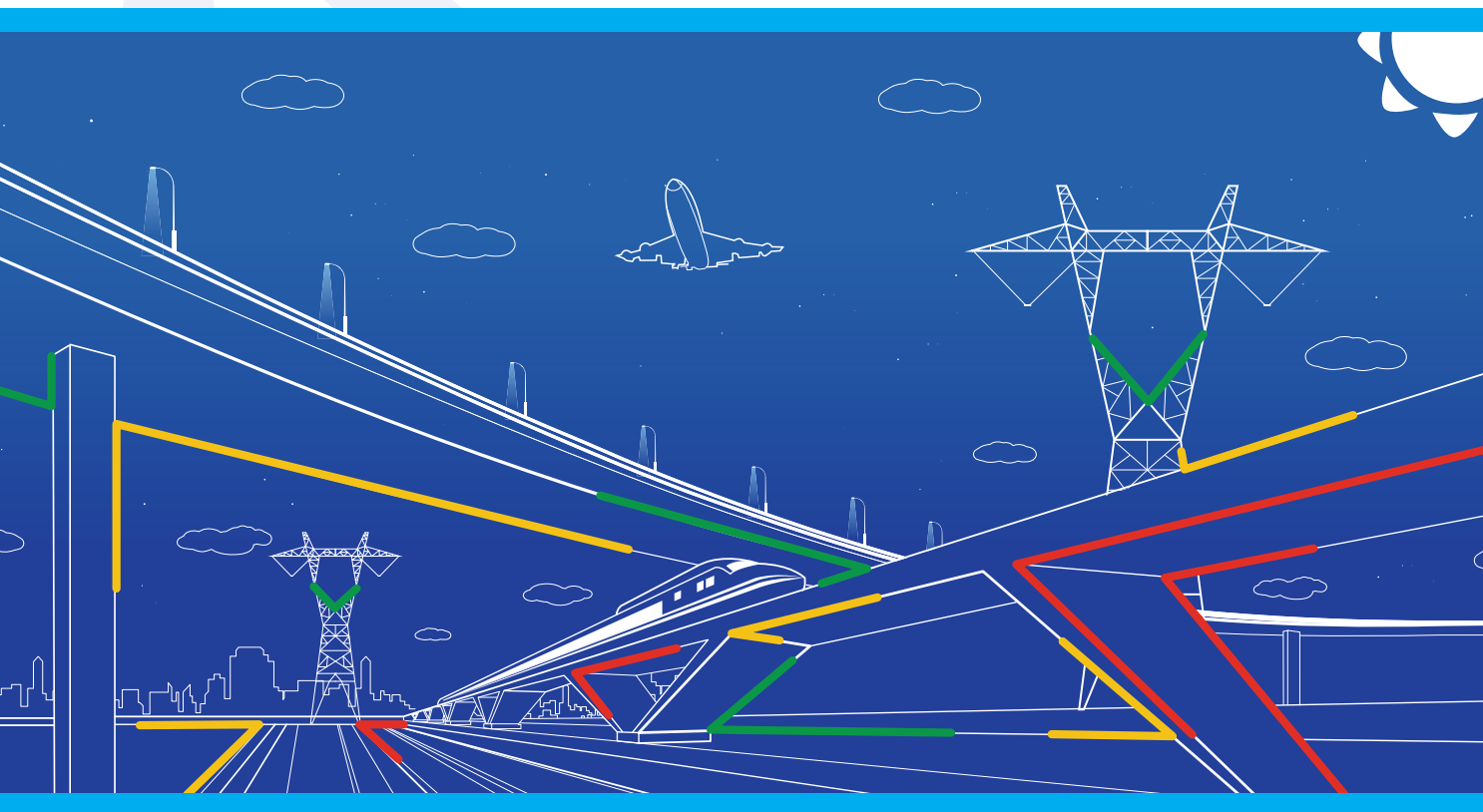


FINANCING FOR DEVELOPMENT: PROGRESS AND PROSPECTS

Report of the Inter-agency Task Force
on Financing for Development 2017



United Nations

FINANCING FOR DEVELOPMENT: PROGRESS AND PROSPECTS

Report of the Inter-agency Task Force
on Financing for Development 2017



United Nations
New York, 2017

United Nations publication
Sales no. E.17.I.5
ISBN 978-92-1-101363-4

Copyright © United Nations, 2017
All rights reserved

Chapter III.C

International development cooperation

1. Key messages and recommendations

Implementing the 2030 Agenda for Sustainable Development places significant demands on public budgets and capacities and on developing countries, in particular the poorest and most vulnerable. These demands were exacerbated in 2015 by a number of weather- and climate-related disasters, conflict and large-scale humanitarian crises.

In the face of these rising needs, international public finance increased in the past two years. Official Development Assistance (ODA) increased 8.9 per cent in real terms, to reach \$142.6 billion, partly due to higher costs for in-donor refugees. Net ODA also rose as a share of gross national income (GNI), to 0.32 per cent, but continues to fall far short of commitments. ***ODA providers should work to fulfil the commitments they have made.*** Preliminary data also show that in 2016, bilateral net ODA to least developed countries (LDCs) fell in real terms, after increases in 2015. ***It will be important that projected additional increases in ODA to LDCs in the coming years be realized, so as to meet the commitments in the Addis Ababa Action Agenda to reverse the decline in ODA to LDCs.*** Other vulnerable countries—small-island States that have graduated from access to concessional windows, for example—are struggling to access sufficient official financing.

Lending by multilateral development banks (MDBs) has increased, with MDBs taking important steps to address this dearth of financing for vulnerable countries. In the context of the World Bank's International Development Association's (IDA) eighteenth replenishment, the World Bank Group is increasing the flexibility of graduation policies and of the terms of project-specific financing for potentially transformative projects. ***As more developing countries pass per capita income thresholds,***

additional efforts will need to be made to broaden eligibility criteria for concessional financing that more accurately reflect continued vulnerabilities.

