Financing for Sustainable Development Report 2022

Inter-agency Task Force on Financing for Development

Bridging the Finance Divide

United Nations

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

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The online annex of the Task Force (http://developmentfinance.un.org) provides additional data and analysis on progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the Sustainable Development Goals.

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International development cooperation



Chapter III.C

International development cooperation

1. Key messages and recommendations

Development providers increased official development assistance (ODA) to a record level in 2020 despite the economic recession, demonstrating the role of ODA as a countercyclical resource in times of crisis. Nonetheless, ODA volumes are currently insufficient to meet rising needs to address the impact of the COVID-19 pandemic. Collectively, donors continue to fail to meet ODA commitments to provide 0.7 per cent of ODA per gross national income (GNI) and allocate 0.15-0.20 per cent of GNI to least developed countries (LDCs). Furthermore, concessional finance terms have worsened, with LDCs receiving fewer grants. In addition, distribution of COVID-19 vaccines, especially to the poorest countries, has been grossly inequitable. Responding to the military conflict in the Ukraine could also divert ODA from support to other countries and/or other areas if additional resources are not raised.

- *ODA providers must scale up and meet their ODA commitments with new and additional resources, including for LDCs. Grant finance rather than loans should be prioritized for vulnerable countries, such as LDCs and small island developing States (SIDS);*
- *As an immediate priority, ODA providers should meet the financing gap of the Access to COVID-19 Tools Accelerator (ACT-Accelerator) and rally behind the efficient and equitable distribution of vaccines for all countries;*
- *Donors should use vulnerability criteria as a complement to gross domestic product (GDP) for access to ODA in a consistent and systematic way;*
- *Countries should aim to better connect financing and related policies with longer-term objectives expressed in their national plans, strategies and resources, while development partners should make more effort to align their interventions to country priorities. Integrated national financing frameworks (INFFs) can be a useful tool to improve the effectiveness of development cooperation by matching plans, strategies and resources.*

Development of an initial conceptual framework for South-South cooperation marks a breakthrough in its measurement. South-South cooperation initiatives have helped to combat the pandemic, complementing North-South efforts. South-South cooperation also continues to expand in scope, volume and geographical reach.

- *Southern providers should continue further work on the measurement of South-South cooperation.*

A revitalized and more effective form of international cooperation is needed. The United Nations Secretary-General in Our Common Agenda has called for a new global deal to deliver on a more networked, inclusive and effective form of multilateralism with a focus on strategic foresight to address major global risks.

- *Developed countries urgently need to fulfil their commitment to mobilize $100 billion per year for climate action in developing countries;*
- *All providers should meet the new commitment to double adaptation finance by 2025, as well as prioritize grant finance for LDCs and SIDS;*
- *Development partners should integrate disaster risk reduction measures into development cooperation across all sectors to build resilience against current and future shocks and hazards;*
- *Development partners should also translate aid and climate commitments/pledges towards gains for LDCs and SIDS, including considering the use of multidimensional vulnerability as criteria to access ODA.*

Scaling up the resources of multilateral development banks (MDBs) can help to meet elevated demands. Lending by MDBs increased significantly in 2020, with further growth expected for 2021. While LDCs benefit from concessional MDB resources, the non-concessional windows of MDBs provide a vital channel for middle-income countries (MICs) to access long-term finance at rates that are more attractive than their own market borrowings.

- *Donors should provide MDBs with additional capital funding, particularly for the African Development Bank (AfDB) and African Development Fund (ADF); and consider channelling Special Drawing Rights (SDRs) through MDBs;*
- *Capital adequacy requirements should be reformed, and balance sheet optimization approaches advanced.*

Blended finance, which uses public funds to crowd in private finance, can be an option to support national development priorities, especially in areas with the potential to provide positive financial returns to repay the private partners, but this must be done with minimum concessionality or subsidy. Mobilizing private finance may be more challenging amid the ongoing COVID-19 crisis but can be an option for post-COVID-19 recovery efforts.

- *A differentiated approach based on need and impact could increase the scale and effectiveness of blended finance given limited concessional resources;*
- *Different instruments could be considered to scale up blended finance, such as guarantees and risk transfer mechanisms;*
- *INFFs can help policymakers consider blended finance for investments in projects with high sustainable development impact.*

This chapter highlights the impact of COVID-19 on ODA, MDB lending and blended finance, and discusses the latest developments in South-South cooperation. Section 6 examines financing for climate change and biodiversity and the importance of international cooperation to address global public goods. The chapter concludes with an examination of the quality, effectiveness and impact of development cooperation.

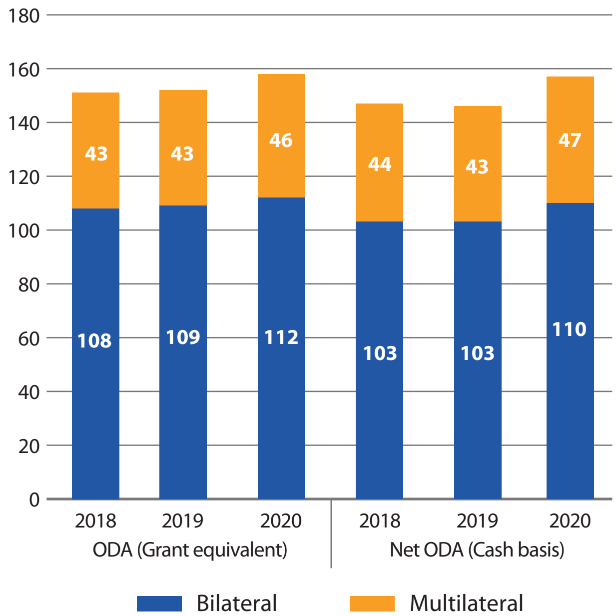
2. Official development assistance

2.1 Impact of COVID-19

ODA increased to its highest level in 2020; however, the increase failed to keep pace with rising needs and demands from the COVID-19 crisis. In 2020, ODA increased to a record level, rising by 3.5 per cent in real terms to $161.2 billion,[1] as calculated by the new grant-equivalent measure.[2] Net ODA totalled $161.0 billion according to the previous cash flow methodology, an increase of 7.1 per cent in real terms (figure III.C.1). The increase in ODA was underpinned by an increase in COVID-19-related activities by bilateral and multilateral providers (figure III.C.2). Nonetheless, ODA represented only a small portion of donors' pandemic response, at around 1.37 per cent of their domestic fiscal response.[3] Overall, while 16 donor countries increased expenditure on ODA, 13 countries reduced it. ODA was higher as a share of donor country GNI on average—0.32 per cent compared to 0.30 per cent in 2019. The increase was in part due to a fall in GNI in most donor countries.

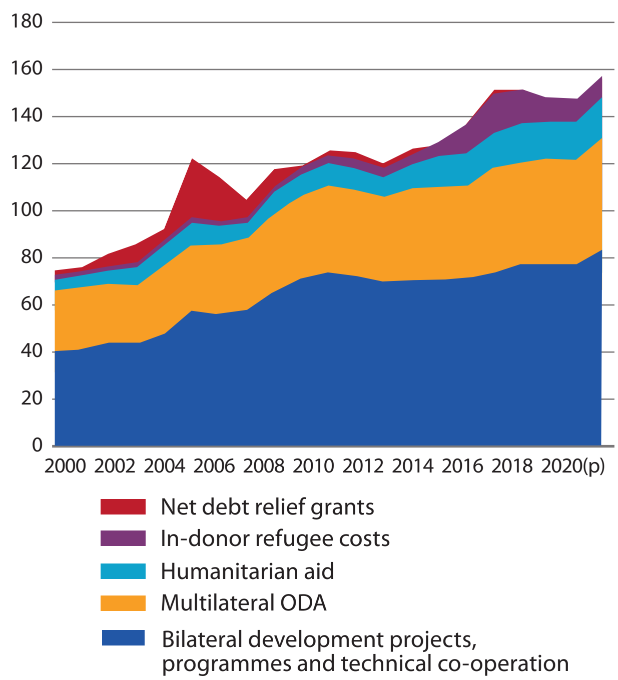
Bilateral ODA by Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) members to LDCs and Africa also increased in real terms. Bilateral ODA by OECD DAC members grew by 1.8 per cent to $34 billion to LDCs and by 4.1 per cent to $39 billion to African countries. However, ODA needs to be further scaled up as the financing gap to achieve the Sustainable Development Goals (SDGs) has also increased due to the impacts of the pandemic.[4]

Figure III.C.1
Official development assistance, 2018-2020
(Billions of United States dollars, 2019 constant prices)



Source: OECD Creditor Reporting System database.

Figure III.C.2
Official development assistance by component on a cash basis, 2000–2020
(Billions of United States dollars, 2019 constant prices)



Source: Ahmad and Carey, 2021.

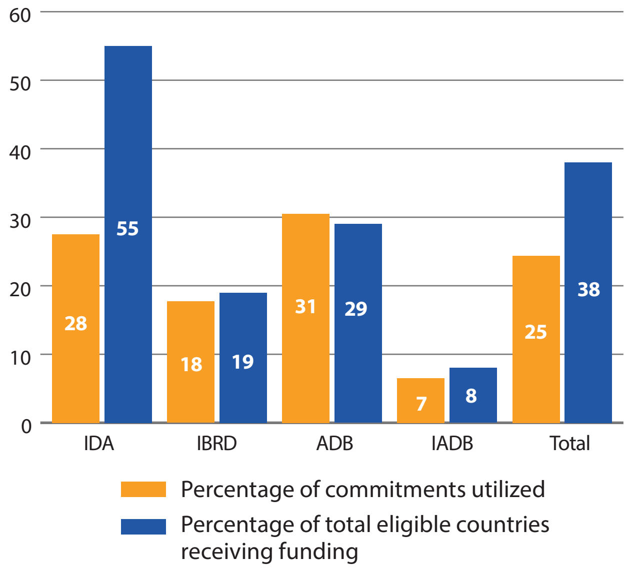
The COVID-19 pandemic and challenges to sustained financing for gender equality (SDG 5) continue to acutely affect women and girls. By 2019, the share of ODA that integrated gender equality objectives had reached 45 per cent on average between 2018 and 2019.[5] However, many advancements towards gender equality have been stymied or reversed by the pandemic.

