least developed countries where infrastructure gaps tend to be greatest (see also the discussion on blended finance in section 4 of this chapter).

The establishment of the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB), both focused on infrastructure finance, also responds to the vast infrastructure gap in developing countries. Both institutions completed their first full year of operations in 2016, with com-

8 See https://www.adb.org/news/adf-ocr-merger-boost-support-region-s-poor.
9 Multilateral Development Banks, "Second Report to the G20 on the MDB Action Plan to optimize balance sheets". Available from http://www.bundesfinanzministerium.de/Content/DE/Downloads/G20-Dokumente/Hamburg_Genannte_Berichte/Second-Report-on-MDB-Action-Plan.pdf?__blob=publicationFile&v=2.
10 Multilateral Development Banks, "Mobilization of private finance by Multilateral Development Banks. 2016 Joint Report (Report published April 2017, Annex published July 2017). Available from http://documents.worldbank.org/curated/en/860721492635844277/pdf/114433-REVISED-11p-MDB-Joint-Report-Mobilization-Jul-21.pdf.

bined commitments of infrastructure financing of $3.2 billion.[11] The NDB, which was established in 2014, expected to commit between $2.5 billion to $3 billion in new lending in 2017. The AIIB approved financing of about $1.8 billion for 12 projects between January and November 2017, but its investment capacity is much larger: the paid-in capital pledge in its articles of agreement amounts to $20 billion, exceeding the 2017 amount of paid-in capital of the World Bank Group's International Bank for Reconstruction and Development of $16 billion.

To achieve the SDGs, MDBs will need to both achieve greater scale and ensure that social and environmental sustainability considerations are embedded in their lending, in particular for infrastructure investments that will lock-in development paths until 2030 and beyond. This could include further aligning internal staff incentives with metrics relevant to achieving the 2030 Agenda for Sustainable Development and the SDGs, rather than focusing them primarily on lending volumes. In the context of optimizing balance sheets, the Addis Agenda also included a call on development banks to use all tools to manage their risks, including through diversification, which warrants further study.

Shareholders of the MDBs should continue to work towards a shared vision of the MDB system. In this context, the G20 Eminent Persons Group on Global Financial Governance will make recommendations to achieve greater coherence of shareholder objectives, policies and compliance standards across international financial institutions, including the MDBs, later this year (see also chapter III.F).

Cooperation among MDBs has increased significantly since the adoption of the Addis Agenda, including through the Global Infrastructure Forum, which was called for in the Addis Agenda, and the Infrastructure Data Initiative, which brings together all the MDBs to jointly set standards for reporting on infrastructure investment. MDBs could further strengthen collaboration in their diagnostic work, support for project preparation and technical assistance. Greater cooperation should serve to support the ultimate objective of strengthening country systems and country capacities.[12] Cooperation could also be enhanced on financing structures — for example, by the establishment of scalable platforms that can be used to leverage resources across MDBs. Such platforms can support actors that have limited capacities, while allowing the MDBs to pool their resources and expertise. One example of such efforts is SOURCE, a new platform to develop sustainable infrastructure across the MDBs.[13] Another example is the Global Emerging Markets Risk Database,[14] a comprehensive database of credit risk information that provides MDBs and development finance institutions with pooled data on credit default rates.

2.3 South-South cooperation

South-South cooperation is undergoing expansion in its scope and magnitude. An increasing diversity of Southern actors, governmental and nongovernmental, is engaged in development cooperation in the South-South space, including MDBs. The United Nations Department for Economic and Social Affairs (UN/DESA) tracks development cooperation trends in South-South cooperation by considering official concessional resources (concessional loans and grants, debt relief and technical cooperation) provided by developing countries for development purposes.[15] Estimates from partial data suggest the financial component of such South-South development cooperation may have grown to reach $26 billion in 2015.

11 New Development Bank, "Towards a greener tomorrow: annual report 2016" (Shanghai, 2017). Available from https://www.ndb.int/wp-content/uploads/2017/10/NDB-ANNUAL-REPORT-2016.pdf; Asian Infrastructure Investment Bank, "Connecting Asia for the future: annual report and accounts 2016" (Beijing, 2017). Available from https://www.aiib.org/en/news-events/news/2016/annual-report/.content/download/Annual_Report_2016.pdf.

12 Amar Bhattacharya and others, "The new global agenda and the future of the multilateral development bank system" (Washington, D.C., Brookings Institute and the Center for Global Development, February 2018). Available from https://www.brookings.edu/wp-content/uploads/2018/02/epg_paper_on_future_of_mdb_system_jan30.pdf.

13 See https://public.sif-source.org/about/about-source/.

14 See http://www.gems-riskdatabase.org.

15 Some Southern partners also consider non-concessional loans and commercial transactions in trade and investment as another distinct feature of their cooperation.

However, definitions and categories used for reporting South-South cooperation are often not comparable. For example, country practices differ in reporting indirect as well as direct costs of their projects. Methodologies to calculate the grant element in official loans may also vary. Estimates of development cooperation from academic institutions or international organizations can differ from those of official sources, especially as they apply common frameworks ex post to data originally collected for other purposes. The non-financial modalities significant to South-South development cooperation—capacity-building, technology development and transfer, joint action for policy change and partnerships—are not easily valorized.[16]

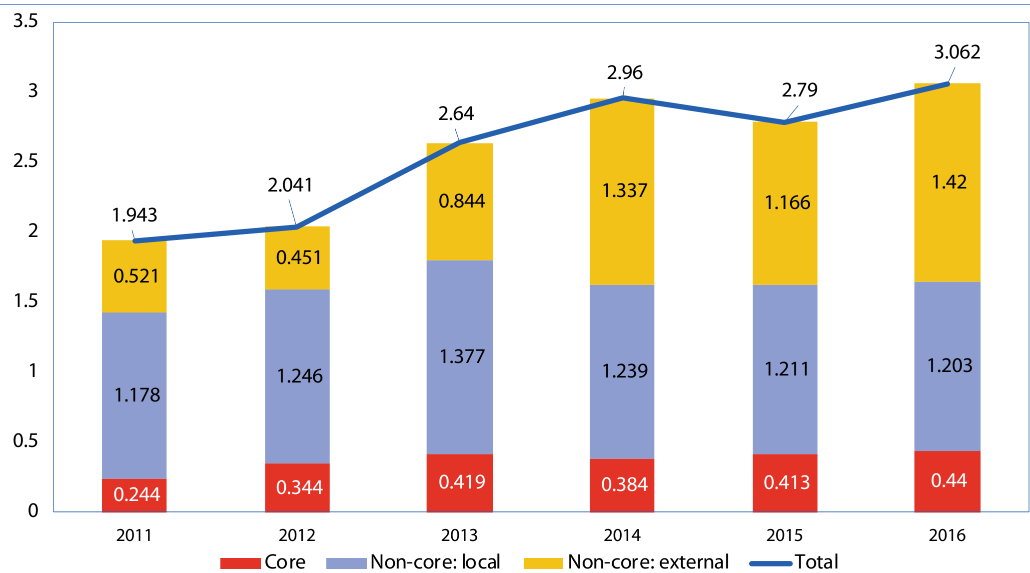
Southern contributions to multilateral institutions may be more visible, as in the case of Southern partners' support to operational activities of the United Nations development system, which rose by nearly 10 per cent between 2015 and 2016 to $3.062 billion (see figure 5).[17]

South-South cooperation often focuses on promoting regional integration. An example is the Mesoamerican Integration and Development Project (addressing cross-border energy, transport and telecommunication infrastructure), which received loans, grants, guarantees and public-private partnership support from the Inter-American Development Bank and the Central American Bank for Economic Integration.[18] Overall, the number of bilateral South-South cooperation projects within Latin America increased by almost a third between 2010 and 2015. Most projects focused on economic issues, such as strengthening of productive sec-

Figure 5

Southern partners' contributions to the United Nations operational activities for development by funding type, 2011–2016

(Billions of United States dollars)



Source: UN/DESA.