Partial data indicate that South-South cooperation efforts are making inroads across a wide range of financing, including in climate, humanitarian and infrastructure spending, and other means of implementation. Two newly established Southern-led MDBs began operations. ***With its emphasis on developing-country ownership, South-South cooperation should be further leveraged to strengthen the means of implementation of the 2030 Agenda for Sustainable Development.***

Urgent needs associated with a number of large scale humanitarian crises command an increasing share of development finance. While humanitarian finance remains vastly insufficient, and more international support will be needed for emergency responses, there is also a need for a greater focus on increasing the supply of concessional resources for long-term investment in resilience building and sustainable development. Allocating more development finance to emergency responses must not divert resources from long-term investments in sustainable development. As development cooperation providers work to increase their contributions, they should ***protect and increase concessional development financing, with a particular focus on long-term investments in sustainable development.*** New funding modalities are also being developed and beginning to be deployed for both crisis prevention and ex post support. ***Further analysis on the current scope and gaps in crisis prevention and alternative funding mechanisms, including better use of public and private insurance for natural disasters, is warranted.***

The broadening of global development priorities in the 2030 Agenda for Sustainable Development is changing the sectoral allocation of develop-

ment cooperation, including through a greater focus on how the private sector can be effectively engaged. As the use of modalities such as *blended finance grows, it is critical that deployment is assessed on a case-by-case basis, with risks and returns shared fairly, as called for in the Addis Agenda. Careful consideration should be given to the overarching principles of development effectiveness, in particular strong country ownership, aligning programmes and projects with country priorities, and transparency.*

Progress is being made in enhancing the quality and effectiveness of international development cooperation, and in aligning it with sustainable development. Nonetheless, there are areas with significant potential to increase coherence. *At the country level, implementing well-defined national development cooperation policies, linked to a country's national sustainable development strategy has been identified as a practical enabler of more accountable and effective development cooperation.*

The United Nations system is also moving to implement a more coherent approach in response to the 2030 Agenda for Sustainable Development, including through guidance provided by the Quadrennial Comprehensive Policy Review (QCPR) resolution adopted in December 2016. *Culminating a two-year dialogue among Member States, the 2016 QCPR provides a framework to reorient the United Nations system as a whole towards improved effectiveness and impact in the implementation of the 2030 Agenda for Sustainable Development.*

2. Global financing flows

The provision of international public finance increased in the past two years, continuing a rising trend since the turn of the millennium. Despite this growth, international public financial flows have fallen short of commitments made and remain insuf-

ficient to fill financing gaps for public investments in sustainable development.

ODA by members of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) totalled \$142.6 billion in 2016, representing a rise of 8.9 per cent from 2015 in real terms. This continues a long-term rising trend in ODA, which has doubled in real terms since the adoption of the Millennium Declaration in 2000. However, since 2010, the increase in ODA has to a large extent been due to humanitarian aid and in-donor refugee costs, with the share of in-donor refugee costs increasing from 2.7 per cent in 2010 to 10.8 per cent in 2016 (figure 1). Many donors also still fall short of ODA commitments. ODA from 28 countries in the OECD DAC¹ averaged 0.32 per cent of gross national income (GNI) in 2016. Only six countries met the target of 0.7 per cent of GNI.

Loans by MDBs complement largely grant-based ODA. MDB lending has grown substantially in the last 15 years, with loan disbursements reaching \$66.8 billion in 2015 (figure 2). Annual disbursements peaked in 2010 in the aftermath of the global economic and financial crisis, at \$74.4 billion, underlining the important countercyclical role that MDBs have been playing. MDBs are critical in supporting infrastructure investment in particular. In 2014, they disbursed USD 31 billion for infrastructure, representing half of the disbursements of all providers in this area.²

In 2015, two new multilateral financial institutions were established in the South—the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB). The NDB approved seven investment projects for a total of \$1.5 billion in 2016. The AIIB approved \$1.7 billion for nine projects as of January 2017, and expects to provide between \$10 billion and \$15 billion in loans annually over the next 15 years.³ In addition, national development banks, such as the China Development

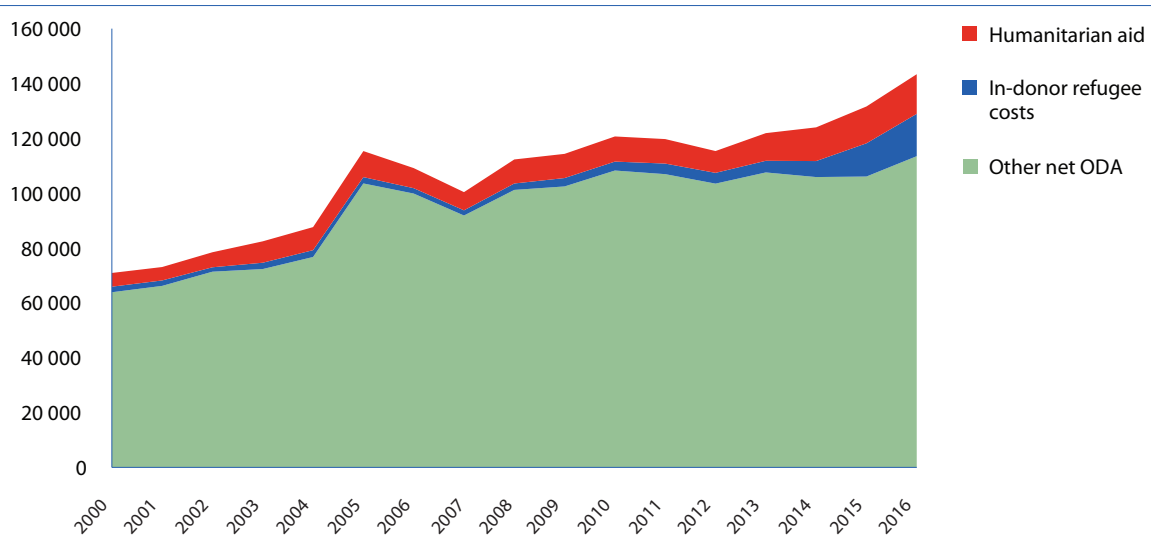
1 In 2016, Hungary joined the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC), which, including the European Union, now has 30 members.

2 Miyamoto, K. and Chiofalo, E. (2016). *Official Development Finance for Infrastructure: With a Special Focus on Multilateral Development Banks*, OECD Development Cooperation Working Papers, No. 30, OECD Publishing, Paris.

3 United Nations (2016). *Trends and progress in international development cooperation*. Report of the Secretary-General, E/2016/65. Available from: http://www.un.org/ga/search/view_doc.asp?symbol=E/2016/65

Figure 1

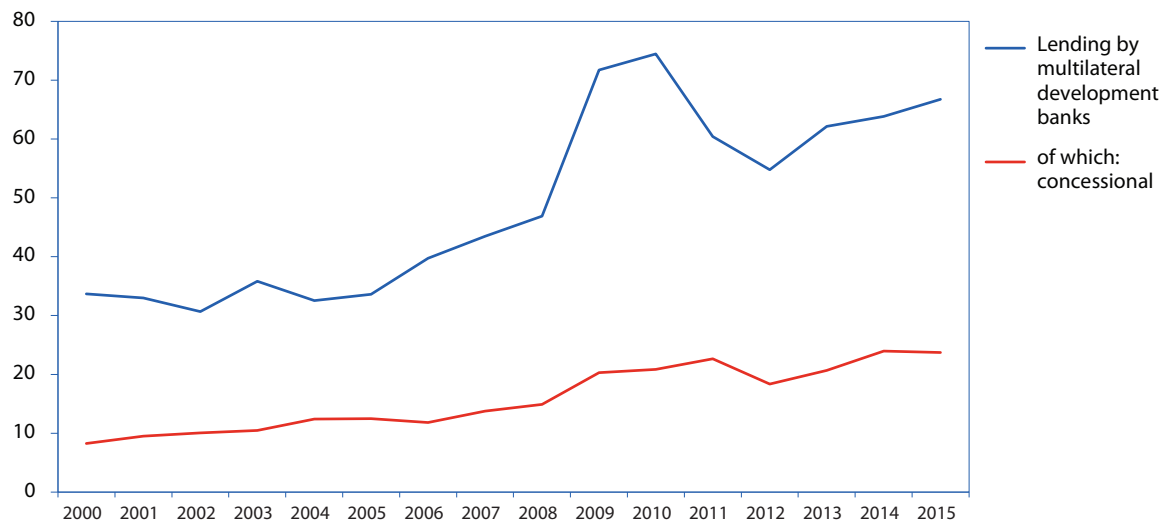
Net ODA by DAC donors, 2000–2015 (Billions of United States dollars, 2014 constant)



Source: OECD/DAC data.