New debt rules resulted in a higher increase in debt relief compared to the old measure. In July 2020, the DAC agreed to count rescheduled or forgiven debt towards ODA,[6] despite their acknowledgement in 2014 that the grant-equivalent system "would value upfront the risk of default on ODA loans, [thus] the eventual forgiveness of these loans would no longer be reportable as a new aid effort".[7] While the change is meant to incentivize the forgiveness and rescheduling of debt in developing countries amid the COVID-19 crisis, it may risk double counting ODA.[8] The method includes a ceiling to avoid a loan and subsequent debt relief generating greater ODA than a standard grant, but this does not apply to non-ODA loans where most debt relief occurs.[9] Preliminary 2020 figures under the grant-equivalent measure indicate that debt relief remained relatively low, at $541 million (compared to $439 million under the old methodology). While debt service suspension provided under the Debt Service Suspension Initiative (DSSI) does not meet the criteria to be counted as ODA, activities under the Common Framework which may include debt write-downs (see chapter III.E) could contribute to ODA, so that the debt relief component of ODA may increase in 2022.

As global inequities rise, ODA providers should urgently meet the funding gap for the ACT-Accelerator. Almost two years on, the ACT-Accelerator, a key mechanism in the global COVID-19 response, continues to be hampered by a large funding gap as vast global disparities in access to COVID-19 tools persist. In addition, at the onset of the crisis, there was less coordination on vaccine finance, with MDBs establishing their own vaccine facilities that were underutilized (figure III.C.3), while COVAX was underfunded.[10] This was rectified through a new financing arrangement set up by the World Bank and COVAX in July 2021. Of the 4.7 billion COVID-19 tests administered globally as at 5 March 2022, only 0.4 per cent have been administered in low-income countries (LICs), with only 12 per cent of people in these countries having received at least one vaccine dose.[11] In February 2022, the ACT-Accelerator partnership called on donor countries to provide grant funding of $16.8 billion of the $23.4 billion needed for its response activities through September 2022.[12] The remaining $6.5 billion is expected to be self-financed by MICs, using domestic resources supported by MDBs. Separate to the ACT-Accelerator, $6.8 billion is needed for in-country delivery of vaccines and diagnostics from a combination of domestic resources, MDB support and further international grant financing.[13]

OECD DAC members are not meeting most of their international commitments. Despite increasing in 2020, ODA was below the United Nations target of 0.7 per cent of GNI (table III.C.1). Only six donors met or exceeded the target: Denmark, Germany, Luxembourg, Norway, Sweden and the United Kingdom. France has pledged to increase ODA to 0.7 per cent of GNI by 2025,[14] while the United Kingdom cut ODA to 0.5 per cent of GNI in 2021, resulting in a decline of £7.1 billion compared to the previous year.[15] On other commitments, total ODA to LDCs as a share of GNI remains below target. DAC members are also off track on their commitments on untying ODA, with concerns that a higher share of contracts by value are awarded to suppliers in the donor country.[16] Donors have, however, exceeded their target of achieving more than 86 per cent of the grant element of total ODA, although not for LDCs (see table III.C.1).

Figure III.C.3
Utilisation rates of MDB vaccine facilities
(Percentage)



Source: Miller et al., 2021.

DAC donors should protect ODA budgets and expand ODA with new and additional resources. If ODA/GNI ratios were to decrease to 2019 levels, and accounting for the cut by the United Kingdom, ODA could fall up to $14 billion in 2021. Once ODA/GNI ratios fall, they can take a long time to recover, even as economic growth picks up.[17] In addition, there are questions about whether some donors may count the redistribution of their SDRs (see chapter III.F) towards their ODA budgets, in place of providing additional resources.[18] Also of concern is counting the donations of surplus vaccines to COVAX, including vaccines nearing expiry, for ODA, as they are provided at minimal cost to donors.[19] In addition, DAC donors have agreed to align ODA with the Paris Agreement (see section 6.1), which may place higher demands on ODA.[20] The military conflict in the Ukraine could also impact ODA budgets. Many donor countries are supporting

Table III.C.1
OECD DAC donor performance against international commitments
(Percentage)

	Target	2018	2019	2020[2]
ODA as a share of GNI	0.70	0.31	0.30	0.32
Total ODA to LDCs as a share of GNI	0.15-0.20	0.09	0.08	
Share of untied ODA covered by the DAC Recommendation[1]	100	85.7	87.1	
Grant element of total ODA	>86	91.8	93.4	

Source: Wilcks, Jonas, Néstor Pelechà Aigües, and Emily Bosch. 2021. "Development Co-Operation Funding: Highlights from the Complete and Final 2019 ODA Statistics". Development Co-operation Profiles. OECD.
Note: [1]The target applies to LDCs, highly indebted poor countries (HIPC), other LICs not included in the LDC or HIPC categories and IDA-only countries. [2]Preliminary figures.

Ukraine with military, as well as humanitarian aid. International financial institutions have also announced special support to Ukraine (see chapter I). This may affect support to other countries and/or in other areas if additional resources are not raised. With escalating needs from the ongoing pandemic and climate crisis, as well as ramifications from the military conflict in Ukraine, DAC donors should protect ODA volumes and ODA/GNI ratios moving forward, providing new and additional funds to support the most vulnerable countries. Some mechanisms that DAC members have put in place to protect their budgets include multi-annual allocations and budget-balancing mechanisms (averaging ODA/GNI over time).[21]

Support for LDCs should be reassessed—grants rather than loans and longer maturities are needed. Although the grant-equivalent system was expected to incentivize lending on highly concessional terms to LDCs,[22] it has not had the desired effect as the average grant element has declined and interest rates on ODA loans have increased (table III.C.2). As LDCs have limited fiscal capacity to respond to the COVID-19 crisis (see chapter III.A) and are facing growing risks of debt distress (see chapter III.E), more grant financing is needed.[23] It is also striking that the maturity of loans has been steadily falling. When loans are made (e.g., in support of productive investment), longer maturities are often needed. Support for LDCs should be scaled up, including in accordance with commitments made to facilitate access to sustainable and innovative financing under the Doha Programme of Action for LDCs.[24]

Table III.C.2
Characteristics of bilateral ODA loans to LDCs

	2015	2016	2017	2018	2019
Average grant element—new (%)	78	75	75	73	70
Average grant element—old (%)	81	78	78	77	73
Maturity period (years)	35.7	33.4	32.6	32.0	28.3
Interest rate (%)	0.34	0.49	0.59	0.67	0.80

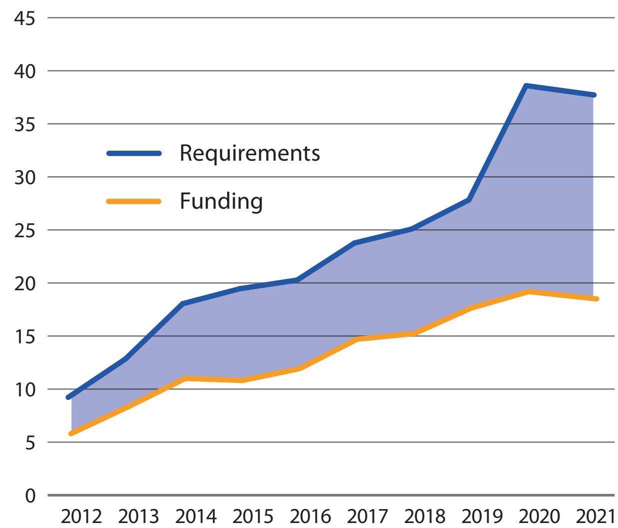
Source: Ahmad and Carey, 2021.
Note: Calculated using a 10 per cent discount rate ("old" cash-flow method) and discount rates differentiated by income group (9, 7 and 6 per cent—"new" grant-equivalent method).

2.2 Humanitarian finance

The COVID-19 and climate crises coupled with increased and protracted conflicts and displacement continue to add pressure on humanitarian finance. In two thirds of countries with a United Nations-coordinated humanitarian response plan, by the end of 2021 an additional 20 million people had been pushed into extreme poverty because of the pandemic, while humanitarian needs, including hunger and malnutrition, gender inequalities and gender-based violence, are rising in tandem with climate-related disasters and increased conflict and displacement.[25] This is expected to be exacerbated by the military conflict in Ukraine. The funding requirements for the United Nations-coordinated humanitarian response plans included in the Global Humanitarian Overview fell slightly for 2021 but remained elevated, while funding declined for the first time since 2012, maintaining a large financing gap (figure III.C.4).

Grand Bargain 2.0 is an opportunity to improve the humanitarian financing model as part of its broader objective to enhance its efficiency, effectiveness and accountability. Five years on, there is mixed progress on the implementation of the Grand Bargain made between donor countries and aid organizations to improve the efficiency and effectiveness of humanitarian aid. While progress was made on cash assistance, localization, and joint needs analysis and harmonized reporting, there were challenges on enhancing transparency, predictability and accountability of funding; reducing duplication and management costs; and country ownership.[26] Several recommendations have been made to advance implementation of Grand Bargain 2.0 (2021-2023), including enabling better quality funding through the use of core funding and programme-based approaches, expanded use of pooled funds, and improving the quality and transparency of financial data.[27] Improvements to funding modalities could include area-based, multisector allocation as well as flexible, multi-year grants, while a predictable core funding model will require a common definition to distinguish between core and delivery activities.[28] Collective will and action over the next phase of the Grand Bargain is required to successfully improve the humanitarian financing system as part of wider objectives to improve humanitarian outcomes for affected populations.

Figure III.C.4
Humanitarian response plans: funding gap, 2012–2021
(Billions of United States dollars)



Source: United Nations Office for the Coordination of Humanitarian Affairs (OCHA). 2021. "Appeals and Response Plans 2021". Financial Tracking Service, accessed 16 February 2022.

2.3 COVID-19 implications on access criteria

The COVID-19 crisis has changed the context of graduation due to its impact on income per capita and other criteria and highlighted the need for access criteria that incorporate vulnerabilities. The COVID-19 crisis has resulted in significant output contractions, deteriorating social conditions (see chapter I) and worsened debt sustainability (see chapter III.E). It has also affected the ability of the most vulnerable countries to borrow from capital markets (see chapter II). These altered conditions can affect graduation timelines as well as the efficacy of access criteria. In the context of international development cooperation, "graduation" refers to three separate events: (graduation) from multilateral concessional assistance, from LDC status, and from ODA eligibility. A key determining factor of all three contexts is a country's per capita income, although other factors are also considered. Graduation from multilateral concessional assistance, particularly the concessional windows at MDBs, is based primarily on per capita income along with creditworthiness. Graduation from LDC status is based on income per capita, vulnerability and the level of human assets. Graduation from ODA eligibility is based on income per capita alone.