16 United Nations, Report of the Secretary-General on trends and progress in international development cooperation (forthcoming); United Nations Development Cooperation Forum. Summary document of the DCF Argentina High-level Symposium, 6 to 8 September 2017. Available from https://www.un.org/ecosoc/sites/www.un.org.ecosoc/files/files/en/dcf/dcf-argentina-summary.pdf.

17 Funding data from the Report of the Secretary-General on implementation of General Assembly resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system, 2018 (A/73/63-E/2018/8); Southern partners refers in this example to the G77 + China.

18 For more information, see Mesoamerican Integration and Development Project (MIDP). Available from http://www.proyectomesoamerica.org/joomla/index.php?option=com_content&view=article&id=229&Itemid=57".

tors, or infrastructure, with social welfare another major priority.[19] China's Belt and Road Initiative is another example of enhanced regional cooperation. The Initiative aims to promote the connectivity of African, Asian and European continents through better policy coordination, infrastructure connectivity, closer trade relations, financial integration, and cultural, academic and other exchanges. At the Belt and Road Forum in May 2017, China pledged approximately $124 billion in new financial support for activities under Belt and Road, including through the Silk and Road Fund and lending by the China Development Bank and the Export-Import Bank of China.[20]

Triangular cooperation is also gaining importance, with both numbers of projects and budgets allocated to this modality increasing.[21] Cooperation between countries in the same region is the most common arrangement, including, for example, South Africa's cooperation with 15 traditional donor countries to support countries in the Southern African region. In order to provide a global platform for exchanges on triangular cooperation, the Global Partnership Initiative (GPI) on effective triangular cooperation[22] aims to analyse, monitor and systematize experiences and best practices; elaborate a set of voluntary principles; and consolidate frameworks of triangular cooperation that ensure country-led ownership, as well as inclusive partnerships for sustainable development.

2.4 Climate finance

Available evidence suggests that international public climate finance is increasing, both through dedicated channels and by aligning existing development finance with climate goals. The United Nations Framework Convention on Climate Change Standing Committee on Finance estimated bilateral total public climate specific finance from developed to developing countries at $26.6 billion in 2014.[23]

Climate finance is channelled through many multilateral and bilateral mechanisms and funds, which provides recipient countries with a range of options, but also contributes to a complex landscape that makes monitoring and reporting, access and effective use a challenging endeavour. The Green Climate Fund (GCF), expected to become the primary channel of climate finance, and fully operational since 2015, has taken steps to address some of these concerns. To enhance access to its funding, it has simplified approval processes for small projects, and accredited a rising number of direct national access entities. To ensure that its projects follow a country-driven approach, the GCF also works with designated national authorities that need to approve all projects. Finally, the GCF provides support for "readiness activities," particularly for vulnerable countries.[24] Overall, the GCF has approved projects with $2.7 billion in funding commitments by November 2017.[25]

19 Ibero-American General Secretariat, *Report on South-South Cooperation in Ibero-America 2017* (Madrid, Ibero-American program for the strengthening of South-South Cooperation, 2017). Available from http://www.informesursur.org/?lang=en#informe.

20 See http://www.xinhuanet.com/english/2017-05/14/c_136282982.htm.

21 Development Assistance Committee, "Building the knowledge base on triangular co-operation – Findings from the 2015 OECD survey on triangular co-operation. Interim report" (OECD, May 2016). Available from http://www.oecd.org/dac/dac-global-relations/Interim%20Report%20Triangular%20Co-operation%202015%20Survey%20-%20May%202016.pdf.

22 This initiative is led by a core group that includes Canada, Japan, Mexico, the Islamic Development Bank, the OECD and the United Nations Office for South-South Cooperation.

23 The Standing Committee carries out a comprehensive global assessment of all public climate finance flows biennially, with the next biennial assessment of climate finance flows to be published later in 2018.

24 Climate Funds Update, "The Green Climate Fund", Climate Finance Fundamentals 11 (Washington, D.C., Heinrich Böll Stiftung North America, November 2017). Available from https://www.odi.org/sites/odi.org.uk/files/resource-documents/11851.pdf.

25 Green Climate Fund, "GCF in numbers. A snapshot of key figures, facts and results of the Fund to date" (Incheon, Republic of Korea, 2017). Available from http://www.greenclimate.fund/documents/20182/24871/GCF_in_Numbers.pdf/226fc825-3c56-4d71-9a4c-60fd83e5fb03.

An increasing share of overall development finance is dedicated to or aligned with climate purposes. In 2015, aid activities targeting climate change mitigation amounted to $19.6 billion, with activities for adaption at $15.1 billion. ODA for adaptation purposes in particular has grown quickly, almost doubling since 2010.[26] Recent analysis from the OECD found that bilateral climate-related development finance continued this upward trend in 2016.[27] The World Bank Group aims to dedicate 28 per cent of its lending to climate action by 2020, and announced at the One Planet Summit in Paris, France, in December 2017 that it would cease to fund any upstream oil and gas activities after 2019. In this context, it is also critical that disaster risk reduction measures are incorporated into all development assistance programmes and infrastructure financing, in line with the Sendai Framework for Disaster Risk Reduction.

The MDBs are also major issuers of green bonds (see chapter III.B). The 23 national and regional development banks (from both developed and developing countries) that are members of the International Development Finance Club made $159 billion of climate finance commitments in 2016, an increase of $25 billion over 2015.[28] The overwhelming share of these commitments was for mitigation — in particular, non-concessional lending for green energy. Adaption finance amounted to $5 billion.

Climate change has differentiated impacts on women and men, with women and girls typically more adversely affected by climate-related impacts and disasters.[29] To address these concerns, the Twenty-third Conference of the Parties recently adopted a Gender Action Plan to promote gender-responsive climate policy and mainstream gender equality considerations in climate action and programming. This includes efforts to strengthen the capacity of parliaments, funding ministries, and non-governmental organizations (NGOs) to integrate gender-responsive budgeting into climate finance, access and delivery. One proposal to pursue co-benefits of climate action and gender equality is to include a requirement to disclose the gender-differentiated impact of the proceeds of bonds certified as green.[30]

2.5 Humanitarian finance

The prevalence of humanitarian crises undermines development progress. An estimated 87 per cent of people in extreme poverty reside in countries affected by fragility, environmental vulnerability or both.[31] Financial requirements for response plans and appeals coordinated by the United Nations rose from $5.1 billion in 2007 for humanitarian responses in 29 countries to $24.7 billion in 2017 for responses in 38 countries. While funding of the appeals also increased over this period from $3.4 billion to $13.8 billion, it was outpaced by growing requirements, resulting in a widening gap between humanitarian needs and available resources.[32]

The steep rise in total funding requirements is mainly driven by a set of large-scale protracted crises.

26 OECD.Stat Creditor Reporting System and UN/DESA calculations.

27 Development Assistance Committee, “Climate-related development finance in 2016” (OECD, December 2017). Available from http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/Climate-related-development-finance-in-2016.pdf.

28 International Development Finance Club, “IDFC green finance mapping report 2016” (Paris, December 2017). Available from http://www.idfc.org/Downloads/Publications/01_green_finance_mappings/IDFC_Green_Finance_Mapping_Report_2017_12_11.pdf.

29 Mariama Williams, “Climate Finance: Why does it matter for women?” in *Financing Gender Equality – Realising Women’s Rights through Gender Responsive Budgeting*, Zohra Khan and Nalini Burn, eds. (London, Palgrave Macmillan, 2017).

30 Yannick Glemarec, Seemin Qayum and Marina Olshanskaya, “Leveraging co-benefits between gender equality and climate action for sustainable development: mainstreaming gender considerations in climate change projects” (New York, UN Women, October 2016).

31 Development Initiatives, “Global Humanitarian Assistance Report 2017” (Bristol, United Kingdom, Development Initiatives, Ltd., 2017). Available from http://devinit.org/post/global-humanitarian-assistance-2017/.