Figure 2

Lending by multilateral development banks, 2000–2015 (Billions of United States dollars, current)



Source: World Bank World Development Indicators.

Note: Includes disbursement of loans and credits from the World Bank, regional development banks, and other multilateral and intergovernmental agencies. Concessional lending is defined as loans with an original grant element of 25 per cent or more.

Bank, the Export and Import Bank of China and the Brazilian National Development Bank, have taken a more prominent role in financing regional and subregional infrastructure. In 2014, the loans disbursed by these three banks amounted to \$1,762 billion (UNCTAD, 2015).

It is difficult to quantify the non-financial component of South-South cooperation, which is recognized in the Addis Agenda as an important element of international cooperation for development as a complement, not a substitute, to North-South cooperation. Estimated financial values are only

Box 1

Multilateral development bank policies in support of the 2030 Agenda for Sustainable Development

In 2016, multilateral development banks (MDBs) continued to enhance coordination and collaboration and have agreed on common actions to address critical issues of the 2030 Agenda for Sustainable Development in areas such as forced displacement, climate finance, infrastructure, private investment, and urbanization. This included the launch of the first Global Infrastructure Forum in April (see section on infrastructure), as well as two new facilities to bridge the gap between humanitarian and development assistance by ensuring support to countries hosting large numbers of refugees: the World Bank's Global Concessional Financing Facility, part of its Global Crisis Response Platform, and the European Investment Bank's new Resilience Initiative for the European Union's Southern Neighbourhood and Western Balkans.

In line with the Addis Ababa Action Agenda, MDBs have also individually and collectively implemented several measures to make optimal use of their resources and balance sheets. The Group of Twenty put forth a similar call in their Antalya Summit Leaders' communiqué in November 2015 and in the March 2017 Communiqué of Finance Ministers and Central Bank Governors. Among other measures, MDBs have introduced economic capital models that assess capital adequacy by assessing risks of specific operations, rather than general equity-to-loan ratios. Five MDBs have collaborated to establish a framework to exchange loans to diversify their portfolios and reduce sovereign risk. Three bilateral exposure exchange agreements for a total of \$6.5 billion were approved in December 2015.

The World Bank Group's International Development Association is adopting a new financing framework to better target concessional resources in the context of its eighteenth replenishment. Changes include a greater engagement in small States, making official finance on non-concessional terms available for transformational projects in blend countries^a, and a new Private Sector Window.

In March 2017, the World Bank Treasury issued equity-index linked bonds that link investors' returns to the stock performance of companies included in the Solactive Sustainable Development Goals World Index. The index includes 50 companies that, based on methodology developed by Vigeo Eiris' Equitics, dedicate at least one fifth of their activities to sustainable products, or are recognized leaders in their industries on socially and environmentally sustainable issues. The bonds were arranged by BNP Paribas and raised a total of EUR 163 million from institutional investors in France and Italy. Proceeds will be used to financing projects that are aligned with the Sustainable Development Goals.

^a Countries that are eligible for assistance from the International Development Association based on per capita income levels and are also creditworthy for some borrowing from the International Bank for Reconstruction and Development.

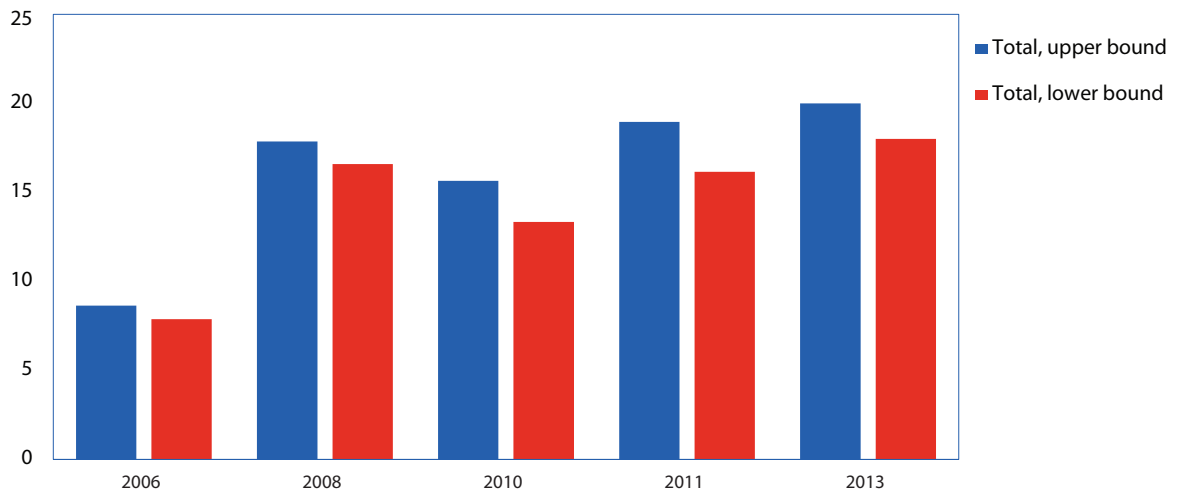
indicative. Existing data shows that concessional South-South cooperation, has been increasing. The United Nations Department of Economic and Social Affairs (UN/DESA) estimates that official concessional resources⁴ provided by the South for development purposes increased from \$7.9 billion in 2006 to between \$18 billion and \$20 billion in 2013. Partial data which includes concessional export credits suggest that South-South development cooperation surpassed \$20 billion in 2014 (figure 3).⁵ The estimated total lower bound values reflect a narrower definition of South-South development cooperation which excludes concessional export credits. Non-financial South-South cooperation modalities applicable, for example, to capacity support and policy change

have also increased. A number of recent initiatives of Southern partners to expand the scope and magnitude of their development cooperation corroborate the trends noted above. In 2015, China established two funds totalling \$5.1 billion to help developing countries address climate change and implement the 2030 Agenda for Sustainable Development. India has announced a \$10 billion concessional line of credit to Africa over the next five years, as well as grant assistance of \$600 million that would include an India-Africa Development Fund of \$100 million, an India-Africa Health Fund of \$10 million, and 50,000 scholarships for African students over the same period. South-South cooperation providers also significantly increased their contributions to

⁴ Defined as concessional loans and grants, debt relief and technical cooperation.