Eligibility to MDB concessional windows is primarily based on income per capita, but MDBs have increasingly incorporated elements of vulnerability into access criteria. Funding allocations in concessional windows of MDBs are determined both by need (with poorer countries receiving more based on lower per capita income) and policy performance and institutional capacity that reflect absorptive capacity based on the World Bank's Country Policy and Institutional Assessment (CPIA) (with countries with higher CPIAs and stronger institutions, receiving more).[29] The International Development Association (IDA) graduation process starts when per capita income exceeds an operational cut-off, currently $1,205 for 2020. The graduating country is no longer eligible for IDA grants, but continues to receive ODA well after graduation, albeit with more expensive terms of finance (see *Financing for Sustainable Development Report 2020).* However, several exceptions exist. The small island exception, which has been in place since 1985, allows small island economies (populations less than 1.5 million) continued access to IDA. In 2017, this was extended to IDA-eligible small States, which benefited Bhutan, Djibouti, Guyana and Timor-Leste. In 2019, this was further extended to small island economies[30] based on income, vulnerability and creditworthiness criteria, which benefited Fiji. An exceptional allowance was also made to Jordan and Lebanon in response to the Syrian refugee crisis. The IDA Crisis Response Window (CRW) and regional programme during the 19th replenishment (IDA19) provide additional resources to help eligible countries to respond to severe economic crises as well as major humanitarian and climatic disasters. Several regional development banks' concessional facilities (e.g., Asian Development Bank (ADB) and Caribbean Development Bank) also include exceptions that allow SIDS to access concessional funding even if they exceed income thresholds.

COVID-19 has influenced the graduation and country classification decisions of the OECD DAC and major MDBs. While the World Bank did not make proposals for graduation of IDA-eligible countries in 2022,[31] COVID-19 is expected to impact long-term graduation prospects, with countries representing 16 per cent of today's IDA population likely to graduate by 2032—lower than pre-COVID estimates.[32] The ADB also reclassified Fiji due to the impact of COVID-19 to benefit from a blend of concessional and non-concessional finance.[33] The 2020 OECD triennial review of the DAC list of ODA-eligible countries, solely based on income per capita, exceptionally agreed to delay the graduation of Antigua and Barbuda, Palau and Panama from the DAC List of ODA Recipients for one year.[34] Only Antigua and Barbuda and Palau graduated on 1 January 2022.[35] In accordance with OECD DAC rules, Panama was reinstated for ODA eligibility as its per capita income fell back below the World Bank's high-income threshold.[36] When a country graduates from the DAC ODA list, the aid it receives is not reported in official ODA statistics. However, ODA graduates can and do receive concessional support, albeit to varying degrees. For example, despite graduating from the DAC ODA list, Palau still has access to a blend of concessional and regular loans from the ADB.[37] Countries that have graduated from ODA also continue to access the European Development Fund, which uses an economic vulnerability index in its country allocations formula. The OECD DAC also has in place a process of reverse graduation.

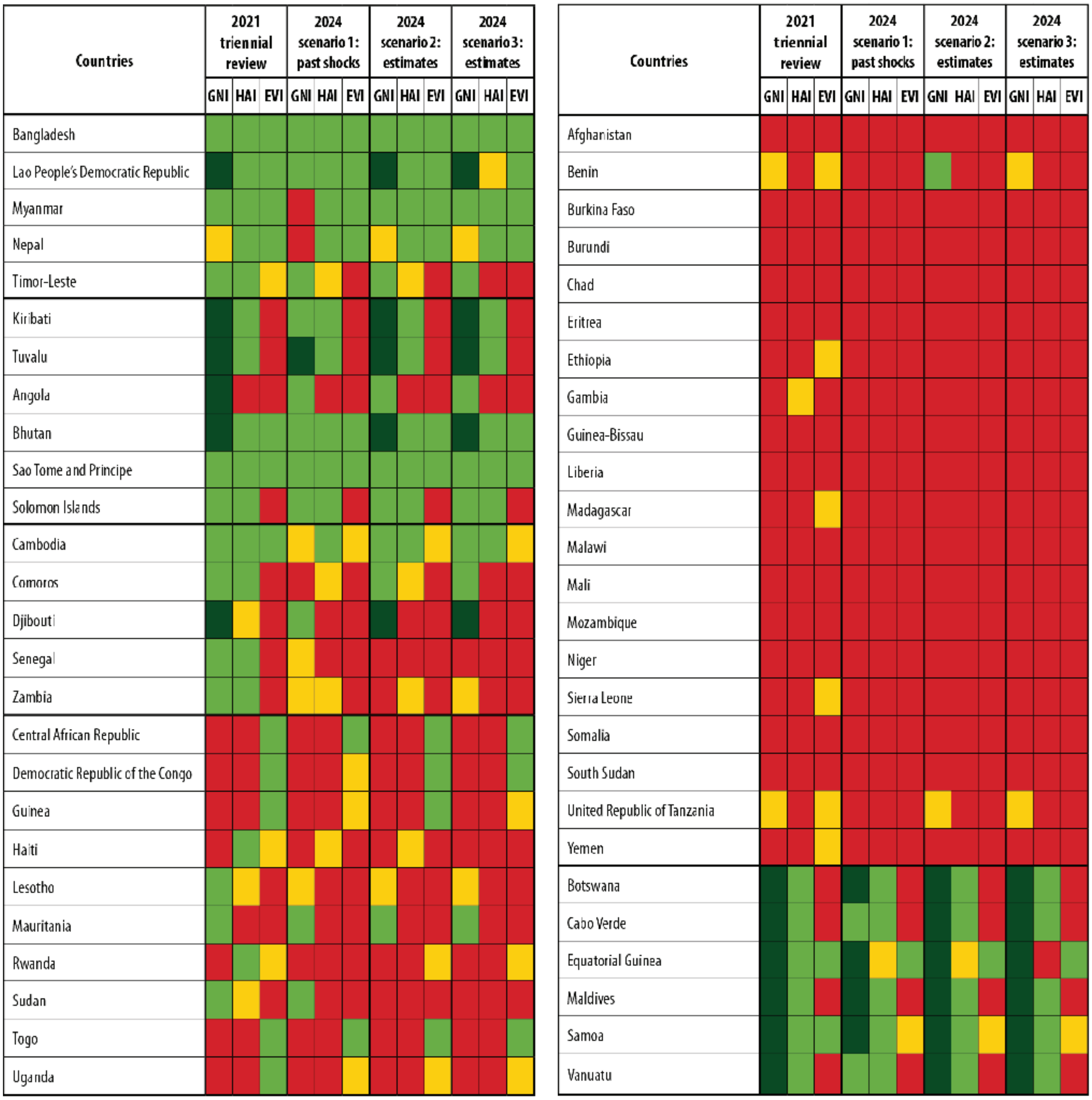
Thus far, the pandemic has had a muted impact on LDC graduation. LDC graduation can be triggered if any two of the three criteria (income per capita, human assets and vulnerability) are met or solely the income-only criterion, which requires a GNI per capita of at least twice the normal graduation threshold. In most cases, the vulnerability threshold is unmet. While the pandemic affected some criteria elements, a majority of LDCs that were headed for graduation appeared on track to maintain graduation eligibility (figure III.C.5).[38] Vanuatu graduated in 2020[39] and in November 2021, the United Nations General Assembly endorsed the graduation of Bangladesh, Lao People's Democratic Republic and Nepal in 2026, after an exceptional extended preparatory period of five years (the standard period is three years) to allow for post-COVID-19 recovery.[40] LDC graduation is not expected to have a significant direct impact on concessional financing flows. However, as countries that graduated in the past increased their non-concessional borrowing, the overall terms of finance became more expensive. Some estimates indicate that the exports of 12 countries currently in the graduation process might decline by over 6 per cent.[41]

SIDS have reiterated calls for the use of multidimensional vulnerability as criteria to access concessional finance amid the COVID-19 crisis. SIDS are considered to be some of the most vulnerable countries, particularly to natural hazards and climate change, and have been severely affected by the COVID-19 crisis.[42] They are also sensitive to the impacts of graduation in all contexts: from multilateral concessional assistance, LDC categorization and ODA eligibility, as well as graduation from global health funds (see *Financing for Sustainable Development Report 2020*). Efforts are under way to develop a more systematic approach to monitor multidimensional vulnerability (see also chapter III.E). The recent agreement by the United Nations General Assembly to develop a multidimensional vulnerability index (MVI) (see chapter IV) provides an opportunity for countries to better communicate vulnerabilities through a straightforward indicator. Global acceptance of the MVI as the pre-eminent measure of assessing vulnerability could lead to application of the MVI by donors as a complementary criterion to income per capita. However, as with the experience of current vulnerability indices, some SIDS may not be classified as highly vulnerable, while others may qualify, which could impact current access to concessional finance.

3. Lending by multilateral development banks

MDBs and the network of public development banks (PDBs) are important sources of countercyclical support in times of crisis and for long-term finance to achieve sustainable development. By providing countercyclical responses, MDBs can reduce the impact of crises on sustainable development. MDBs can also provide finance at longer maturities (see chapter II). The important role of MDBs and PDBs has been clear in the COVID-19 response (see *Financing for Sustainable Development Report 2021*) and will be central for recovery efforts.

Figure III.C.5
Impact of COVID-19 on LDC graduation eligibility

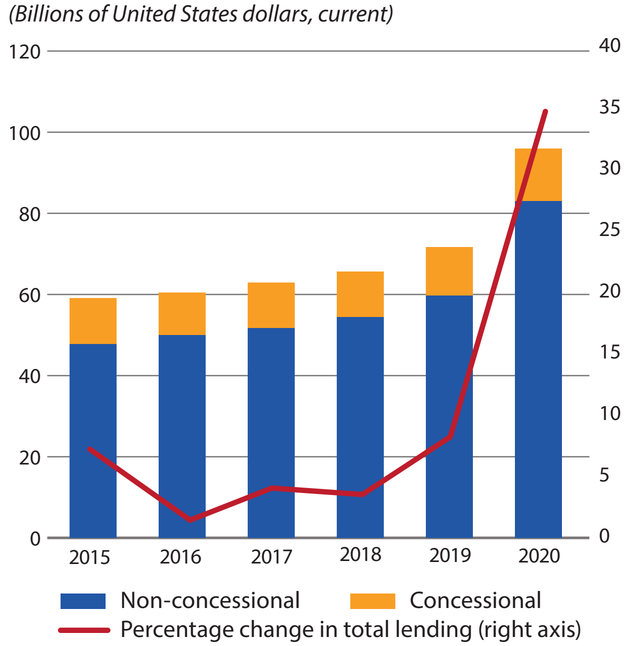


Source: Committee for Development Policy, 2021.
Note: i) *Scenario 1* is based on reviewing past changes in the LDC criteria over three-year intervals. For *Scenarios 2 and 3*, Scenario 1 is extended to account for different estimat of: GNI per capita, export instability, under-5 mortality rates and maternal mortality ratios. ii) Countries become eligible if they meet two out of the three criteria (GNI per capita, human assets index (HAI) and environmental vulnerability index (EVI)) or the income-only criterion, which requires a GNI per capita of at least twice the normal graduation threshold. iii) *Green* – countries meeting the graduation threshold (*Dark Green* – countries meeting the income-only threshold); *Orange* – countries failing to meet the graduation threshold but passing the inclusion threshold; *Red* – countries failing to meet any threshold. iv) Countries are ordered in accordance with their status in the graduation process at the time of the 2021 triennial review of the list of LDCs. v) Countries already graduated from the list are at the bottom.