32 Assessment by the Global Humanitarian Overview, which encompasses all appeals and response plans coordinated by the United Nations. Funding data for 2017 as reported by donors and recipient organizations to the Financial

Nineteen of the 21 humanitarian response plans for humanitarian crises have been ongoing for 5 or more years, with 3 crises having had plans and appeals each year for at least 18 years. Recognizing that development is the most effective way to build resilience, a longer-term approach to addressing humanitarian needs must include development investments. This includes investments targeting gender equality to help overcome the lack of funding for the needs and representation of crisis-affected women and girls. The World Humanitarian Summit has argued for a shift from funding short-term activities towards collective financing outcomes that reduce needs, risk and vulnerability. Some donors and international financing institutions are increasing multi-year humanitarian funding and longer-term programming approaches in protracted crises.

Nonetheless, challenges remain in accelerating this change. Donors should deliver on their Grand Bargain commitments. They should further increase humanitarian multi-year and flexible financing. Humanitarian, development, peacebuilding and climate change financing should be better sequenced, layered, aligned and risk-informed. The Agenda for Humanity called for innovation in financing for disaster response and in ensuring that an early warning triggers timely action and the release of funds. Progress in this area and the expanding role of the Central Emergency Response Fund (CERF) are discussed in the section on shocks financing in chapter III.F.

The use of local and national actors remains low, at an estimated 2 per cent (the Grand Bargain called for channelling at least 25 per cent of humanitarian funding through local actors by 2020). Greater efforts in this regard would also contribute to strengthening national capacities.[33] Expanding the investment in pooled-funding mechanisms constitutes one opportunity to do so. The country-based pooled funds, managed by the United Nations Office for the Coordination of Humanitarian Affairs, have grown significantly in recent years and allocate a growing share of their funding directly to national NGOs.

The increasing focus of international public financing flows on climate challenges and humanitarian crises discussed in sections 2.4 and 2.5 above is a direct response to risks and shocks affecting progress and gains in sustainable development. At the same time, the challenging geopolitical environment and increasing intensity and frequency of extreme weather events and resulting crises is heralding a shift towards linking development cooperation more closely to addressing regional and global challenges such as mitigation of conflict and other drivers of migration and climate change. These priorities are fully aligned with the 2030 Agenda for Sustainable Development and the SDGs, but changing aid-allocation patterns may create funding gaps in countries most in need of support, such as LDCs and SIDS, and in areas critical to leaving no one behind. Section 3 below on graduation explores this allocation challenge from the perspective of countries that lose access to specific financing windows or types of support.

3. Graduation and access to concessional finance

As many developing countries have recently graduated or will graduate from concessional financing windows thanks to strong per capita income growth, concerns have been raised over their access to sufficient and affordable long-term financing for SDG investments. As per capita income increases above low-income thresholds, access to external (concessional and non-concessional) public finance often decreases faster than can be compensated by increasing tax revenues in per capita terms—the so-called "missing-middle" challenge.[34] Extreme weather events and other external shocks have exacerbated these concerns: countries vulnerable to external shocks often exceed per capita income thresholds but

Tracking Service as of 23 January 2018. See Office for the Coordination of Humanitarian Affairs, "Humanitarian funding update" (December 2017). Available from https://reliefweb.int/sites/reliefweb.int/files/resources/Humanitarian%20Funding%20Update_GHO_31DEC2017.pdf.

33 Development Initiatives, "Global Humanitarian Assistance Report 2017".

34 Homi Kharas, Annalisa Prizzon and Andrew Rogerson, "Financing the post-2015 Sustainable Development Goals: a rough roadmap" (London, Overseas Development Institute, 2014). Available from https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9374.pdf.

have limited capacity to mobilize public resources domestically due to their small size, remoteness, and/or vulnerability.

Graduation is relevant in several contexts, including (i) graduation from access to the concessional windows at MDBs; (ii) graduation from LDC status; and (iii) graduation from ODA eligibility. In all cases, per capita income is an important criterion. For LDC graduation, it is one of three components, complemented by the Human Asset Index and an Economic Vulnerability Index composed of indicators of structural vulnerability to economic and environmental shocks. For graduation from soft windows of MDBs, per capita income is complemented by an assessment of creditworthiness. ODA eligibility relies on income alone.

A country's categorization as a low-, middle- or high-income country is not directly related to graduation; it is instead an analytical classification by the World Bank, updated annually. However, the classification is an input to decisions on lending eligibility from MDBs. At about $1,200 per capita income, the point at which countries are re-classified as middle-income countries, consideration for a graduation process from soft windows of MDBs is triggered. Incidentally, the income threshold for LDC graduation is set at a similar level. The move from middle-income to high-income on the other hand, at per capita incomes of about $12,200, triggers graduation from ODA eligibility (see figure 6).

3.1 LDC graduation

Because development partners generally do not use LDC status per se to allocate resources, LDC graduation usually has only limited impact on concessional financing flows. Information provided by major donors shows that in most cases, graduation has limited impact on bilateral development cooperation programmes. In some cases, graduation may trigger a shift towards concessional loans rather than grants, or towards loans with less favorable terms.[35] Graduation affects a country's eligibility for specific multilateral instruments, including for climate finance (the Least Developed Countries Fund), trade capacity-building (the Enhanced Integrated Framework in Aid for Trade), and financial inclusion (the United Nations Capital Development Fund). However, to date these have corresponded to relatively small shares of total funding available.

A country may be recommended for graduation from LDC status by the Committee for Development Policy (CDP), an independent advisory body of the United Nations Economic and Social Council (ECOSOC), if it meets the graduation threshold in two of the three criteria in two consecutive triennial reviews.[36] If endorsed, graduation becomes effective three years after the General Assembly takes note of the ECOSOC endorsement of the recommendation of the CDP. Hence, the graduation process takes at least six years. There are also safeguards in place to ensure smooth transition, including by extending and gradually phasing out LDC-specific support measures related to ODA volumes and modalities, market access and World Trade Organization agreements.[37]