⁵ United Nations (2016). *Trends and progress in international development cooperation*. Report of the Secretary-General, E/2016/65. Available from: http://www.un.org/ga/search/view_doc.asp?symbol=E/2016/65

Figure 3
Concessional South-South cooperation, selected years, 2006–2013 (Billions of United States dollars)



Source: UN/DESA.

the United Nations development system and other multilateral organisations working on development.⁶

3. Allocation to countries and sectors

In the Addis Agenda, countries committed to focusing the most concessional resources on those countries with the greatest needs and least ability to mobilize other resources, while also considering and addressing the diverse development needs of middle-income countries. These commitments could bring greater rationality to the global allocation of bilateral aid in particular, which remains largely uncoordinated.

3.1. Addressing diverse needs and specific challenges of country groups

LDCs remain reliant on global support, owing to a combination of high vulnerabilities, high poverty rates and limited access to other sources of international financing. Access to official or officially supported financing other than grants—such as other official flows that do not meet the eligibility criteria

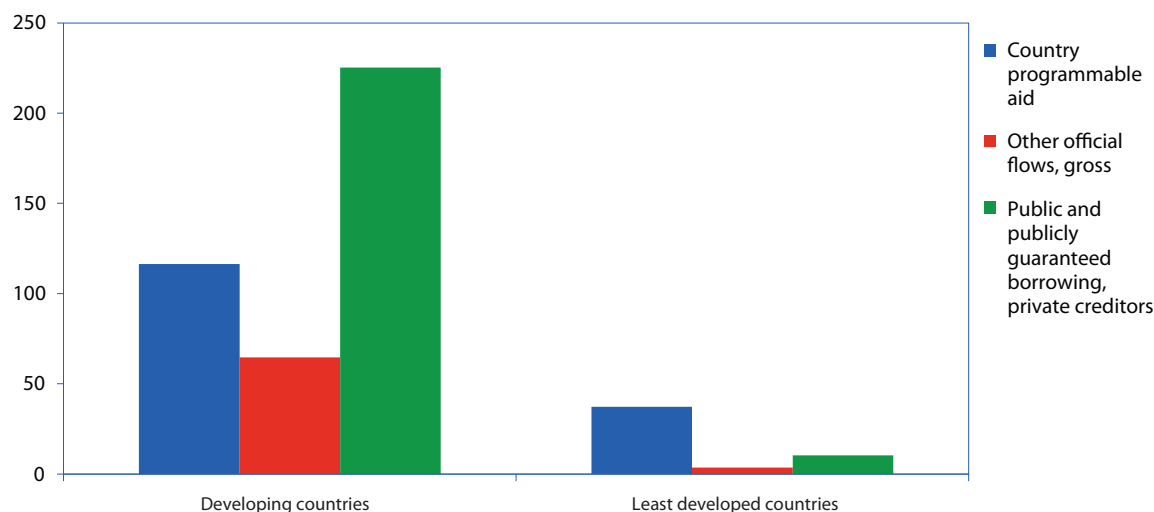
for ODA—is limited, and despite an increase in public borrowing from private creditors in LDCs in recent years, it still plays a very small role (figure 4).

In this light, the increase of ODA in 2015 (a total net increase to LDCs by 8 per cent in real terms, reaching \$43 billion in 2015⁷) was welcome and in line with the Addis Agenda commitment to reverse the fall in ODA to LDCs. However, preliminary data available for 2016 show that bilateral net ODA to LDCs decreased by 3.9 per cent in real terms compared to 2015. The OECD Survey on Donors' Forward Spending plans through 2019 suggested that country programmable aid to LDCs should rise, and it will be important that these projected increases will be realized, so as to meet the respective commitment in the Addis Agenda. ODA instruments used in LDCs also on average have more concessional financial terms than in developing countries as a whole. At the same time, these flows fall short of the lower bound of the United Nations target of 0.15 per cent, at 0.09 per cent of gross donor national income on average in 2014 and 2015. In 2015, only seven countries met the United Nations target

⁶ OECD (2015) *Multilateral Aid 2015: Better Partnerships for a Post-2015 World*. Available from: <http://www.oecd.org/dac/multilateral-aid-2015-9789264235212-en.htm>

⁷ Adjusting for inflation and the appreciation of the US dollar, currencies of DAC members depreciated significantly against the US dollar in 2015.

Figure 4
Official flows and sovereign borrowing by developing countries and least developed countries, 2014
(Billions of United States dollars)



Source: OECD.Stat, World Bank International Debt Statistics.

Note: Developing countries defined here as official development assistance (ODA) recipients.

(down from eight in 2014), with five donors meeting or exceeding the upper target of 0.2 per cent of donor GNI to LDCs.

The Addis Agenda also recognizes the specific development needs of middle-income countries. This group is highly diverse, with countries being subject to a range of vulnerabilities, and widely varying rates of per capita incomes, poverty and inequality. This diversity is reflected in different financing modalities. Overall, the share of borrowing from official creditors (both concessional and non-concessional) has decreased steadily over the last 15 years—from over 55 per cent in 2000 to about 40 per cent in 2015—while borrowing from private creditors has increased. Access to financial markets is a sign of stronger balance sheets, but borrowing from private creditors also adds risks, due to shorter maturities and higher and more variable interest rates (see chapter III.E on debt and debt sustainability).

Middle-income countries have seen their share of global ODA fall from just above 60 per cent at the turn of the millennium to about 50 per cent

in recent years. In parallel, the use of less concessional instruments has become more prominent. ODA loans reached 45 per cent of gross ODA disbursements in 2015. Middle-income countries were also the primary recipient of private sector instruments such as guarantees and equity investments. Lower-middle-income countries and upper-middle-income countries received 32 per cent and 41 per cent of private financing flows mobilized by ODA private sector instruments, respectively.

The global aggregates can, however, hide important differences between countries. Many middle-income countries continue to struggle in accessing affordable financing. Kharas, Prizzon and Rogerson found that as countries' per capita income increases above low-income thresholds, their access to external (concessional and non-concessional) public finance decreases faster than can be compensated by increasing tax revenues, in per capita terms.⁸ As a result, they have less public financing available. The shift away from grants and from concessional to non-concessional lending is also often accompanied

⁸ Kharas, Homi, Annalisa Prizzon and Andrew Rogerson (2014). *Financing the post-2015 Sustainable Development Goals. A rough roadmap*. ODI. Available from: <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9374.pdf>

by changes in sectoral allocations, with less financing available for the social sectors.⁹

This challenge is exacerbated in small-island developing States (SIDS), which face a number of common development and development financing challenges. Due to their small size, remoteness, and vulnerability to external and environmental shocks, they have limited capacity to mobilize public resources domestically and therefore remain dependent on official concessional financing, despite their relatively high per capita income levels. ODA to SIDS increased from \$2.7 billion in 2014 to \$3.1 billion in 2015. It is, however, projected to remain stagnant through 2019, calling for special attention and monitoring given the structural vulnerabilities of SIDS. These vulnerabilities are also not fully considered in eligibility criteria for concessional official financing, particularly by MDBs, which often limit their criteria to income levels and measures of countries' creditworthiness.