Lending by MDBs increased significantly in 2020 in response to COVID-19, with further growth anticipated for 2021. Total MDB lending grew by 34 per cent to $96 billion (figure III.C.6), including: $42.2 billion by the World Bank Group; $20.4 billion by the ADB; $11.1 billion by the Inter-American Development Bank (IADB); $4.8 billion by the AfDB; $4.7 billion by the Asian Infrastructure and Investment Bank (AIIB); $3.1 billion by the African Export-Import Bank (Afreximbank); and $1.6 billion by the European Bank for Reconstruction and Development (EBRD). MDBs continued their countercyclical support in 2021, with the World Bank Group deploying a total of $157 billion between April 2020 and June 2021, its largest crisis response ever over a 15-month period.[43] The International Monetary Fund (IMF) also increased its emergency lending to LICs, with $14 billion disbursed as zero per cent interest rate loans from the Poverty Reduction and Growth Trust.[44]

Both LDCs and MICs benefited from MDB countercyclical support. Concessional loans by MDBs rose by 7 per cent to $13 billion in 2020 (figure III.C.6), underpinned by increased lending by the ADB, AIIB (see section 5) and the World Bank's IDA. The IDA accounted for 70 per cent of all MDB concessional lending, amounting to $9 billion. Non-concessional loans made up the bulk of MDB lending, expanding by 40 per cent to $83 billion in 2020 (figure III.C.6), led by the World Bank, ADB and South-led banks AIIB and Afreximbank (see section 5). MICs were the major recipients of MDB non-concessional loans (figure III.C.7). While some MICs can access private debt markets, others have difficulty accessing affordable, long-term finance, so the non-concessional lending windows provide an important avenue to access finance at below-market terms. In 2020, the median interest rate and median maturity on new external debt to MICs was 1.4 per cent and 23 years, respectively, compared to 1.0 per cent and 30 years for LDCs. By sector, lending increased significantly for the public sector (including budget support), social protection, the financial sector and health.[45]

Figure III.C.6
Loan disbursements by multilateral development banks, 2015–2020
(Billions of United States dollars, current)



Source: World Bank, International Debt Statistics.

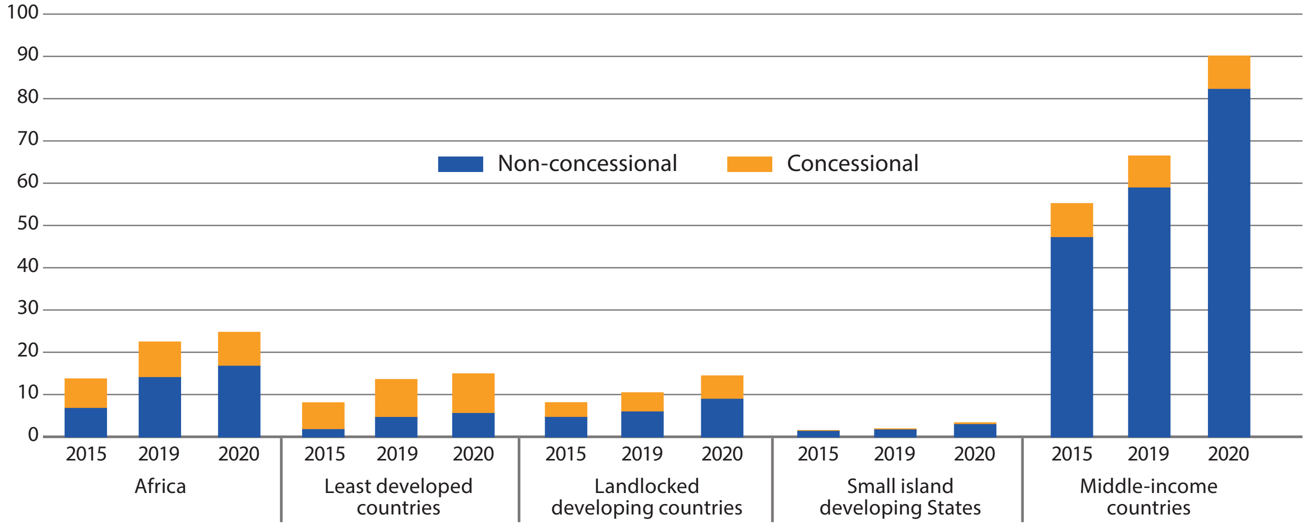
There was a greater uptake of unconditional loans, compared to those with conditions. MDBs were not consistent in adapting instruments to the crisis.[46] For example, World Bank budget support contained significant conditionality, with some reform conditions not directly relevant to the crisis, which may have limited the speed of disbursement.[47] The ADB provided unrestricted budget support through its COVID-19 Pandemic Response Option, which saw robust uptake.[48] Of the $171 billion disbursed by the IMF, almost two thirds were flexible credit/precautionary and liquidity lines.

The IDA, the largest source of concessional financing, was successfully replenished, although the envelope still falls short of demand. While the IDA19 $82 billion was meant to last for three years,[49] the World Bank front-loaded financing for the COVID-19 response and truncated the IDA19 cycle to two years (2021-2022) instead of three (2021-2023). Between April 2020 and June 2021, over $50 billion of IDA resources were deployed. In December 2021, the IDA received a new replenishment toward a $93 billion financing envelope for the fiscal years 2022 to 2025 (IDA20).[50] Although higher than the previous capitalization, many stakeholders had called for a greater replenishment to meet the challenges due to the pandemic. For example, 23 African Heads of State and Government issued the Abidjan Declaration, calling for an IDA20 replenishment of at least $100 billion.[51] IDA20 will support countries to prioritize investments in human capital, covering issues such as education, health and nutrition, vaccines, safety nets and support for people with disabilities, as well as to scale up efforts to address gender inequality, unemployment and conflict-affected countries.[52]

Scaling up MDB resources through capital infusion is critical to meeting heightened demands amid the pandemic and climate crises. Although MDB lending increased significantly, the MDB response has been smaller than during the 2008 world financial and economic crisis (figure III.C.8).[53] Some MDBs have been constrained by their capital limitations. For example, although the AfDB received a capital injection and its concessional arm, the ADF, was replenished in 2019, shareholders are providing the additional capital over an extended period ($7.6 billion over 2020 to 2022) and the lending capacity of the ADF remains relatively small at $2.5 billion.[54] Hence, the AfDB was not able to approve a greater volume of projects (concessional and non-concessional) for the COVID-19 response in 2020 compared to 2019.[55] A successful replenishment of the AfDB and ADF will be critical to supporting African economies respond and recover from the COVID-19 crisis. Similarly, without a capital increase, IADB lending is anticipated to fall from its record of $21.6 billion in 2020. The last increase was in 2010 and a proposed $80 billion capital increase is under discussion.[56] Some PDBs (e.g., the Africa Trade and Development Bank and Afreximbank) have sought non-traditional ways to raise MDB capital, such as by offering non-voting shares to institutional investors.[57] Capital injections can help to provide ultra-long-term (e.g., 50 years), fixed-rate financing for post-COVID-19 recovery (see *Financing for Sustainable Development Report 2021*).

Channelling SDRs through MDBs is an option to strengthen MDB capital and increase lending. Some MDBs and other regional financial institutions are prescribed holders of SDRs (see chapter III.F). SDRs could be channelled to MDBs through either on-lending schemes or capital

Figure III.C.7
Loan disbursements by multilateral development banks by type and country group, 2015, 2019 and 2020
(Billions of United States dollars, current)

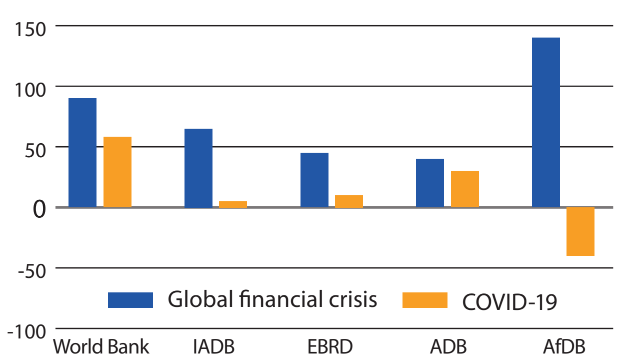


Source: World Bank, International Debt Statistics.

injections. However, this would need to overcome several challenges linked to the national regulatory, policy and institutional arrangements that guide the level of flexibility donors have outside the established IMF options, in particular whether the reserve asset status of SDRs is maintained; whether legal constraints need to be from the perspectives of the IMF, contributing countries and MDBs; and ensuring the transparency of the use of funds.[58]

Capital adequacy reform could also expand MDB capacity. The Addis Agenda calls on MDBs to make "optimal use of their resources and balance sheets, consistent with maintaining their financial integrity" as well as to make "use of all risk management tools, including through diversification". The G20 agreed to an action plan on balance sheet optimization in 2015 to increase MDB lending (see table III.C.3). Adopting more flexible criteria, such as lower equity-to-loan ratios,[59] including the callable capital of shareholders in capital adequacy calculations[60] or possibly managing diversification across the entire balance sheet as called for in the Addis Agenda, could expand lending. Indeed, MDBs hold $2-$6 in equity for every $10 in outstanding loans, whereas commercial banks hold only $1-$1.50 per $10 in outstanding loans. In recognition of these issues, the G20 International Financial Architecture Group has commissioned an independent review of the capital adequacy frameworks of MDBs, which is due to be completed in 2022.[61] This could be the basis for broader reform to significantly scale up MDB finance.

Figure III.C.8
Commitments by multilateral development banks by crisis period
(Percentage change)



Source: Lee and Aboneaaj, 2021.