3.2 Graduation from concessional windows of MDBs

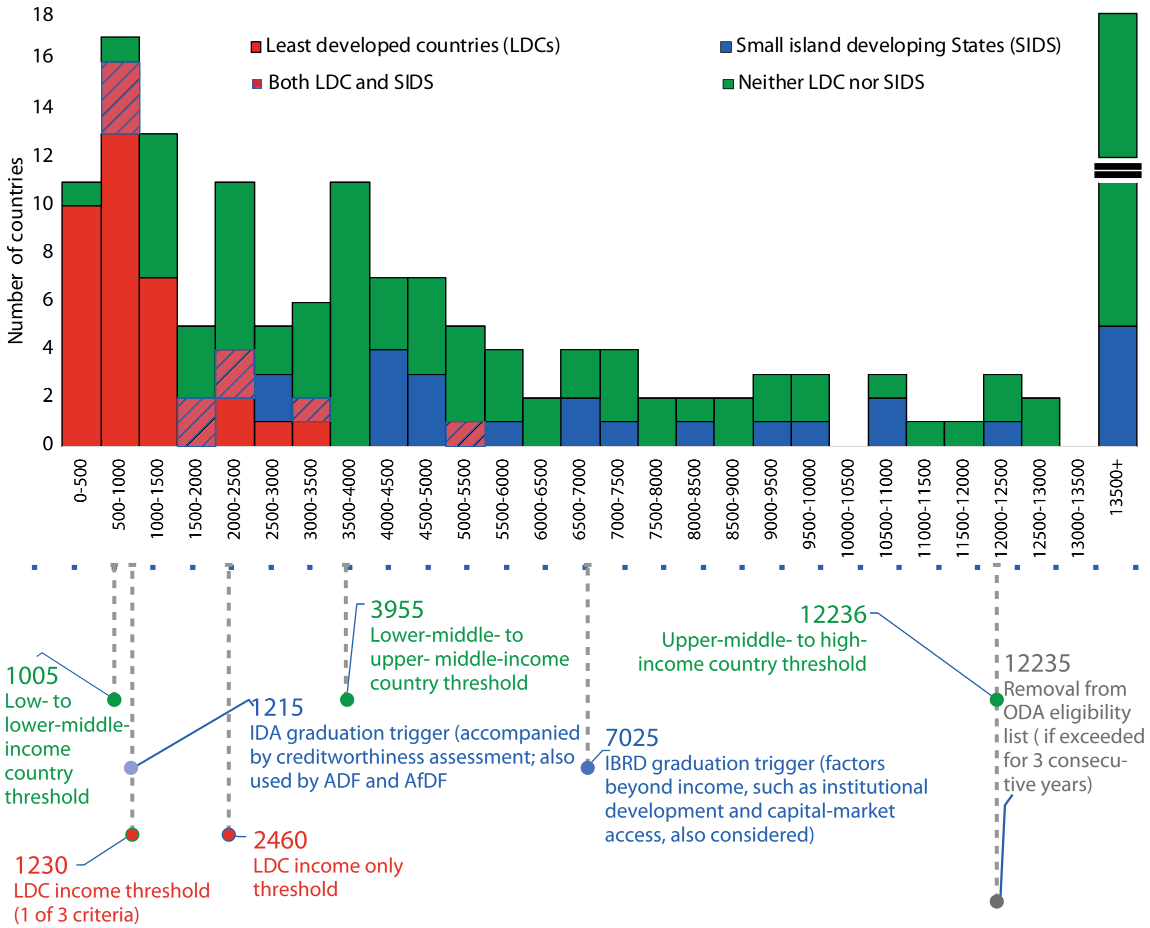
Graduation from the soft windows of the MDBs—the World Bank Group's IDA, the Asian Development Bank's Asian Development Fund, and the African Development Bank's (AfDB) African Development Fund—has a more direct impact on financing volumes and terms. Consideration for graduation is triggered when per capita income exceeds the operational cut-off, for example $1,215 for IDA in 2016. If accompanied by a positive creditworthiness assessment (based on political risk, debt burdens, growth prospects and other factors), a country receives time-bound transitional terms from IDA, and International Bank for Reconstruction and Development financing is phased in while IDA financing is gradually phased out. The full process

35 Based on background research and consultations with development partners carried out in the context of impact assessments of graduation from least developed country status for the Committee for Development Policy.

36 Gross national income per capita of $1,230 or above, human assets index of 66 or above, and economic vulnerability index of 32 or below. See https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-graduation.html.

37 See the Support Measures Portal for LDCs. Available from https://www.un.org/ldcportal/.

Figure 6
Distribution of countries by per capita income levels and graduation thresholds, 2016



Source: UN/DESA.

typically takes multiple years, and is accompanied by a graduation task force that aims to ensure a smooth path of transition.[38] Exceptions exist for small States, which remain eligible to access IDA funding even if they exceed income thresholds. More recently, funds from the concessional financing facility are available to middle-income countries that host large numbers of refugees.

Graduating countries are faced with "harder" terms of regular assistance by MDBs, even though maturities and interest rates are still more favourable than market terms. Relatedly, the shift in financing sources tends to impact the sectoral allocation of international public finance, with less focus on social sectors such as health, which are often financed in grant form. Other sources of concessional finance, such as bilateral ODA, also remain available; and under IDA, transition support is granted to countries that have recently graduated — most recently for Bolivia (Plurinational State of), India, Sri Lanka and Viet Nam.

3.3 Graduation from ODA eligibility

The OECD/DAC reviews the list of countries eligible for ODA every three years. If a country exceeds the high-income threshold for three consecutive

38 Graduation from the soft windows of the Asian Development Bank and the African Development Bank follows a similar process.

years, it is removed from the list and development finance contributions can no longer be counted as ODA. The last triennial review of eligible countries took place in November 2017. Three countries that had exceeded the high-income threshold from 2014 to 2016 were removed from the list (Chile, Seychelles and Uruguay as from 1 January 2018).

In its high-level meeting in October 2017, DAC members recognized "the need to ensure that development co-operation approaches and tools can effectively respond to the new complexity of sustainable development by providing appropriate support to countries as they transition through different phases of development".[39] In response, a proposal for a methodology for reinstating a country or territory that has graduated from the DAC List and later suffers a drop in its per capita income has been drafted for consideration by the DAC. A plan is also being developed on how to take forward the decision to "establish a process to examine short-term financing mechanisms available to respond to catastrophic humanitarian crises in recently graduated HICs, including, without prejudice, a possible role for ODA spending based on objective criteria while ensuring no diversion of resources from existing ODA recipients".[40]

3.4 Improving the overall landscape

The missing-middle challenge underlines the importance of a smooth transition process, and the need to strengthen the support provided to countries as they undergo graduation. United Nations agencies already provide support to LDCs as they graduate, including through an LDC graduation task force. The United Nations Resident Coordinator and the United Nations Country Team also provide support for smooth transition. This type of engagement could be a model for more systematic engagement of United Nations country teams in helping countries plan transitions in financing mixes. Changes in the terms and volumes of the available external financing mix also call for a more strategic approach to manage the overall resource envelope available for sustainable development investments, in an integrated manner. The Task Force will explore the role of integrated national financing frameworks in more depth in next year's report.

A more ambitious step would be to move towards a system of gradation. Allocation of concessional finance would still decline as countries become wealthier, but middle-income countries would be eligible for financing for specific projects/sectors, such as regional or global public goods,[41] possibly with differentiated financing options that reflect country contexts and project characteristics. There are also attempts to create additional flexibility in accessing regular windows for specific projects. The IDA18 Scale-Up Facility makes non-concessional financing additional to their regular allocation available to IDA countries for projects with potential for strong returns on investment, development impact and growth dividends. The AfDB is considering moderately concessional loans, which have higher interest rates but long maturities suitable for infrastructure investments (see box 1).

Existing exceptions and multidimensional assessments already address limitations of an income-only assessment of development and 'graduation readiness'. They include IDA's small-state exception, which allows states with a population of 1.5 million or less to access the most concessional IDA financing terms even if their per capita income exceeds the IDA operational cut-off. Similarly, use of the creditworthiness criteria by MDBs allows them to take into account the broader macroeconomic situation, debt risks and other factors, so that graduation is a process, rather than a sudden event.

There is room for different agencies to learn from each other's attempts to address diverse circumstances of countries. The replenishment cycles of the concessional windows of the MDBs are one entry point for achieving greater harmonization. A wider-reaching proposal is to use broader assess-

39 Organization for Economic Cooperation and Development, "DAC High-level Communiqué: 31 October 2017". Available from http://www.oecd.org/dac/DAC-HLM-2017-Communique.pdf.

40 Ibid.

41 Andrew Rogerson, "Gradation, not graduation to gradation: why and how MDB financing of MICs needs an overhaul" (London, Overseas Development Institute, 2017). Available from https://www.odi.org/sites/odi.org.uk/files/resource-documents/11908.pdf.

Box 1

Moderately concessional loans: an innovative mechanism to better leverage existing official development assistance (ODA)

African Development Bank

Similar to other regions, an acute tension exists in African Development Fund (ADF) countries between the vast public investment requirements for the Sustainable Development Goals (SDGs) and public debt sustainability. Countries need to frontload infrastructure investments as a foundation for long-run growth and development. Such investments will pay off only over the longer run, but will have an immediate and sizable impact on public and external debt.