Different approaches have been put forward to address these concerns. Several multilateral development banks are considering or have made changes to their concessional lending frameworks. For example, the IDA is increasing its engagement with small States by including extending favourable lending terms for small island economies to all small States (i.e., countries with a population of 1.5 million) in the context of its eighteenth replenishment. The Asian Development Bank is considering an update to its graduation policies in the context of its new Road to 2030 strategy—as most of its developing-country members are expected to be classified as middle-income countries by 2020 and many will soon exceed the threshold for funding other than for emergency purposes—and in the light of new development challenges, such as climate change. As more developing countries pass per-capita income thresholds, it will be important to make additional efforts to broaden eligibility criteria for concessional financing that more accurately reflect continued vulnerabilities in many developing countries.

3.2. Sectoral priorities of international public finance

In the era of the Millennium Development Goals, sectoral allocation of international public financing flows reflected the prioritization of basic social needs, such as health and education. The 2030 Agenda for Sustainable Development has significantly broadened the set of global development priorities, and this is already reflected in allocation decisions of development cooperation providers. This section highlights the focus on climate finance. The year 2015 also saw the continuation of several large-scale humanitarian crises, and the urgent needs associated with them commanded an increasing share of development finance. The subsequent section will highlight the increasing emphasis on using public finance to leverage additional private investments and support private sector development.

Climate finance

Mitigating and adapting to climate change is integral to the 2030 Agenda for Sustainable Development, and considerable resources are needed to meet the investment needs for low-carbon and climate-resilient development. Development finance can make an important contribution to meeting these needs. At the same time, climate finance remains tilted towards mitigation activities, which benefits donor and recipient countries alike, and international assistance targeting global carbon emissions has been heavily concentrated in middle-income countries. The challenge for international development cooperation is to meet the large financing needs for climate mitigation while assuring that sufficient development finance remains available for the poorest countries.

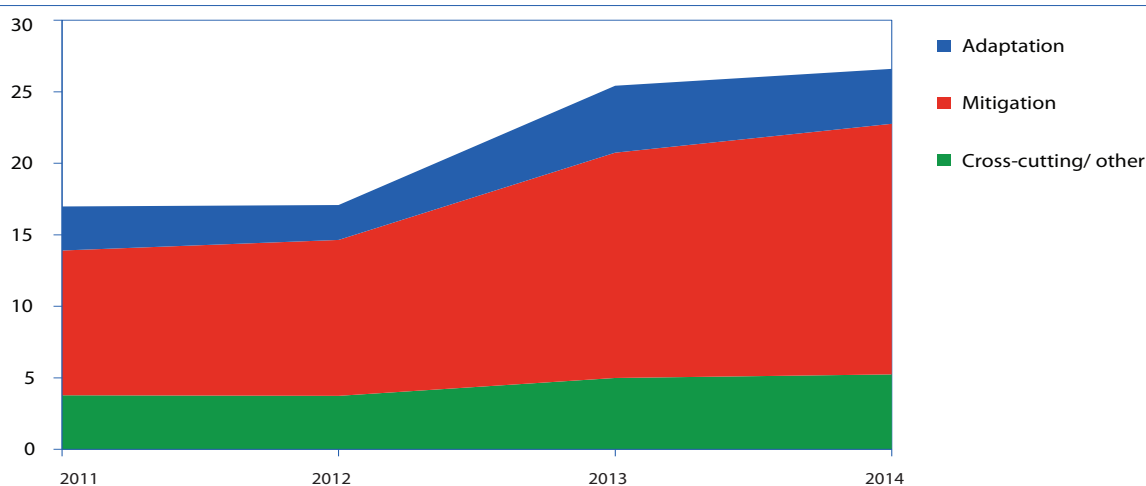
Total public climate-specific finance from developed to developing countries rose by about 50 per cent between 2011 and 2014—from \$17 billion to \$26.6 billion—with a clear bias towards climate-mitigation interventions (figure 5).¹⁰

⁹ Prizzon, Annalisa, and Andrew Rogerson (2017). *Moving away from aid? The case of Indonesia*. ODI Report, March 2017. Available from: <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11345.pdf>

¹⁰ UNFCCC Standing Committee on Finance (2016). *2016 Biennial Assessment and Overview of Climate Finance Flows*. Available from: http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2016_ba_technical_report.pdf

Figure 5

Annex II parties' public climate finance support to developing countries, 2011–2014, (Billions of United States dollars)



Source: UNFCCC Standing Committee on Finance (2016) Biennial Assessment and Overview of Climate Finance Flows Report.

Climate-related ODA has increased steadily, and there has also been an increase in South-South cooperation in this area. For example, China announced the establishment of a \$3.1 billion South-South Climate Cooperation Fund in 2015 to help developing countries tackle climate change. In addition to bilateral flows, MDBs provided \$25.7 billion of their own resources for climate finance in developing countries in 2014. More than 80 per cent of MDB lending targeted climate change mitigation.

The largest dedicated climate fund is the Green Climate Fund, which has raised the equivalent of \$10.3 billion in pledges from 43 Member State Governments, including from 8 developing countries, as of December 2016. Currently, 48 entities, almost half of which are either national or regional entities, are accredited to access the Fund's resources to finance projects and programmes, thus providing developing countries with direct access to funds.

Humanitarian finance

A number of large-scale crises and emergencies are driving a dramatic increase in humanitarian financ-