Improved cooperation between PDBs can benefit multilateral, regional and national banks. Cooperation between PDBs can help banks to build capacities while also leveraging local knowledge. Such cooperation can overcome some of the barriers for smaller banks, such as lack of access to affordable, long-term capital and equipment, and capacity constraints. Cooperation can include loans between institutions, co-financing, and training and technical assistance.[62] It can also include portfolio exchanges between MDBs and guarantees between banks (such as the Swedish International Development Agency's guarantees to the IADB and ADB). Such transactions can better allocate risk across the PDB system to those banks best positioned to manage different risks, and reduce risk on individual MDB balance sheets, potentially enabling higher lending.

4. Blended finance

The main objective of blended finance, which uses public funds to crowd in private finance, is to unlock investment that the private sector would not have done on its own in support of national development priorities—and to do this with minimum concessionality or subsidy. Blended finance is most relevant for investments necessary for sustainable development, which are not attracting private investment but still have a business rationale and potential cash flows to repay the private partner. The Addis Agenda sets several guiding principles for blended

Table III.C.3
G20 action plan on balance sheet optimization approaches

	Capital Efficiency	Exposure Exchanges	Concessional Windows	Risk Transfer and Mobilization	Net Income Measures
Objective	Operate with higher leverage, while still maintaining the AAA rating.	Reduce concentration penalties in sovereign guaranteed exposures.	Leverage the equity accumulated in concessional windows; improve use of liquidity.	Range of instruments that share risk with private investors.	Improve internal equity accumulation and capital position.
Instruments	Sustainability and capital adequacy frameworks, including buffers for stress-testing and countercyclical lending in downturns.	Synthetic reciprocal reinsurance between MDBs for prolonged sovereign arrears in their largest exposures.	Transfer of concessional equity and assets onto ordinary balance sheets; bond issuance by concessional entities.	Syndications, structured finance, mezzanine financing, credit guarantee programmes, hedging structures, equity exposure.	Optimize the trade-off in net income transfers to concessional windows and implement revenue and expenditure actions.
Examples	MDBs have reviewed and updated risk assessment frameworks.	In 2015, AfDB, IADB and IBRD approved the first three bilateral exposure exchange agreements totalling $6.5 billion. In 2020, ADB approved a sovereign exposure exchange with IADB of $1 billion.	In 2017, ADB combined its concessional arm, the Asian Development Fund, with its ordinary capital resources, tripling its capital base. In 2018, IDA began issuing market bonds to supplement its sources of finance.	In 2018, AfDB synthetic security increased lending capacity by $650 million. The AfDB and African Trade Insurance completed a credit insurance deal which made space for $400 million.	Since 2017, under its organizational effectiveness and efficiency programme, EBRD has streamlined and strengthened processes delivering medium-term budget savings of £14.4 million per annum.

Source: Galizia et al., 2021; UN/DESA.

finance (see *Financing for Sustainable Development Report 2021 and 2020*). In line with these principles, different groups of actors have defined principles for blending for their own activities, including the 2017 OECD/DAC Blended Finance Principles for Unlocking Commercial Finance for the SDGs, and the 2017 DFI Working Group Enhanced Blended Concessional Finance Principles.

Improvements were noted in blended finance activities despite challenges from the pandemic. The amounts mobilized from the private sector by official development finance interventions increased by 16 per cent in 2020, underpinned by a small number of large-scale projects in LDCs in Africa and SIDS (figure III.C.9). For example, the top three projects in LDCs accounted for 80 per cent of the total amounts mobilized from the private sector in LDCs; for SIDS it was 97 per cent. Convergence, a global network for blended finance, also reported that the value of blended finance transactions that it tracks, halved in 2020 compared to 2019 as ODA providers concentrated on the COVID-19 response (see section 2.1) and private investment fell (see chapter III.B).[63]

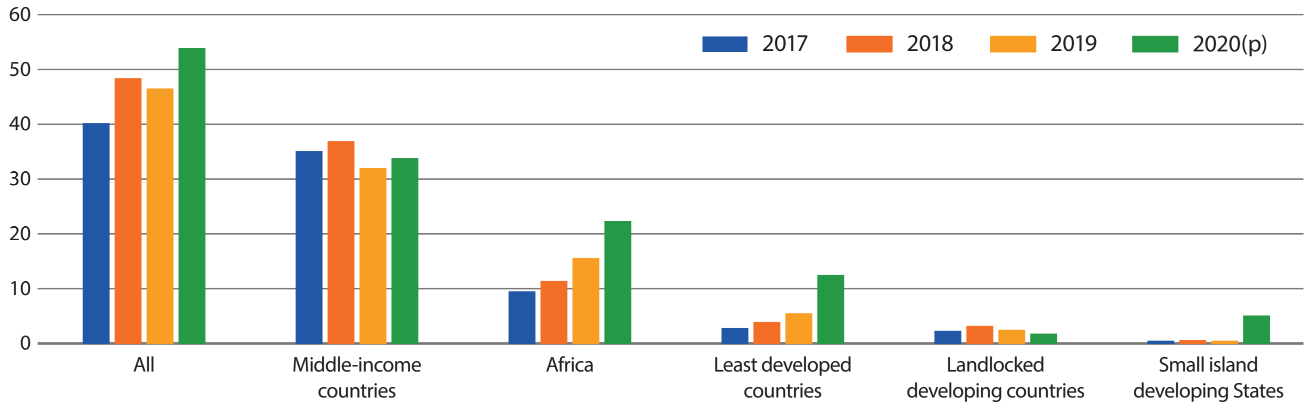
Mobilizing private finance for investment in the SDGs may be difficult amid the ongoing COVID-19 crisis but can be an option for post-COVID-19 recovery efforts. Heightened risk aversion and uncertainty due to the pandemic constrains private risk-taking in the short term, and coupled with absorptive capacity issues in countries, may continue to dampen blended finance deals. However, as developing countries recover from the crisis, blended finance can be an option in the medium term to spur private investment that otherwise would not occur on its own, in support of national development priorities. This includes the potential to mobilize support for gender equality through blended finance vehicles as national Governments look to build back better. A study on the OECD survey results of 198 blended finance funds and facilities found that two thirds of the assets under management were reported as either integrating or dedicated to gender equality but only 1 per cent of assets under management were specifically dedicated to gender equality, indicating considerable potential to scale up blended finance for gender equality.[64]

INFFs can help policymakers consider blended finance for investments in projects with the potential to create high sustainable development impact. A core principle of blended finance is country ownership. The challenge is how to ensure that blended finance projects—which are often done as deals with the private sector but using public money—are in line with government sustainable development priorities. An INFF lays out the full range of financing sources and allows countries to develop a strategy to increase investment, manage risks and achieve a national sustainable development strategy. Countries can consider the appropriateness, impact and risks of blended finance within an INFF context, ensuring that it is channelled to investments that meet long-term, national sustainable development objectives.

In the context of limited official resources, a differentiated approach based on need and potential for development impact could increase the scale and effectiveness of blended finance. Most blended finance deals occur in MICs (figure III.C.9), motivated by the size and ease of transactions. As MICs lose access to concessional resources (see section 2.3), blended finance can be an option to mobilize resources for their development needs, including through non-concessional loans (see section 3). LDCs receive a smaller but growing share of blended finance—around 23 per cent of private finance mobilized in 2020 (figure III.C.9), albeit due to a small number of large-scale projects. A focus on development impact rather than bankability, including through the context of an INFF, may help to increase the size and effectiveness of blended finance for LDCs. It may also be more cost-effective to first use ODA to support Governments with their private sector development strategies and strengthening the enabling environment before investing in blended deals. This could also include support for strengthening capacities within national development banks. Guiding principles for blended finance and other relevant principles of effective development cooperation (see section 7) should remain central to scaling up blended finance.

There are several options for scaling up blended finance. These include stronger equity roles for the public partners, pooling resources in a blended finance fund, prioritizing the use of non-concessional loans to mobilize private finance and using the network of PDBs (see *Financing for Sustainable Development Report 2021*). Blended finance mechanisms, such as political insurance and other guarantees, can also be an option to mobilize institutional investors[65] when the potential social benefits outweigh the costs. Such instruments can also be structured so that the public sector can share in any potential upside.

Figure III.C.9
Amounts mobilized from the private sector by official development finance interventions, 2017–2020
(Billions of United States dollars, current)



Source: OECD.
Note: 2020 figures are preliminary.

As donor Governments have constrained public budgets due to the pandemic, there may be scope for guarantees as blended finance instruments.[66] Guarantees may be appropriate, for example, when used to address: i) idiosyncratic risks when there is high risk aversion by private investors or when financial systems are underdeveloped such as in LDCs; and ii) in times of high uncertainty such as during the COVID-19 crisis.[67] Public insurance-like products can also be appropriate when risks can be pooled and diversified (such as currency risks). However, several challenges restrict their use, including that they are not ODA eligible,[68] and require financial and risk-management expertise not readily available within aid agencies, while measuring the development impact of guarantees can be difficult.[69] More research could help to improve knowledge and better guide the use of guarantees.

Development finance providers could also consider using more risk transfer mechanisms to mobilize private capital. This could be done by: (i) offsetting or sharing credit risk, such as the Managed Co-lending Portfolio Program by the International Finance Corporation (IFC), a pooled syndication that also benefits from public guarantees and allows institutional investors to invest alongside the IFC in emerging markets, for example in infrastructure projects; (ii) enabling commercial financial institutions to do more by sharing risks, e.g., AIIB set up a platform with Clifford Capital that transfers risks from infrastructure project finance loans disbursed by commercial banks, such as Standard Chartered or HSBC, to capital market investors; and (iii) providing grants and technical assistance to develop risk transfer mechanisms with the private sector.[70] Development finance providers should seek ways to promote transparency as a principle rather than restrict transparency as a response to external challenges. Transparency is fundamental for building trust and accountability vis-à-vis provider countries' Governments and taxpayers, as well as for recipient countries.

5. South-South cooperation

Development of an initial conceptual framework for South-South cooperation marks a breakthrough in the measurement of South-South cooperation. Despite growing significantly in the past two decades, defining and quantifying South-South cooperation efforts have been hampered by the lack of a common conceptual framework, shared standards and consistent recording by different national agencies and ministries, including reservations about monetizing South-South cooperation due to difficulties in quantifying components such as knowledge exchange and in-kind contributions. This has been compounded by political issues around the purpose, benefits and incentives of South-South cooperation.[71] This impasse has been overcome by a recent proposal by a sub-group on South-South cooperation[72] as part of the Working Group on Measurement of Development Support (see box III.C.2). Consistent with the 2019 outcomes of the second High-level United Nations Conference on South-South Cooperation (BAPA+40), the proposed framework presents three groups of quantifiable items to be independently measured and reported: group A covers financial modalities of South-South cooperation (reported directly through monetization); group B covers non-financial modalities suitable for monetization; and Group C covers non-financial modalities quantified through non-monetized methods. The conceptual framework is anticipated to undergo pilot testing from 2022 to inform further technical refinement.