The progressive hardening of terms on graduation typically involve both higher financing costs and shortening grace periods and loan maturities. Long maturities are particularly valuable in the light of exceptionally long payback periods of investments in infrastructure and human capital. To address this, the African Development Bank (AfDB) is considering moderately concessional loans (MCLs) with longer maturities. These could carry a concessional interest rate of, say, 3-4 per cent on US dollar loans with a maturity of 40 years and grace period of 10 years, terms that are far superior to the terms ADF country governments have been obtaining on their Eurobond issues or other commercial loans.[a]

Two criteria have been proposed to determine eligibility for MCLs: (i) gross national income (GNI) per capita or (ii) the Africa Human and Infrastructure Development Index (AHIDI), which is a composite of the non-income (health and education) elements of the United Nations Development Programme's Human Development Index (HDI) and the AfDB Africa Infrastructure Development Index, and thus a broad indicator for economic capacity. For illustrative purposes, using 2012 ADF country allocations, applying AHIDI, 14 countries would be eligible for MCLs, while applying GNI per capita, 8 countries would be eligible for MCLs.[b]

While there is very likely to be demand for MCLs, the question remains of how to mobilize additional capital to be able to issue them without jeopardizing the Bank's AAA credit rating. One solution put forward would be a "big bond," which would frontload official development assistance (ODA) while simultaneously lowering the fiscal burden on donors, building on the structure of the International Financing Facility for Immunization. With interest rates in donor countries still near historical lows, a window of opportunity exists to raise up to $100 billion by securitizing annual ODA flows of about $5 billion over a 30-year period.[c] Another solution could be a Group of Twenty or other fund for project preparation. If countries would allocate about $1 billion per year to solid project preparation in Africa (in order to finance preparation of ten big infrastructure projects per year), the MDBs could crowd in private finance for project implementation.

a Luisa Teixeira Felino and Brian Pinto, "Debt sustainability and development implications of moderately concessional lending terms for ADF countries", ADF Policy Innovation Lab Working Paper Series, No. 3 (African Development Fund, June 2017). Available from https://frmb.afdb.org/documents/78/Debt Sustainability and Development Implications of MCL Terms for ADF Countries_ADF Lab Working Paper No.3.pdf.

b African Development Fund, "Long-Term Financial Capacity of the ADF", Discussion Paper, ADF-13 First Replenishment Meeting (Tunis, Tunisia, February 2013). Available from https://www.afdb.org/fileadmin/uploads/afdb/Documents/Boards-Documents/First_ADF-13_Replenishment_Meeting_-_Long-Term_Financial_Capacity_of_the_ADF.pdf.

c African Development Bank "Reinvigorating African concessional finance: Report of the High Level Panel on Transforming Trust in the AfDB Group into Influence", Report of the High-level Panel on Transforming Trust in the AfDB Group into Influence (Tunis, Tunisia, African Development Bank Group's Policy Innovation Lab, 2017). Available from https://frmb.afdb.org/documents/78/Reinvigorating African Concessional Finance - Report of the High Level Panel on Transforming Trust in the AfDB Group into Influence.pdf.

ments of progress more systematically. For example, the LDC category could be used in a wider range of processes. New measures have also been put forward in this context, such as the structural gap approach used by the Economic Commission for Latin America and the Caribbean (see box 2) or the United Nations Development Programme's SIDS-specific criteria.[42]

42 Gail Hurley, "Financing for development and small island developing States: a snapshot and ways forward" (New York, United Nations Development Programme and United Nations Office of High Representative for Least Devel-

Box 2

Structural gap analysis

Economic Commission for Latin America and the Caribbean (ECLAC)

Recognizing the heterogeneity of middle-income countries, the Economic Commission for Latin America and the Caribbean (ECLAC) has proposed structural gap analysis as an alternative to using income levels to classify countries. Middle-income countries are characterized by disparate social conditions, significant and persistent levels of poverty and inequality, and differing environmental vulnerabilities. They also remain economically and socially vulnerable, due to undiversified production and export structures, shallow financial markets, dependence on external financial flows, and other factors. Their capacity to mobilize domestic and external resources also varies greatly, and depends on factors beyond per capita income, including external conditions beyond their control. This makes per capita income an incomplete criterion for allocating international resources.

The structural gaps approach identifies key structural obstacles that are holding back sustained, equitable and inclusive growth in middle-income countries, such as regressive tax systems and low tax collection, limited redistributive effects of social spending, high inequality, low labour productivity, and lagging infrastructure spending. The ECLAC approach uses a comprehensive set of indicators that reflects country-specific obstacles and allows them to prioritize development needs in a particular country and a given time.

This approach would also allow countries and regions to identify and order development priorities, needs and challenges, and to decide which areas and gaps to prioritize and confront. It could thus contribute to broadening the policy dialogue, including on sources of financing and allocation criteria at the global level.

4. Catalytic aid and blended finance

The impact of development cooperation is greatest when it is catalytic—when it accelerates economic growth and sustainable development, and helps mobilize additional resources for development. The catalytic effect of development cooperation can be varied; it can come through capacity-building and the strengthening of enabling environments and investment climates, or the financing of public investments and services that are often a precondition for markets and private business to thrive. These development impacts are sometimes referred to as "transformative" or supporting the domestic growth context. The catalytic effect of ODA can also be more direct, by directly mobilizing additional public and private financing for development.

To support the mobilization of additional domestic public resources, donors have increased their engagement in tax capacity-building, even though the share of ODA for this purpose remains low (see chapter III.A). There is also renewed interest in phasing out tax exemptions for ODA, which run counter to efforts to strengthen national tax systems (see box 3).

The biggest focus to date, however, has been placed on development finance's ability to crowd in, leverage, or catalyse additional private or commercial financing, often referred to as "blended finance". The use of blending instruments is increasing, putting a spotlight on their allocation across country groups, their development impact, and their alignment with key development effectiveness principles such as country ownership and transparency. Existing experience suggests that there would be benefit for all stakeholders to further consider how blending modalities can support and be aligned with relevant principles in the Addis Agenda and the overarching principles of development effectiveness.

4.1 The blended finance landscape

Blended finance uses financial instruments such as grants, loans, guarantees and equity to improve the risk-return profile of investments, to mobilize additional commercial financing that would not have been available without public intervention. While there is no universally agreed definition of blended finance, in its broadest sense it includes all development finance that mobilizes commercial finance

oped Countries, Landlocked Developing Countries and Small Island Developing States, 2015). Available from http://www.undp.org/content/undp/en/home/librarypage/poverty-reduction/FfD-SIDS-UNDP-OHRLLS.html.

for sustainable development.[43] Based on this broad interpretation, the use of such instruments has been growing. Seventeen out of 23 DAC members responding to a recent survey reported that they are engaging in blended finance, often through intermediaries such as development finance institutions and development banks.[44] While there is no comprehensive estimate of blended finance globally, a 2016 OECD survey found that between 2012-2015, $81.1 billion was mobilized from the private sector by five instruments surveyed (guarantees, syndicated loans, credit lines, direct investments in companies, and shares in collective investment vehicles), with the amounts mobilized increasing over the period.[45]

Donors often use pooled vehicles such as facilities and funds to channel their resources towards blended finance. Such vehicles either pool public and private resources at the capital structure level or provide finance to intermediaries to do so. Between 2000 and 2016, 167 new blended finance facilities, with approximately $31 billion in combined commitments, and 189 blended finance funds were launched.[46] The European Union, which is the single largest contributor to blended finance facilities, has made the European Fund for Sustainable Development a key pillar of its External Investment Plan to address investment gaps in the European Neighbourhood and Africa, with a budget of €2.6 billion and a guarantee of €1.5 billion.

In line with blended finance's focus on mobilizing commercial or private finance, blending facilities and funds tend to target SDG investment areas where the business case is clearer — such as energy, growth, infrastructure and climate action, and, to a lesser extent, water and sanitation — as well as cross-cutting priorities such as poverty and gender (see figure 7). Blending currently plays a much smaller role in areas such as ecosystems, reflecting the strong public good character of these investments, where public finance is often the most effective financing option (see chapter II).