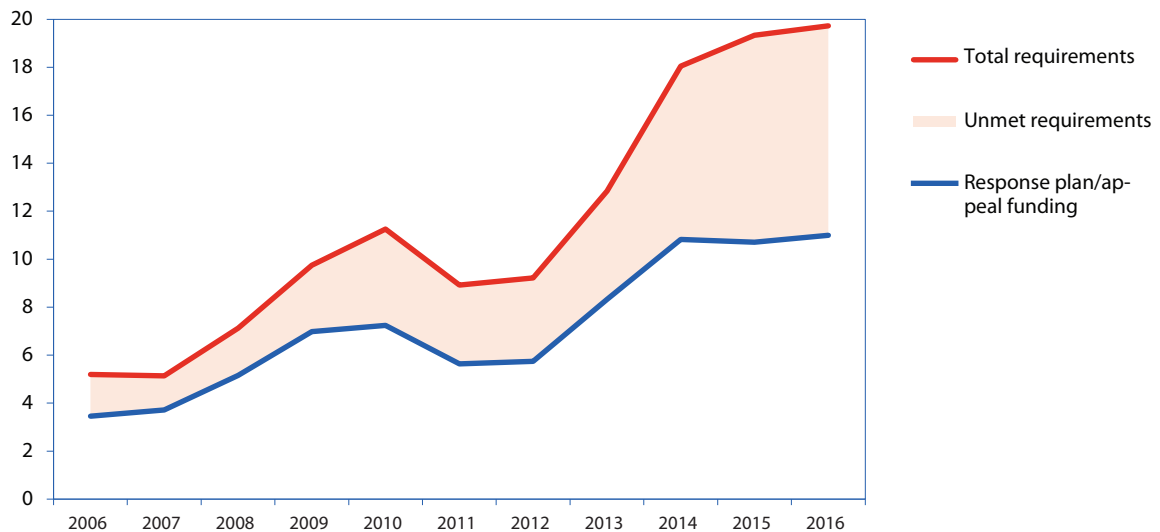
ing needs. Financing requirements for inter-agency humanitarian appeals and refugee response plans coordinated by the United Nations have risen significantly over the last decade, from \$5.2 billion in 2006 to \$22.1 billion in 2016. While funding also rose over the same period—from \$3.4 to \$12.6 billion (as of 30 December 2016)—it increasingly falls short of what is needed (figure 7), and only 56 per cent of requested funding was received in 2016.¹¹ While humanitarian financing is thus vastly insufficient, the crises it addresses create additional burdens to existing sustainable development challenges and require additional financing. Allocating more development financing to emergency responses should not divert resources from long-term investments in sustainable development.

Overall global funding for humanitarian action—which includes all public and private international humanitarian aid, United Nations coordinated appeals and beyond—reached \$28 billion in 2015, \$6.2 billion of which came from private donors.¹² Governments beyond the OECD DAC account for an increasing share of public humani-

¹¹ OCHA (2016). *Global Humanitarian Overview, Humanitarian Funding Update, 30 December 2016*. Available from <http://reliefweb.int/report/world/humanitarian-funding-update-december-2016-united-nations-coordinated-appeals>

¹² Development Initiatives (2016). *Global Humanitarian Assistance Report 2016*. Available from: <http://www.global-humanitarianassistance.org/wp-content/uploads/2016/07/GHA-report-2016-full-report.pdf>

Figure 6
Humanitarian response plan/appeal funding and unmet requirements (excluding refugee response plans), 2006–2016 (Billions of United States dollars)



Source: UN/OCHA Financial Tracking Service.

tarian finance; their contribution has increased from 4 per cent in 2006 to 12 per cent of the total in 2015, largely owing to increased contributions by Gulf States to fund crisis responses in the Middle East. Turkey was the second highest contributor in terms of volume, providing approximately \$3.2 billion in aid.

Coherence of humanitarian and development financing

Many humanitarian crises are protracted in nature: they unfold over many years, blurring the line between humanitarian and development needs. The average duration of humanitarian United Nations inter-agency appeals is seven consecutive years. At the same time, the poor are most exposed to and most affected by crises. According to estimates, more than three quarters of all people living in extreme poverty globally live in countries that are environmentally vulnerable, conflict-affected or fragile.¹³ Enhancing the coherence of development and humanitarian action and finance is therefore critical.

The Secretary-General's Agenda for Humanity, which guided the overarching framework of the

first World Humanitarian Summit in Istanbul, Turkey, in May 2016, proposed a number of shifts of humanitarian interventions in this regard, including working over multi-year time frames, recognizing the reality of protracted crises and aiming to contribute to longer-term development gains. These have implications for financing too, including shifting programming to promote preparedness, reducing risk, reducing vulnerabilities, and developing local capacities to respond—areas that require a mix of both humanitarian and development sources. First steps to overcome silo approaches include greater collaboration between the United Nations and international financial institutions, exemplified by two new facilities launched by MDBs to bridge the gap between humanitarian and development assistance (box 1).

The most effective measures are preventative, such as investments in disaster risk reduction, peace and security. While investments in implementing early warning systems, protective infrastructure, land-use policies and building codes, and other measures of risk reduction are primarily financed through national budget allocations, many develop-

¹³ Development Initiatives (2016). *Global Humanitarian Assistance Report 2016*. Available from: <http://www.global-humanitarianassistance.org/wp-content/uploads/2016/07/GHA-report-2016-full-report.pdf>

ing countries rely on international support. Yet, the financing landscape for international public climate and disaster resilience financing is complex; a range of mechanisms that provide access to ex ante financing for resilience and to ex post support following natural disasters are available, but with diverse eligibility criteria and complex financing terms.¹⁴

To provide quickly disbursing ex post finance, several market-based mechanisms have been set up—in particular, sovereign insurance—although they so far remain regional in reach. They include the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which offers catastrophe insurance to Caribbean Governments against tropical cyclones, earthquakes and excess rainfall. Since 2007, CCRIF has made 22 payouts to 10 members, totalling approximately \$69 million, all within two weeks after each event. Other regional mechanisms include the Pacific Catastrophe Risk Assessment and Finance Initiative and the African Risk Capacity Insurance Company, with the former providing payments in the aftermath of cyclones and tsunamis, and the latter covering drought and other extreme weather events. To meet increased demand for such products, and to further diversify risks, the international community could also consider setting up such mechanisms at the global level. The Task Force can bring together and carry forward analytical work to help develop appropriate funding instruments.

4. Blended finance

There has been an increasing focus on using public funds to leverage additional public and, in particular, private resources. This focus is grounded in the recognition that private investments and private sector development are indispensable to sustainable development. Blended finance aims to unlock sources of finance that are not yet available for development purposes by providing public funds to increase investability of the development outcome. Indeed,

when the social returns of an investment exceed the private returns, a subsidy may be warranted. This is of course not the only way to support private sector development; public investments in basic infrastructure, health and education, and many other areas provide the preconditions without which markets cannot function well. The allocation of scarce public resources to support specific private investments must therefore be carefully considered, and should follow recipient countries' expressed priorities. This perspective is reflected in the Addis Agenda, which develops a deeper understanding of appropriate conditions for blended finance, how it should be utilized and structured, and how associated risks can be evaluated and managed.

Measuring the extent to which development finance is currently used to catalyse private investment at the international level is challenging. MDBs have created a joint Task Force to harmonize methodologies that quantify catalysed private finance and plan to publish a first report on 2016 commitments using the new methodology in April 2017. The OECD DAC has also been working on developing an international standard for measuring the amounts mobilized from the private sector by official development finance interventions.¹⁵ From 2017 forward, data will be collected on amounts mobilized from guarantees, syndicated loans, and shares in collective investment vehicles in the DAC statistical system. A survey launched in September 2016 further pilots methodologies for credit lines and direct investment in companies.