South-South cooperation and triangular cooperation help to combat the COVID-19 pandemic, complementing North-South efforts. Developing countries continue to support each other through a range of cooperation activities in response to COVID-19, engaging increasingly on a multilateral basis. South-led development banks scaled up finance for recovery efforts. By the end of 2021, the AIIB had approved 31 projects in co-financed initiatives with other MDBs, totalling $8.2 billion under its $13 billion Crisis Recovery Facility, which included large-scale assistance to bigger members as well as small but targeted financing for some SIDS and LLDCs.[73] In addition, to support developing countries' response to the pandemic, China expanded its vaccine assistance by joining other developing countries in multilateral global inoculation efforts through the Gavi COVAX Advance Market Commitment (AMC).[74] COVID-19 also accelerated the digital transition from on-site knowledge exchanges to online collaborative platforms, increasing the reach of South-South and triangular cooperation.[75]

The scope of South-South cooperation on climate action has also expanded. These activities occur through a wide range of modalities (bilateral, trilateral, triangular, regional, multilateral) to tackle mitigation and adaptation.[76] Some examples include: BioInnovate Africa, which is supporting countries to develop and commercialize biofuel as an affordable and low-carbon emission alternative for rural households;[77] and the international Zero Emission Bus Rapid-Deployment Accelerator (ZEBRA) initiative, which is supporting major Latin American cities to accelerate the implementation of zero-emission buses.[78] United Nations organizations also continue to facilitate South-South responses to climate change. For example, the United Nations Environment Programme facilitated and supported knowledge exchange and collaboration among Mauritania, Nepal and Seychelles to develop ecosystem-based adaptation proposals to build climate resilience.[79] Similarly, with support from the India United Nations Development Partnership Fund, the United Nations Capital Development Fund assisted the Government of Fiji to develop climate-responsive financial tools.

6. Finance for climate change and biodiversity

Tackling climate change and addressing biodiversity loss are interconnected, requiring an integrated approach to their financing challenges. Climate change is one of the main drivers of biodiversity loss, while ecosystem degradation also undermines nature's ability to regulate greenhouse gas emissions and protect against extreme weather.[80] Zoonotic disease outbreaks, linked to biodiversity loss and ecosystem health, have also intensified from climate change, as exemplified by COVID-19.[81] Addressing the financing challenges for both in an integrated manner can thus help to generate co-benefits.

6.1 Climate finance

The $100 billion climate finance target is unlikely to have been met in 2020; it may be met in 2023. Under the climate agreements, developed countries agreed to jointly mobilize $100 billion a year by 2020 from public and private sources to support climate action in developing countries. The latest OECD assessment of progress showed that climate finance increased further to $79.6 billion in 2019.[82] Out of bilateral allocable ODA for climate change, 53 per cent (or $18.1 billion) integrated gender equality objectives.[83] The $100 billion goal is very unlikely to have been met in 2020, even less so given the adverse impact of the COVID-19 crisis on both the demand and delivery of climate finance.[84] Given time lags in official reporting, this is not expected to be confirmed until later in 2022.[85] OECD forward scenarios of climate finance, based on information from bilateral and multilateral providers, indicate that the $100 billion target could be met from 2023 onwards although there is inherent uncertainty around such projections.[86] In the Glasgow Climate Pact, the agreement reached at the 2021 United Nations Climate Change Conference (COP26) held in Scotland, developed countries were urged to "urgently and through to 2025" deliver on the goal.[87]

A post-2025 climate finance goal is to be established amid rising costs and unmet demand. COP26 agreed on the process to set a new, collective, quantified goal on climate finance by 2025, starting from a floor of $100 billion and taking into account the needs and priorities of developing countries.[88] The new goal should be ambitious as climate finance needs—from all sources—in nationally determined contributions (NDCs) are estimated at around $5.9 trillion.[89] Furthermore, around 60 per cent of identified needs in NDCs have not been costed,[90] indicating that finance needs are higher than currently estimated. Even if the $100 billion climate finance target is met in the coming years, it will still fall short of the climate investment needs of developing countries, strongly indicating a need to attract more commercial finance. Commercial finance is moving toward climate-smart investments to both avoid the downside of climate risks and capture the upside of growth in clean technology sectors. At COP26, as part of the Glasgow Financial Alliance for Net Zero, more than 450 investment firms with over $130 trillion of private capital under management committed to transforming the global economy to net zero.

There is still no clarity on what is "new and additional". The 1992 Rio Convention established as a principle that all climate finance to developing countries should be "new and additional", which has been reflected in other climate agreements. However, the understanding of what is "new" and "additional" varies widely across parties. In the latest Standing Committee on Finance biennial assessment, of the 23 Parties that reported on new and additional financial resources, 13 indicated that these resources consisted of newly disbursed or committed funds in the reporting year, seven Parties used ODA benchmarks from either 2009 as a baseline or increases over previous ODA commitments, two Parties described their climate finance as that which exceeded the ODA target of 0.7 per cent of GNI, while one Party identified a separate environmental fund as the source of climate finance from traditional ODA channels.[91] Providing clarity on what is "new and additional" can help to improve consistency in the reporting and monitoring of climate finance, building on the Enhanced Transparency Framework of the Paris Agreement.

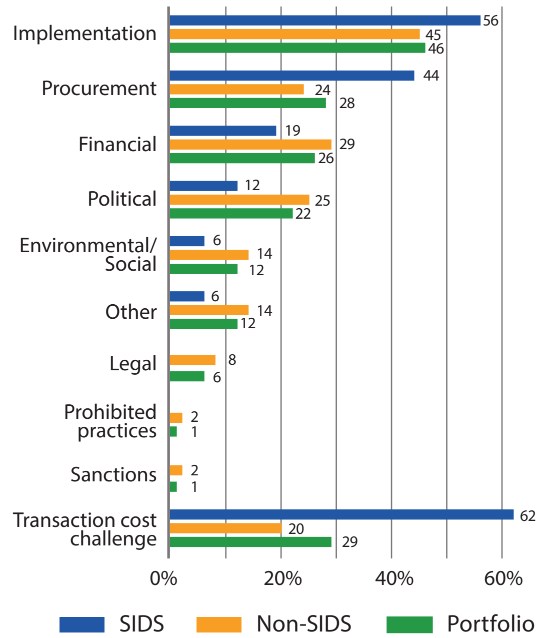
A new commitment has been made to double adaptation finance by 2025. Climate finance remains skewed towards mitigation compared to adaptation activities. The latest OECD figures indicate that adaptation finance increased to $20.1 billion and mitigation finance fell slightly to $50.8 billion in 2019. At the same time, estimates of total adaptation costs are rising, widening the funding gap.[92] COP26 urged developed nations to at least double their collective provision of adaptation finance from 2019 levels by 2025.[93] OECD DAC members also committed to seeking a balance between adaptation and mitigation.[94] The World Bank, for instance, has pledged that half of all its climate finance will support adaptation.[95] Better use of local actors, such as the United Nations Capital Development Fund's Local Climate Adaptive Living Facility,[96] and nature-based solutions (NbS—see section 6.2) can also help with adaptation activities.[97] At the same time, more work is needed to catalyse private investment in adaptation and resilience, starting with a better understanding of current barriers to getting private capital flowing and then addressing these and creating the enabling environment for these investments.[98]

Progress is too slow in addressing the challenges of the most climate-vulnerable countries, such as LDCs and SIDS. Although climate-related development finance to LDCs has increased steadily to $15 billion,[99] less than 20 per cent of adaptation finance received is invested in projects where adaptation is the primary objective.[100] For SIDS, climate-related development finance flows peaked in 2018 before falling to $1.5 billion in 2019.[101] Flows fall short of the identified needs that have been costed in their NDCs, estimated at around $515 billion for LDCs and $92 billion for SIDS.[102] These amounts could be larger as a significant portion of identified needs are not yet costed—around 41 per cent for LDCs and 58 per cent for SIDS.[103] Progress has been made in simplifying access and improving the effectiveness of climate finance to LDCs and SIDS, but more could be achieved. For example, the Green Climate Fund (GCF) has put in place a roster of international firms to assist national authorities and project development partners to support the proposal development process. Earlier evaluations of the investments by the GCF in LDCs and SIDS found that access to the Fund's support remained cumbersome, proposal development processes remained challenging and disbursements slow and low.[104] Efforts to simplify project funding proposal processes and shorten access timeframes have only recently shown results, with the average time taken from the start of the review of a project proposal to first disbursement decreasing from 26-28 months in 2018 to 12-17 months in 2021.[105] SIDS also face significantly greater challenges when they do receive funding for climate activities due to high transaction costs and capacity constraints (figure III.C.10). Access by SIDS to accredited intermediaries (national direct access entities or DAEs) to the GCF is extremely limited, while regional DAEs are overwhelmed with requests due to limited staff. Furthermore, internationally accredited entities are disincentivized by the high transaction costs to work with the GCF to pursue small SIDS projects.[106] The GCF has introduced a pilot programme—the enhancing direct access (EDA) approach—to address these challenges. The objective of the EDA is to enhance access by subnational, national, regional, public and private entities to the Fund. The EDA has a $200 million envelope that aims to invest in 10 pilot programmes, including at least four in SIDS, LDCs and African states.[107]

Greater efforts should be made to translate commitments and pledges towards gains for LDCs and SIDS. Ahead of COP26, OECD DAC members committed to prioritize the adaptation needs of developing countries, especially LDCs and SIDS, and to increase finance for adaptation and reduce barriers to accessing finance, particularly for SIDS.[108] At COP26, new financial pledges were made to the LDC Fund (over $600 million), as well as the grant-based Adaptation Fund (over $350 million),[109] where LDCs and SIDS account for around half of the total projects.[110] There was also agreement at COP26 that the Adaptation Fund would receive a 5 per cent levy of proceeds made under market mechanisms to reduce emissions.[111] In addition, financial pledges for loss and damage, which affect the fiscal sustainability of SIDS and LDCs,[112] were made for the first time, by subnational governments and philanthropists.[113] Commitments and initiatives to scale up finance and improve access are positive developments but will only be effective if existing challenges are urgently addressed. This includes accelerating efforts to simplify processes and increasing grant finance and the overall volume of climate finance to help meet NDCs and support recovery from COVID-19.