Perhaps most importantly, blended finance so far largely eschews the poorest countries. The OECD survey found that only 7 per cent of private finance was mobilized for projects in LDCs, mirroring the similarly skewed distribution of MDB mobilization of private finance noted above. As blended finance becomes an increasingly important modality of development cooperation, providers will need to take steps to ensure that LDCs and other vulnerable countries do not see a fall in their overall share of development finance. This includes increasing complementary investments in their public infrastructure, institutions and capacities. It also calls for exploring how to more effectively deploy blending in challenging contexts. The United Nations Capital Development Fund is currently carrying out analytical work to understand challenges and risks in applying blended finance in LDCs. The newly established IDA18 Private Sector Window, which has a clear target of mobilizing private investment to the poorest IDA countries, is another such step.

4.2 Effectiveness of blended finance

A number of lessons can be learned from existing experiences with blended finance instruments. For blended finance to achieve its stated goals, it should achieve both financial additionality (mobilize addi-

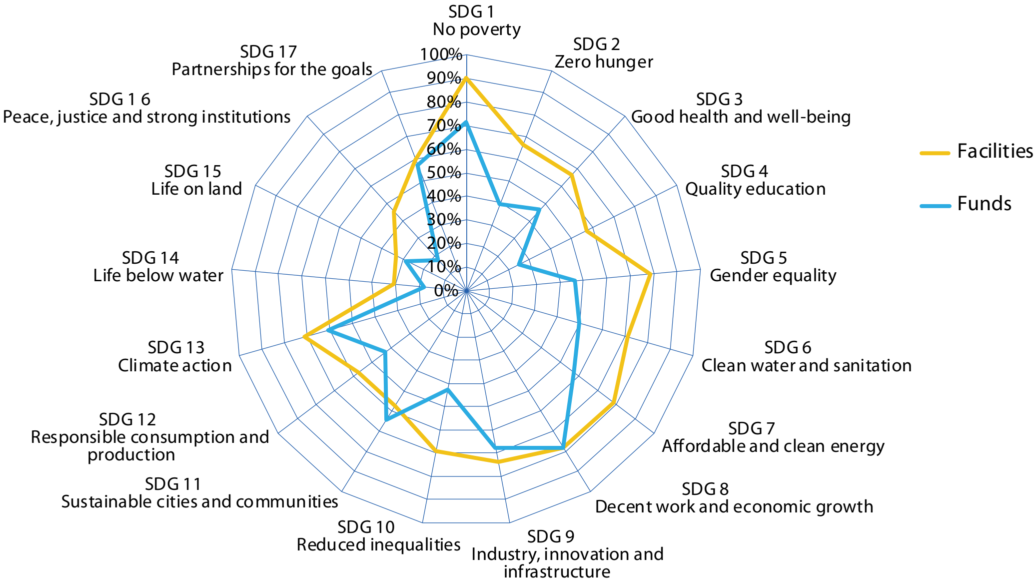
43 The Addis Agenda noted that blended finance "combines concessional public finance with non-concessional private finance and expertise from the public and private sector' (see Addis Ababa Action Agenda, para. 48). In October 2017, 20 development finance institutions (DFIs) have adopted a common definition on blended concessional finance in the context of private sector operations: *Combining concessional finance from donors or third parties alongside DFIs' normal own account finance and/or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources.* The OECD provides a list of how actors define blended finance in Organization for Economic Cooperation and Development, *Making Blended Finance Work for the Sustainable Development Goals* (Paris, OECD Publishing, 2018), p. 49f. Available from http://dx.doi.org/10.1787/9789264288768-en.

44 Organization for Economic Cooperation and Development, ibid.

45 Julia Benn, Cécile Sangaré and Tomáš Hos, "Amounts mobilised from the private sector by official development finance interventions, OECD Development Co-operation Working Paper (Paris, OECD Publishing, 30 August 2017). Available from http://dx.doi.org/10.1787/8135abde-en.

46 Organization for Economic Cooperation and Development, *Making Blended Finance Work for the Sustainable Development Goals.*

Figure 7
SDG targeting by blended finance funds and facilities
(Percentage)



Source: OECD 2017 Survey on blended finance funds and facilities, as published in OECD, *Making Blended Finance Work for the Sustainable Development Goals* (Paris, OECD Publishing, 2018).

tional commercial financing) and development additionality (ensure that the investment has development impact and is aligned with the SDGs). Development additionality in particular has proven to be a source of concern in existing projects, due to limited availability of reliable evidence on the sustainable development impact of blending. Many blending projects have not monitored development impacts, and evaluations are not routinely made publicly available.[47] Those that are public have shown mixed results. An evaluation of blending facilities found that blending projects have often been of high quality and have mobilized additional finance, but that they generally had a modest impact on poverty.[48] Donor Governments should work towards ensuring that blended finance facilities they support enhance the quality of their monitoring, evaluation and, ultimately, sustainable development impact.

This is particularly important for intermediary institutions. Intermediaries are important conduits and facilitators for blended finance, due to their capacity to manage financial risks and their experience in engaging with the private sector. On the other hand, they are often less well equipped to monitor and evaluate sustainable development impact. Their monitoring and evaluation systems need to be strengthened to ensure effective use of blending instruments.

Sustainable and long-lasting development impact also relies on national ownership. Projects that are aligned with national priorities and plans and that involve local and national actors are much more likely to have long-lasting impacts. One lesson from recent experiences is that commitment and leadership by national Governments is critical to achieving scale — to moving from individual projects towards building an enabling environment, regulatory frameworks and pipelines of suitable projects. Local ownership also entails working towards local value retention, ensuring that linkages are built

47 Ibid.

48 Analysis for Economic Decisions (ADE), "Evaluation of blending. Final report vol. 1 – main report" (Louvain-la-Neuve, Belgium, European Commission, 2016). Available from https://ec.europa.eu/europeaid/sites/devco/files/evaluation-blending-volume1_en.pdf.

with local suppliers or downstream users. Currently, recipient-country involvement in decision-making is relatively low in blended finance, due to the project form of many blending operations.[49] However, blended finance providers can engage with host countries at the strategic level, to ensure that priorities in their project portfolios align with national priorities, and with a view to strengthening host-country capacities and enabling environments. They can also work with host Governments to identify and exploit opportunities to work with local actors.

Recipient countries on the other hand should select projects carefully and diligently assess the structure and use of blending instruments, to ensure that projects share risks and rewards fairly. This includes putting in place sound fiscal risk management frameworks that account for contingent liabilities and clear accountability mechanisms.[50] Additional data and transparency are also needed, particularly as the use of such instruments grows, and efforts are underway. To provide for reliable and comparable data on blending, the OECD/DAC statistical system has started collecting data on financing mobilized from private sector instruments in 2017 (see box 4). The forthcoming OECD *Global Outlook on Financing for Development* will also examine catalytic uses of ODA through its statistical collection and analytical work.

Relevant actors have also worked on defining principles for blending. In the Addis Agenda, Member States had agreed on a set of overarching principles for blended finance and public-private partnerships.[51] The OECD/DAC Blended Finance principles,[52] approved at the DAC High-level Meeting held in Paris from 30 to 31 October 2017, are targeted at the policy level and aim to ensure that blended finance is deployed in the most effective way. The G20 released "Principles for the MDBs' strategy for crowding-in Private Sector Finance for growth and sustainable development,"[53] which provide a common framework among MDBs to increase levels of private investment in support of their development objectives. A working group of development finance institutions and multilateral development banks in 2017 updated principles and guidance for providing blended concessional finance.[54] There is a case for the international community to explore how these various sets of principles developed by "implementers" relate to respective commitments made in the Addis Agenda and the overarching principles of development effectiveness, and to discuss this relationship in a universal forum such as the FfD Forum or the Development Cooperation Forum (DCF).

5. Development effectiveness

The 2030 Agenda for Sustainable Development has brought a strong focus on results; this has further underlined effectiveness as an issue of broad relevance across the agenda and its various means of implementation. In response, efforts continue at all levels and by all actors to improve the quality, impact and effectiveness of development cooperation.