The OECD survey¹⁶ has found that over four years, \$81.1 billion was mobilized from the private sector by the five instruments and mechanisms surveyed (guarantees contributed 44 per cent of the total), 26 per cent of which targeted climate-related projects (figure 5). The survey also indicates that annual amounts mobilized have followed an upward trend over the period studied.

¹⁴ OECD and World Bank (2016). *Climate and Disaster Resilience Financing in Small Island Developing States*. Available from: http://www.oecd-ilibrary.org/development/climate-and-disaster-resilience-financing-in-small-island-developing-states_9789264266919-en

¹⁵ In February 2016, the DAC agreed on a set of principles on how to measure such instruments in official development assistance statistics in future (see DAC High-level Meeting Communiqué, available from <http://www.oecd.org/dac/DAC-HLM-Communique-2016.pdf>).

¹⁶ For more information, see <http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/Preliminary-results-MOBILISATION.pdf>

Several new initiatives are also under consideration, such as the recently launched European Fund for Sustainable Development, which aims to mobilize public and private investments of up to €44 billion based on an initial European Union contribution of €4.1 billion, primarily in Africa and the European neighbourhood.

Discussions on the effectiveness and quality of blended finance have found that trade-offs between commercial and sustainable development objectives may sometimes be difficult to reconcile. As private sector involvement in public investments increases the need to generate financial returns for private partners, there is also a broader risk of focusing efforts on projects with lower-risk profiles and less development impact. Existing surveys on private sector instruments show that their use is concentrated in middle-income countries. Finally, transparency practices vary greatly, partly because blended financing mechanisms are often implemented through third parties. Such discussions have taken place in the context of the Development Cooperation Forum (DCF), for example, with a focus on building the evidence base, providing policy guidance, and capacity development.

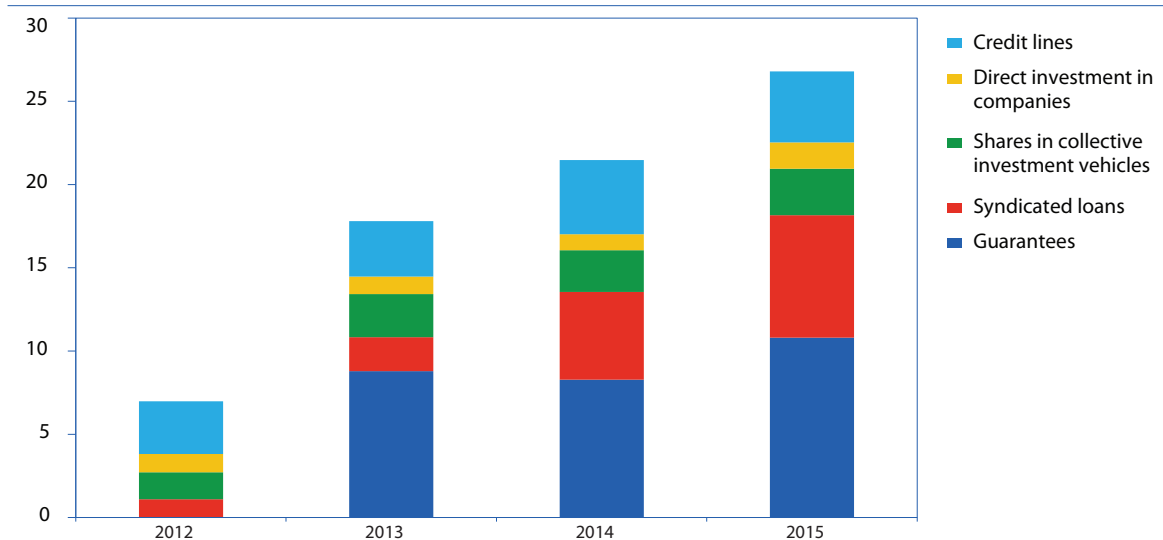
In this light, it is critical that the overarching principles of development effectiveness are applied—in particular, transparency, aligning programmes and projects with country priorities, and ensuring strong country ownership. The principles for blended finance and public-private partnerships contained in the Addis Agenda provide additional guidance (see also the discussion on public-private partnerships in this report). With regard to transparency, the OECD DAC principles on the measurement of private sector instruments note that the official effort will be counted as ODA, while the flows mobilized will be tracked in the broader measure on flows for sustainable development (box 2). The principles also contain provisions to enhance safeguards, and are an important first step in ensuring that blended finance meets effectiveness criteria.

5. Effective development cooperation aligned with the 2030 Agenda for Sustainable Development

The Monterrey Consensus called not only for a substantial increase in ODA and other resources for

Figure 7

Amounts mobilized from the private sector by official development finance interventions, 2012–2015
(Billions of United States dollars)



Source: OECD.

Note: In syndicated loans, the official institution arranges and/or retains a portion of the loan on its own account; shares in collective investment vehicles with official participants are those invested in entities that allow investors to pool and jointly invest in a portfolio of companies.

Box 2

Total official support for sustainable development

In December 2014, Ministers of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) agreed to carry out consultations and analytical work to develop a new measurement framework for development finance in support of sustainable development, provisionally called Total Official Support for Sustainable Development (TOSSD). In the current proposal, TOSSD would include all officially supported resource flows to promote sustainable development in developing countries and to support development enablers or address global challenges at regional or global levels. Private finance mobilized through public interventions would thus be counted in TOSSD, while the public effort will be recorded as official development assistance (ODA).

Following the call in the Addis Ababa Action Agenda for open and inclusive discussions on TOSSD, the OECD has held a series of consultations with different stakeholders, including by publishing a TOSSD Compendium for public consultation in June 2016. The Inter-agency Task Force itself has held two technical meetings with the OECD on the proposal and on broader questions of measuring international public financing flows and development cooperation efforts in 2016. The meetings provided occasion to discuss critical perspectives on the proposal, and to compare and contrast the scope and methodologies behind the proposed TOSSD measure against the monitoring of financing for development commitments by the Task Force. As a result, the OECD has adjusted the technical parameters to reflect recommendations of the IATF and consultations with Member States.^a

The meetings had three key findings. First, the ongoing Task Force monitoring of commitments on concessional and non-concessional international public financing flows (Action Area III.C of the Addis Agenda) largely encompasses the components of what the OECD proposes to measure under the cross-border flows pillar of TOSSD. The meetings identified specific gaps in data and data inconsistencies in this area — such as lending by multilateral development banks, South-South cooperation and leveraging of private finance — where the Task Force could welcome and work with others towards greater harmonization and standardization of data, in the context of TOSSD and beyond. The OECD has carried out pilots in Senegal^b and the Philippines to understand how an aggregate metric such as TOSSD could best respond to partner country needs and priorities. Second, Task Force monitoring of financing for development commitments is broader in scope than TOSSD. Financing for development commitments include provider-focused commitments (on ODA in particular), as well as a focus on quality and effectiveness (including when it comes to purchasing power parity and mobilization of private resources), which are difficult to measure in a single indicator. Third, the nature of these financing for development commitments, with their emphasis on the qualities, characteristics and origins of different components, also means that the Task Force recommended to ensure that TOSSD is designed in such a way that all different flows are separately identifiable and thereby cautioned adding-up all components into a single metric.