Scaling up MDB finance is critical. MDBs are an important channel for climate finance, accounting for just over one third of climate finance to developing countries. In 2020, climate finance flows by MDBs to developing countries declined by 2.2 per cent to $45 billion due to COVID-19; as a consequence, all MDBs except the World Bank Group failed to meet their 2020 climate finance targets. [114] Almost all major MDBs have set post-2020 climate finance targets, with the AIIB and Islamic Development Bank adopting climate finance targets for the first time (table III.C.4).[115]

Figure III.C.10
Green Climate Fund implementation challenges reported by SIDS and non-SIDS
(Per cent of annual performance reports)



Source: Green Climate Fund Independent Evaluation Unit, October 2020.

For the IDA20 replenishment (see sectiion 3), climate is one of the five priority areas, with 35 per cent of resources targeted for climate activities, half of which are to be directed to adaptation.[116] In addition to increasing MDB climate finance flows, there is also an opportunity to improve how these funds, the majority of which are disbursed through loans,[117] are programmed and disbursed. Analyses from the World Bank[118] and others[119] indicate that project-based approaches can help to support the macro-policy and enabling environments, including for greater use of non-debt instruments and concessionality. MDBs can also help to facilitate finance from other sources, including the private sector.

More needs to be done to align all development finance flows with the Paris Agreement. In October 2021, OECD DAC members agreed to align ODA with the Paris climate goals,[120] and the Group of Seven (G7) countries announced the end of their international support for coal power.[121] MDBs have also made progress but it is uneven. For example, the European Investment Bank (EIB) and IADB have formalized criteria to exclude the funding of coal, oil and gas projects, while the AfDB and ADB are working to do the same; the AIIB and World Bank Group still lack formal criteria to exclude fossil fuels. However, work is under way at the World Bank to develop and pilot sector-specific guidance to meet the institutional commitment to align all new IBRD/IDA operations by July 2023. MDBs should aim to accelerate and standardize fossil fuel exclusion policies, while all MDBs should also follow the EBRD, EIB and IADB in publicly reporting portfolio-wide emissions. A holistic approach is needed, which should include aligning all instruments with the climate goals. While MDBs have made progress on direct investments, indirect investments channelled through financial intermediaries and counterparties as well as policy-based financing need to be aligned with the Paris Agreement.[122]

Table III.C.4
MDB climate finance targets

MDB	Pre-2020 target	Post-2020 target
African Development Bank	40% of approved finance per year by 2020.	At least $25 billion for 2020-2025.
Asian Development Bank	$6 billion by 2020; $4 billion for mitigation and $2 billion for adaptation.	$80 billion for 2019-2030, and 75% of projects (by number of projects rather than amount of financing) by 2030.
Asia Infrastructure Investment Bank	None.	50% of annual loan volume by 2025 (aiming to reach $10 billion in total annual loan volume by 2025).
European Bank for Reconstruction and Development	40% of annual commitments support environment/climate financing by 2020, providing $20 billion for 2016-2020.	More than 50% of commitments support green finance by 2025.
European Investment Bank	Global: $20 billion per year for 2016-2020, equal to at least 25% of overall lending.	Global: 50% of operations support climate action and environmental sustainability by 2025; €1 trillion (around $1.18 trillion) of investments in climate action and sustainability from 2021-2030.
	Developing countries: 35% of total lending in those countries by 2020.	No developing country specific target yet.
Islamic Development Bank	None.	35% of overall annual lending by 2025.
Inter-American Development Bank	25-30% of commitments by 2020.	At least 30% of finance from IDB, IDB Invest and IDB Lab (the three components of the IDB Group) for 2021-2024.
New Development Bank	None.	None.
World Bank Group	28% of annual commitments by 2020.	35% of overall financing from 2021-2025; at least 50% of IDA and IBRD climate finance to support adaptation and resilience.

Source: Neunuebel, Sidner and Thwaites, 2021.

6.2 Biodiversity finance

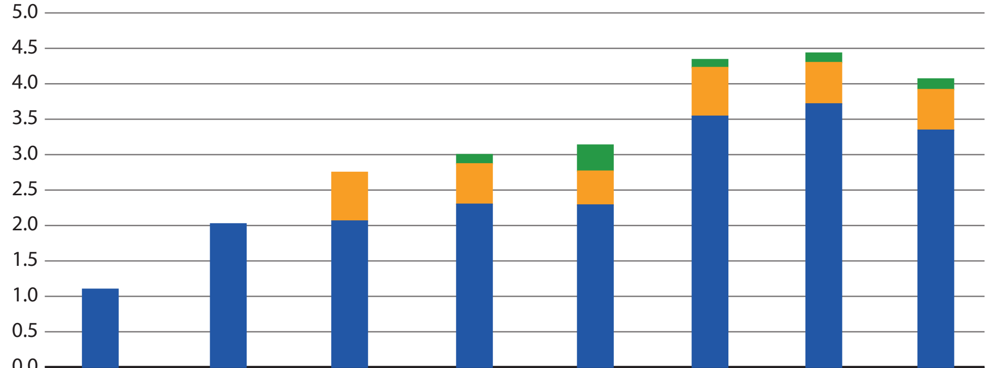
Addressing biodiversity loss is key for the well-functioning of our economies and for human health and well-being. It is also key for climate action and sustainable development more broadly. Over half of the world's GDP is either moderately or highly dependent on nature and thus at risk because of biodiversity loss and ecosystem degradation.[123] There is growing evidence that, like climate change, the risks associated with biodiversity and ecosystem services loss are systemic. The collapse of these services, such as wild pollination, provision of food from marine fisheries and timber from native forests, could cost 2.3 per cent of global GDP or around $2.7 trillion annually by 2030, with the poorest countries hit the hardest.[124] Yet only 0.2 per cent of GDP is channelled into maintaining and preserving ecosystems.[125]

Over the last decade, ODA for biodiversity-related finance doubled but remains a fraction of the global financing gap. The Addis Agenda contains a range of commitments to protect ecosystems, including one that encourages "the mobilization of financial resources from all sources and all levels to conserve and sustainably use biodiversity and ecosystems". This is consistent with the Strategic Plan for Biodiversity 2011-2020 and its Aichi Targets of the Convention on Biological Diversity (CBD). In 2014, the CBD adopted several targets for resource mobilization, including the doubling of total biodiversity-related international financial flows to developing countries by 2020.[126] This target has been partially achieved as bilateral ODA to projects with biodiversity as the principal component increased by almost 76 per cent between 2006-2010 and 2015-2018, and including projects that had biodiversity as a significant component, ODA rose by over 100 per cent.[127] However, with the global financing gap estimated at $824 billion,[128] all sources of finance need to be scaled up. Negotiations are under way to set a new post-2020 target to increase new and additional resources from all sources to at least $200 billion per year, including by at least $10 billion per year of international financial flows to developing countries.[129] Achieving effective implementation of a post-2020 global biodiversity framework will require aligning incentives for the conservation and sustainable use of biodiversity, including from both the public and private sectors.

The decline in funding to the Global Environment Facility (GEF) must be reversed. The GEF is the main financial mechanism of the Convention on Biological Diversity. It has provided a total of $2.8 billion in finance thus far in this replenishment period (2018 to 2022) and has generated co-financing of around $22.6 billion.[130] LDCs and SIDS are key beneficiaries of the GEF. Although GEF replenishments have successively increased since its establishment, reaching a peak in the sixth replenishment round, funding fell in the seventh round (figure III.C.11). Increasing GEF resources in the eighth round is critical for achieving the proposed goals and targets in the first draft of the post-2020 global biodiversity framework.

More attention is needed to support marine biodiversity and sustainable ocean economy activities. Developing countries, particularly some LDCs and most SIDS, rely more on ocean-based sectors such as coastal tourism for income and jobs compared to developed countries. For example, two out of three SIDS rely on coastal and marine tourism for 20 per cent or more of their GDP, compared to 2 per cent for OECD countries.[131] Mounting pressures on oceans and their ecosystem services—from overfishing, pollution and climate change—mean that LDCs and SIDS are likely to face greater risks from rapidly deteriorating marine ecosystems. However, international support is currently low as most biodiversity-related ODA is focused on terrestrial and freshwater biodiversity, with only about 4 per cent addressing marine biodiversity.[132] ODA for the sustainable ocean economy has also fallen from its peak in 2017-2018 (figure III.C.12).

Figure III.C.11
Global Environment Facility replenishments
(Billions of United States dollars, current)



	Pilot Phase (1991-94)	GEF-1 (1994-1998)	GEF-2 (1998-2002)	GEF-3 (2002-2006)	GEF-4 (2006-2010)	GEF-5 (2010-2014)	GEF-6 (2014-2018)	GEF-7 (2018-2022)
Projected investment income				0.13	0.368	0.112	0.134	0.15
Carryover from previous replenishment period			0.687	0.57	0.478	0.687	0.583	0.573
New pledged amount	1.1	2.023	2.063	2.3	2.289	3.542	3.716	3.345

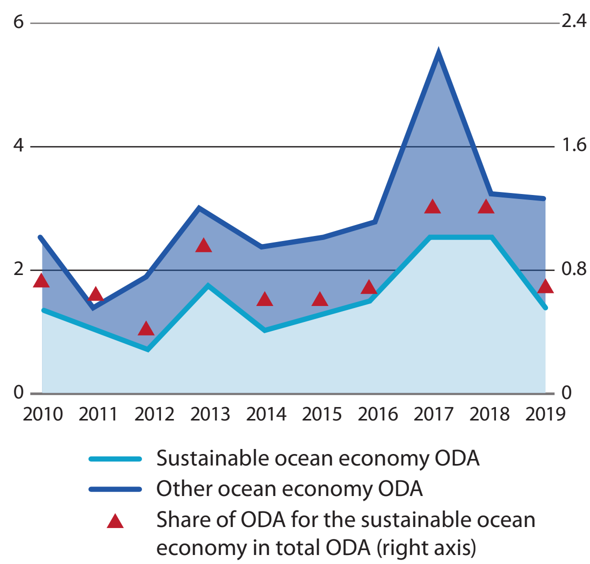
Source: World Bank. 2021. "Eighth GEF Replenishment: Overview of Financial Structure (Prepared by the Trustee)". Background Document for the First Meeting for the Eighth Replenishment of the GEF Trust Fund, April 22-23, 2021, Virtual Meeting". 1 April 2021.