The primary entry point for increasing effectiveness is strengthening country ownership and action, guided by coherent national development cooperation policies, which in turn should be anchored in cohesive and nationally owned sustainable development strategies and integrated financing

49 Cordelia Lonsdale, "Aligning blended finance with the Busan principles of development effectiveness", Development Initiatives Discussion Paper (Bristol, United Kingdom, Development Initiatives, Ltd., October 2016). Available from http://devinit.org/wp-content/uploads/2016/10/Aligning-blended-finance-with-the-Busan-principles-of-development-effectiveness_DI_discussion-paper.pdf.

50 See also Agreed Policy Recommendations of the first session of the UNCTAD Intergovernmental Expert Group on Financing for Development. Available from http://unctad.org/en/pages/MeetingDetails.aspx?meetingid=1442.

51 See *Financing for Development: Progress and Prospects. Report of the Inter-agency Task Force on Financing for Development 2017* (United Nations publication, Sales No. E.17.I.5), p. 19. Available from https://developmentfinance.un.org/sites/developmentfinance.un.org/files/Report_IATF-2017.pdf.

52 Available from http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-Blended-Finance-Principles.pdf.

53 Available from http://www.bundesfinanzministerium.de/Content/DE/Downloads/G20-Dokumente/principles-on-crowding-in-private-sector-finance-april-20.pdf?__blob=publicationFile&v=2.

54 Available from http://www.ifc.org/wps/wcm/connect/30635fde-1c38-42af-97b9-2304e962fc85/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES.

Box 3

Tax exemptions for official development assistance (ODA)

Aid-funded projects are often exempt from taxation, through tariffs on imported goods, value-added tax, or income taxes for personnel and enterprises, with a view to ensuring that a greater (or the full) share of aid is allocated towards the targeted project or programme. However, such exemptions run counter to broader efforts to reduce exemptions in tax systems, and to the overall aim of strengthening the mobilization of domestic resources. In response, Members States committed in the Addis Agenda to "consider not requesting tax exemptions on goods and services delivered as government-to-government aid, beginning with renouncing repayments of value-added taxes and import levies."[a]

This issue has been on the agenda of the United Nations Committee of Experts on International Cooperation in Tax Matters since its first session in 2005. Draft guidelines were produced in 2007. The International Monetary Fund (IMF), Organization for Economic Cooperation and Development (OECD), United Nations and World Bank Group have since continued to raise the issue. While progress was initially slow, it has recently gathered momentum. Following the early example of France, the World Bank, the Inter-American Development Bank and the Asian Development Bank, the Netherlands and Norway started to refrain from asking for tax exemptions. In 2015, Denmark, the Netherlands, Poland and Sweden submitted a joint letter to the European Commission, calling on the European Union to phase out the practice. In 2017, the Addis Tax Initiative decided to examine the issue. The United Nations Tax Committee will also continue its work on this topic in its current session. In February 2018, at the first Global Conference of the Platform for Collaboration on Tax, the Platform's partners (i.e., the IMF, OECD, United Nations and World Bank Group) noted that they intended to "review current practice, and provide guidance and recommendations, on the tax treatment of ODA funded goods and services".

a *Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda)* (United Nations publication, Sales. E.16.I.7), para. 58.

frameworks.[55] The DCF Survey probes best practice and capacity development needs in the design, implementation and monitoring of national development cooperation policies, including their alignment with national development strategies, links to the full range of means of implementation, and the roles of different actors in design and oversight. The UN/DESA DCF survey examines how such policies are adjusting to the demands of the 2030 Agenda for Sustainable Development, with 2018 findings forthcoming.[56]

Country ownership is strengthened by untying aid, which removes barriers to open competition for ODA-funded procurement and allows local procurement and strengthening of local economies. The share of tied ODA has continued to decline, from 22 per cent in 2015 to 19 per cent in 2016. Progress is uneven, however (see figure 8). Effectiveness also hinges on untying aid not only formally, but also de facto — for example, by transparently notifying the public of aid offers ex ante. However, such transparency provisions are met inconsistently.[57] Greater efforts should be made to provide relevant information about tenders to potential bidders, in particular domestic bidders. The growing role of blended finance, which often aims to leverage private investment, increases the importance of ensuring that aid is fully untied and thus also effective in supporting private sector development in developing countries.[58]

55 Addis Ababa Action Agenda, para. 9.

56 The 2017/2018 DCF Survey exercise is currently underway. Its findings will be presented to the upcoming 2018 High-level Meeting of the Development Cooperation Forum, to be held at United Nations Headquarters in New York on 21-22 May 2018.

57 Development Co-operation Directorate Development Assistance Committee, "2017 Report on the DAC Untying Recommendation" (Paris, Organization for Economic Cooperation and Development, 3 April 2017). Available from https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/2017-Report-DAC-Untying.pdf.

58 Further guidance on the OECD/DAC Blended Finance Principles, especially on Principle 5 (monitor blended finance for transparency and results), is closely coordinated with the foreseen update of the Global Partnership Monitoring Framework.

Box 4

Modernization of official development assistance (ODA) and the Development Assistance Committee (DAC) statistical system

The statistical system of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) is being modernized to better reflect the new global development landscape.[a] This process includes official development assistance (ODA) modernization. Changes include recording ODA in grant equivalents (agreed in 2014, only grants and the "grant portion" of concessional loans would be counted as ODA, encouraging the use of grants and highly concessional loans); clarifications to the eligibility of activities in the field of peace and security (agreed in 2016, ensuring consistent statistical reporting, and approving the ODA eligibility of development-related training for military staff in limited topics); and clarifications to the reporting rules for in-donor refugee costs (agreed in 2017, improving consistency, comparability, and transparency of reporting).

The DAC also adopted principles to encourage the use of private sector instruments (loans, equity, mezzanine finance and guarantees to private sector entities in developing countries). However, a detailed methodology of how to count donor effort in deploying such instruments has not yet been finalized, even as donors have started reporting private sector instruments as ODA. The DAC is committed to reaching a conclusion by consensus on this topic.

Work is also ongoing in relation to the rules for updating the DAC List of ODA Recipients. Methods for measuring the SDG focus of development cooperation are also being developed (adjustments to purpose codes and policy markers, such as a marker for tracking donor spending on disaster risk reduction across sectors, and possible new SDG fields) to keep the statistical classifications relevant and fit for purpose for monitoring the SDG agenda, including purpose codes to directly measure donors' support for the enabling environment for development financing[b] From 2017, the OECD will also measure donors' support for remittances facilitation, promotion and optimization.

Total official support for sustainable development

A new statistical measure, total official support for sustainable development (TOSSD), is being developed with a view to measuring a broader range of resources deployed to finance, including "all officially-supported resource flows to promote sustainable development in developing countries, to support development enablers and to address global challenges at regional or global levels".[c]

In response to the call of the Addis Ababa Action Agenda to "hold open, inclusive and transparent discussions"[d] on TOSSD, the OECD organized multi-stakeholder consultations in 2016 and 2017, and established an international TOSSD Task Force composed of a diverse set of stakeholders in the second quarter of 2017 to further clarify its scope and statistical features.[e]

The TOSSD Task Force has concluded its discussions on a number of key features of the TOSSD framework. The framework is comprised of two pillars: cross-border flows and development enablers and global challenges. The cross-border flow pillar will aim to capture all resources provided by government and official agencies, including state-owned enterprises and possibly other enterprises under significant government influence, to ODA recipients or countries that opt to be TOSSD recipients. Private resources mobilized by official development interventions will also be included, but presented separately. The Task Force has also discussed a number of "satellite indicators" to reflect flows that are important for development, but are not officially supported (e.g., remittances).