Going forward, the OECD is planning to continue consultations and pilot studies. A new multi-stakeholder TOSSD Task Force will be launched aiming to address conceptual and technical issues and implementation options, with a view to finalise the TOSSD definition in time for the High Level Political Forum (HLPF) on Sustainable Development and the High-level Dialogue on Financing for Development under the auspices of the General Assembly in 2019.

^a <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/TOSSD%20Flyer%20crops.pdf>

^b For more information, see: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/Senegals%20perspective.pdf>

development, but also for enhanced effectiveness of development cooperation. The Addis Agenda welcomed the efforts that have been made since then to improve the quality, impact and effectiveness of assistance, including the progress achieved in elaborating the principles that apply to respective efforts to increase the impact of cooperation, and further noted that efforts to pursue effective development cooperation will be addressed primarily in the DCF of the United Nations Economic and Social Coun-

cil (ECOSOC), while taking into account complementary efforts of other relevant forums, such as the Global Partnership for Effective Development Cooperation.

The Addis Agenda reiterated that cohesive nationally owned sustainable development strategies are at the heart of implementation efforts. These strategies and the priorities they formulate should in turn guide how a country engages in development cooperation. National development cooperation policies

articulate the vision and objectives of development cooperation, identify the roles of different actors, and make clear the lines of accountability. A full 90 per cent of developing countries surveyed in the 2016 DCF Global Accountability Survey¹⁷ have such policies, showing a slight increase from the previous survey. Some countries have also started to reflect key aspects of the 2030 Agenda for Sustainable Development in their policies, including the importance

of all three dimensions of sustainable development, commitments to address inequality, and the universal importance of sustainable development. Survey results also show the need for capacity support for developing-country Governments as they monitor and review development cooperation, and for supporting stakeholders' engagement in the process.

Development partners' commitment to align activities with these national priorities has been

Box 3

Cambodia's national development cooperation and partnership strategy

Cambodia has achieved impressive progress in socioeconomic development over the past decade with gross domestic product growth averaging 7.7 per cent annually, and its poverty rate reduced from 53.2 per cent in 2004 to 13.5 per cent in 2014. In June 2014, the Royal Government of Cambodia approved the country's "Development Cooperation and Partnerships Strategy 2014-2018".^a The strategy aims to support implementation of Cambodia's National Strategic Development Plan,^b covering the same time period. It elaborates the country's vision and specific strategies for country-led and country-owned development cooperation, and showcases how a well-defined national development cooperation policy, linked to a country's national sustainable development strategy, can facilitate accountable and effective development cooperation.

Cambodia's strategy establishes partnership principles and tools, with strong emphasis on programme-based approaches as its preferred mode of partnership. A set of Joint Monitoring Indicators, negotiated by the Government and its development partners across major sectors and reform programmes, provides for results-based mutual accountability.

Cambodia had officially established programme-based approaches as its priority approach for implementing sector strategies and core reforms in November 2010 as a mechanism to promote national ownership of development programmes; ensure coherent programming of resources; strengthen national capacities and systems; and, most importantly, deliver development results.^c

According to the Government's assessment, the extended use of programme-based approaches since 2010 has yielded several important developments:

- (i) greater harmonization of development cooperation, with establishment of a common strategy and programming framework for all development partners, bringing improved alignment and strengthened country ownership;
- (ii) more opportunities for refining institutional coordination arrangements, which have promoted more effective dialogue with all development partners and actors and improved implementation of reforms, such as public financial management, through strengthening and use of country systems;
- (iii) development of more robust and inclusive multi-stakeholder partnerships involving different line ministries of government, bilateral and multilateral development agencies, civil society organizations, the private sector and regional actors, including Southern partners;
- (iv) an increased focus on results and mutual accountability.

These developments have collectively contributed to strengthened capacities of national institutions and mechanisms for managing development cooperation.

^a Available from http://cdc-crdb.gov.kh/cdc/documents/Sector_Strategy/14_Partnership_Harmonization/Final_DCPS_2014_2018_EN.pdf.

^b Available from http://cdc-crdb.gov.kh/cdc/documents/NSDP_2014-2018.pdf.

^c Please refer to RGC concept Note (October 2010): http://cdc-crdb.gov.kh/cdc/pba/pba_concept_note_en.pdf.

¹⁷ United Nations (2016). National mutual accountability and transparency in development cooperation: Study on the findings of the Fourth DCF Survey. Available from: <https://www.un.org/ecosoc/sites/www.un.org/ecosoc/files/files/en/dcf/dcf-accountability-study-v4.pdf>

partially achieved: while 85 per cent of their new projects and programmes have objectives aligned to national priorities, only 62 per cent of results indicators are drawn from country-led results frameworks, and only 50 per cent align with their monitoring and evaluation systems.¹⁸

Well-performing public financial management and procurement systems ensure that spending on national priorities translates into development progress. Country performance in strengthening public financial management systems is mixed, however. Overall, 51 per cent of development cooperation disbursements to the public sector used country systems in 2015, compared to 45 per cent in 2010.

Moving from planning to “managing for results” also remains a challenge for countries and their development partners. Country results frameworks monitor development cooperation against national development priorities, linked to global sustainable development objectives. Countries need to further strengthen their results-based budgeting, monitoring and evaluation systems. On the other hand, while development partners have aligned with existing country systems in the planning phases, they need to extend this to monitoring and evaluation, including relying on countries’ own monitoring

indicators and sources of data, and carrying out joint evaluations with Governments.

In this context, the 2016 QCPR of the United Nations General Assembly guides the United Nations development system to strengthen its support to national institutions in planning, management, statistical and evaluation capacities. The 2016 QCPR also lays the foundation for making the United Nations development system fit to support the implementation of the 2030 Agenda for Sustainable Development, and requests the Secretary-General to include options for better aligning funding modalities with its functions, including by incentivizing the system to work together as a whole. At the same time, the United Nations system is moving to implement a more coherent approach on the ground through strengthening the Delivering as One agenda.

Development cooperation is a central aspect of the broader financial and policy landscape that provides the means for implementing national sustainable development strategies. All financing sources and policies have to be considered in what the Addis Agenda calls “integrated national financing frameworks”. Strengthening these frameworks will be imperative, along with increases to the volume of international public finance and allocation of that financing to priority groups of countries.

¹⁸ GPDEC (2016). *Making Development Co operation More Effective. 2016 Progress Report*. Available from: <http://www.undp.org/content/undp/en/home/librarypage/development-impact/making-development-co-operation-more-effective--2016-progress-re.html>