The TOSSD Task Force has advanced work in the first pillar, while some issues remain to be clarified. For example, two methods have been suggested for measuring in-kind technical cooperation (purchasing power parities or a standard salary table). Work on the development enablers and global challenges pillar aims to start in the second quarter of 2018. Governance questions will be subject to further discussion.

a For more details, see http://www.oecd.org/dac/financing-sustainable-development/modernisation-dac-statistical-system.htm.

b Codes for Public Financial Management, Banking and Financial Sector Development and Domestic Resource Mobilization were introduced in 2015.

c See https://www.oecd.org/dac/TOSSD%20flyer%20DAC%20HLM%202017.pdf.

d *Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda)* (United Nations publication, Sales. E.16.I.7), para. 55.

e All documentation and information is available from http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/tossd-task-force.htm.

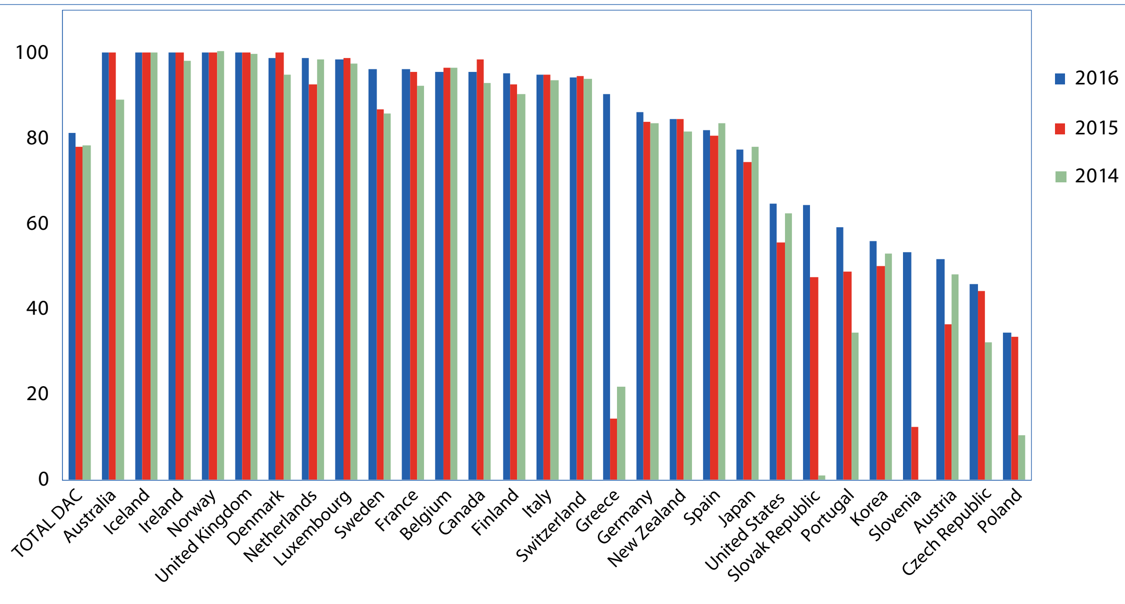
Progress has also been made in increasing transparency of development cooperation, even if access to information relevant for development planning, budgeting, execution and monitoring and evaluation remains insufficient. Since 2014, more development cooperation has been recorded on national budgets submitted for parliamentary oversight, and tracking budget allocations for gender equality and women's empowerment has also increased. Development partners have improved their reporting to the OECD/DAC Creditor Reporting System, the OECD/DAC Forward Spending Survey, and the International Aid Transparency Initiative (IATI). Progress was most notable on the timeliness and comprehensiveness of publicly available development cooperation data, while the publication of forward-looking information continues to be a challenge.[59] Concerted efforts are being made to increase the use of available data, particularly at country level, and several countries announced plans to integrate IATI data into their Aid Information Management Systems.

Southern partners are also enhancing efforts to monitor the quality and effectiveness of their development cooperation. They are designing assessment systems and processes for their projects and programmes, in line with the Nairobi outcome.[60] For many Governments, this coincides with the institutionalization of coordination mechanisms and legal frameworks, as is the case, for example, with Brazil, China, India, Mexico, Thailand and others. Many of these initiatives correspond with the principles defined in the Nairobi outcome docu-

Figure 8

Tying Status of ODA by Individual DAC countries, 2014–2016

(Percentage)



Source: OECD.Stat; OECD Development finance data, Statistics on resource flows to developing countries. Available from http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/statisticsonresourceflowstodevelopingcountries.htm.

59 Organization for Economic Cooperation and Development/United Nations Development Programme, *Making Development Co-operation More Effective. 2016 Progress Report* (Paris, OECD Publishing, 2016). Available from http://www. undp.org/content/undp/en/home/librarypage/development-impact/making-development-co-operation-more-effective--2016-progress-re.html.

60 P. Esteves, "How Governments of the South assess the results of South-South cooperation: case studies of South-led approaches", Development Cooperation Forum Policy Brief No. 20 (New York, Development Cooperation Forum, forthcoming).

ment of the High-level United Nations Conference on South-South Cooperation. Contributions by regional institutions include the Ibero-American General Secretariat's technical support for quantification and assessment through the Ibero-American Program to Strengthen South-South Cooperation. Various intraregional development cooperation mechanisms and frameworks have also emerged to enhance policy coordination; examples include the Forum on China-Africa Cooperation, the India-Africa Forum Summit, the BRICS Summit, and the IBSA Summit.

The United Nations development system is seeking ways to improve the effectiveness of its development cooperation through the Quadrennial Comprehensive Policy Review (QCPR). Restricted aid earmarked for specific projects contributes to fragmentation, competition and overlap among entities, and discourages United Nations system-wide focus, strategic positioning and coherence. Mobilizing of core funding is one of several issues addressed in the Secretary-General's proposed Funding Compact, an agreement by Member States and the United Nations development system that aims to reverse highly fragmented funding and improve transparency and accountability.[61]

In presenting his proposals on repositioning of the United Nations development system to better respond to the 2030 Agenda for Sustainable Development, the Secretary-General has placed the effectiveness of the system's development cooperation front and center, emphasizing three key principles: reinforcing national ownership; developing country-contextual responses; and ensuring the effective delivery of development results on the ground (see chapter III.F for an update on the repositioning process).

Box 5

Development cooperation and development finance assessments

Costa Rica is working on a national strategy for effective development cooperation, which aims to put in place a mechanism to manage and coordinate official development assistance (ODA), South-South cooperation, and other funding modalities and partnerships for the 2030 Agenda for Sustainable Development. The strategy, which will be agreed through a participatory and inclusive approach, applies a strong gender equality and human rights focus, and emphasizes reducing inequalities and poverty, environmental sustainability and resilient infrastructure.

Malawi's third Growth and Development Strategy (2017-2020) recognizes the importance of increased development finance and its effective utilization to maximize impact. Currently, 75 per cent of development cooperation projects use government results indictors, 55 per cent rely on government monitoring data, and the use of country systems has decreased. The Government plans to review its Development Cooperation Strategy to address issues of effectiveness, enhancing ownership, alignment, harmonization and mutual accountability. In 2017, the Government began a Development Finance Assessment to examine how development cooperation can be used to leverage private finance and other sources of financing.

Honduras and the Dominican Republic organized national multi-stakeholder follow-up forums to reflect on the Global Partnership for Effective Development Cooperation monitoring results and explore how to implement effectiveness commitments. The forum in Honduras led to a road map to operationalize effectiveness commitments at the national level, complementing and informing ongoing efforts to develop a new development cooperation policy and its currently ongoing Development Finance Assessment. The forum in the Dominican Republic focussed on consensus building around the new development cooperation policy, which applies to the country's dual role as recipient and provider, aligns development cooperation with the Sustainable Development Goals and aims for a whole-of-government-approach while also engaging non-state actors.

61 United Nations, Report of the Secretary-General on Repositioning the United Nations development system to deliver on the 2030 Agenda: our promise for prosperity and peace on a healthy planet (A/72/684 – E/2018/7). Available from https://documents-dds-ny.un.org/doc/UNDOC/GEN/N17/460/52/pdf/N1746052.pdf?OpenElement.