Green and sustainability-linked bonds provide an opportunity to raise resources for biodiversity conservation efforts. Green bonds and similar instruments, such as SDGs-linked bonds, have grown significantly since their first issuance in 2007-2008.[133] However, green bonds have not targeted biodiversity directly. In 2019, of the $271 billion green bond issuances, less than 0.7 per cent were allocated towards biodiversity conservation.[134] PDBs can help developing countries issue bonds to support sustainable marine and fisheries projects (e.g., the Seychelle's "blue bond"), as well as target biodiversity conservation as a co-benefit on other government issuances (e.g., debt for nature swaps).[135] However, these debt instruments should be considered in the context of broader debt sustainability issues (see chapter III.E).

Financing NbS can support biodiversity and climate goals. According to the International Union for the Conservation of Nature, NbS are actions that protect, sustainably manage, restore or modify ecosystems to address societal challenges, such as climate change, while also safeguarding biodiversity and human well-being (figure III.C.13).[136] Around $2.4 billion of ODA is channelled towards NbS, a large proportion of which is climate finance.[137] As donors increase their commitments on climate-related ODA, scaling up support for NbS can provide climate and biodiversity co-benefits. For example, biodiversity is the top sector benefiting from ODA for NbS for adaptation.[138] However, a consistent methodology is needed to track financing for NbS and to avoid double counting.[139]

Increasing attention is being paid to international cooperation in support of global public goods. The COVID-19 and climate crises have exposed gaps in international cooperation, with global inoculation efforts

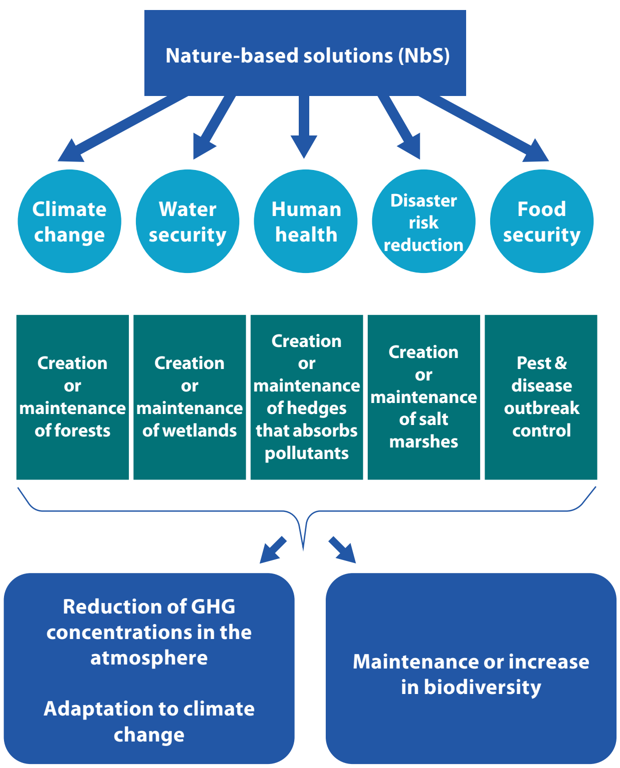
Figure III.C.12
Official development assistance for the ocean economy
(Billions of United States dollars, 2018 constant prices and percentage)



Source: OECD. "Data Platform on Development Finance for the Sustainable Ocean Economy". https://oecd-main.shinyapps.io/ocean/. Last accessed 10 February 2022.
Note: ODA for the ocean economy consists of all ODA that supports ocean-based industries and marine ecosystems. ODA for the sustainable ocean economy is a subset of ODA for the ocean economy. It identifies ocean conservation activities as well as support for ocean-based industries that integrates sustainability concerns.

failing to meet targets (see section 2.1) and developed countries failing to meet their $100 billion climate finance commitment (see section 6.1). This is despite a quadrupling in the volume of funding that donors have not allocated to specific recipient countries over the past two decades, which currently accounts for more than one fifth of official finance to developing countries.[140] This rising share of resources that are not assigned to specific recipients indicates a growing focus on these areas, as well as on humanitarian finance. However, analysis of the Principled Aid Index[141] indicates that the motives of donors appear to be tilting towards securing narrow benefits for their own national interests rather than maximizing efforts towards achieving development impact.[142] The United Nations Secretary-General has called for a new global deal to protect the global commons and deliver global public goods based on a more networked, inclusive and effective form of multilateralism (see box III.C.1). There are also ongoing efforts to measure the financing of these efforts. The Working Group on Measurement of Development Support (see box III.C.2) has acknowledged the importance of measuring global and regional efforts to support the SDGs, recommending a further review of these issues for the consideration of the United Nations Statistical Commission. While not universally accepted, the measure on total official support for sustainable development (TOSSD) considers international public goods, which encompasses global public goods, regional public goods and other international public goods (e.g., bilateral trade agreements).[143]

Figure III.C.13
Relationship between nature-based solutions, biodiversity and climate change



Source: Pettorelli et al., 2021.

7. The quality, impact and effectiveness of development cooperation in a COVID-19 world

International development cooperation must become more risk-informed. The COVID-19 and climate crises have demonstrated the importance of managing risks to enhance sustainability and resilience. Development cooperation should support developing countries in strengthening their capacities at the national and local levels to manage and reduce risks. All actors should ensure that risks are addressed through financial and non-financial cooperation that is aligned with country priorities and reinforces country systems.

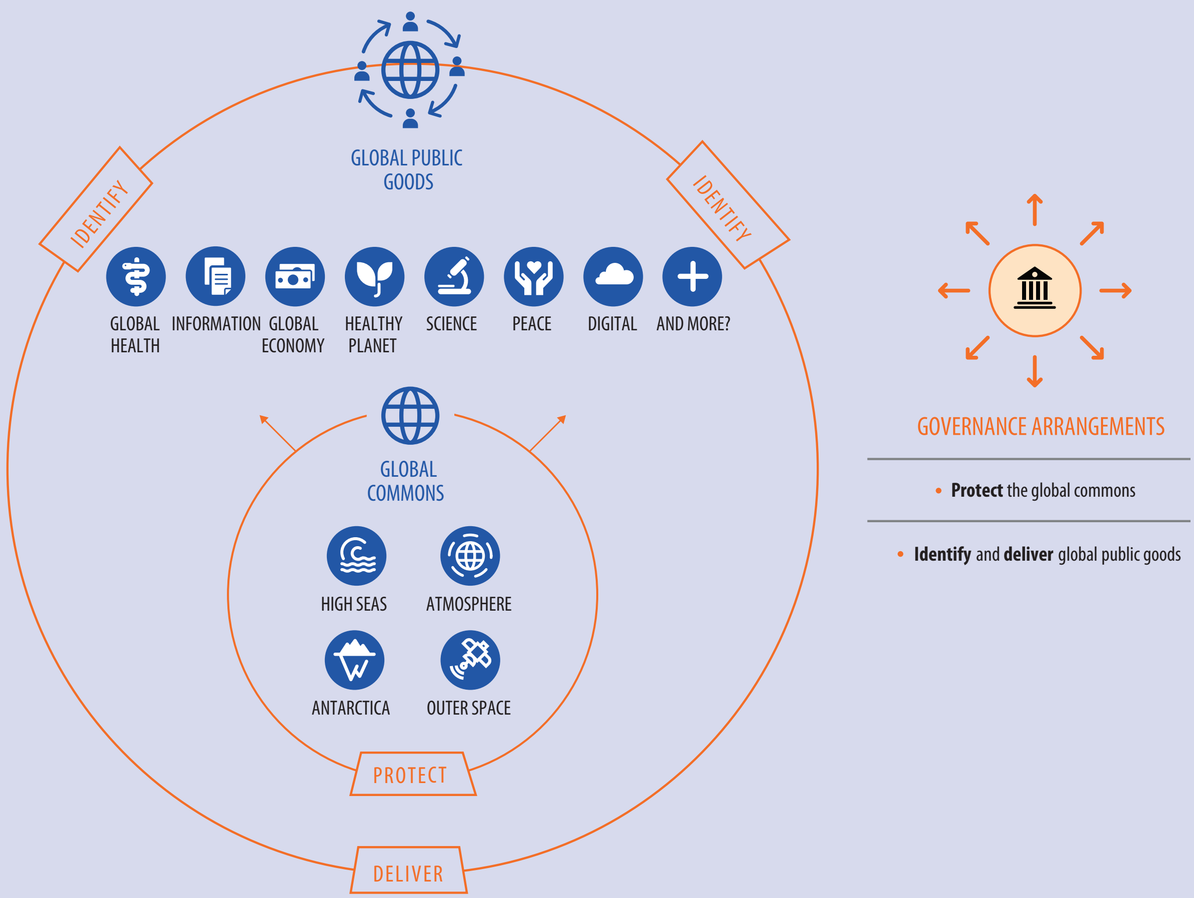
There has been slow progress on development effectiveness principles since the adoption of the Addis Agenda. The Addis Ababa Action Agenda reiterated the principles of development cooperation effectiveness, including aligning donor activities with national priorities, untying aid, promoting country ownership, strengthening partnerships and increasing transparency, predictability and mutual accountability. However, global attention and focus on these principles has waned somewhat since the adoption of the Addis Agenda. According to a 2021 survey on the quality of ODA, aid transparency has increased with more organizations reporting to the International Aid Transparency Initiative, but there has been no progress on country ownership.[144] In addition, while there has been progress in untying aid since 2015, the share of ODA reported as untied fell from its peak of 91 per cent in 2017 to 87 per cent in 2018.[145]

Lessons from COVID-19 underscore the importance and relevance of development cooperation effectiveness principles. There has been mixed observance of the principles of development effectiveness in COVID-19 response efforts. Global responses benefited from existing national-level structures and partnerships, including increased use of country systems, evident by the doubling of bilateral ODA for budget support in 2020 and localization of humanitarian aid (see section.2). Multi-stakeholder partnerships such as the ACT-Accelerator (see section 2.1), and South-South and triangular cooperation (see section 5) have been central to the global response. However, there have been concerns over the transparency (see *Financing for Sustainable Development Report 2021*)[146] and conditionality[147] of COVID-19 support. These lessons signal that adherence to development cooperation effectiveness principles must regain its centrality in building back better.[148]

Risk-informed development cooperation requires strengthening country systems to build resilience, particularly for LDCs, LLDCs and SIDS. As lessons from the pandemic have demonstrated, building resilient country systems requires prioritizing support for health and social protection systems (see section 2.1), building data and statistical capacities (see chapter IV) and investments in prevention and risk reduction (see *Financing for Sustainable Development Report 2021*).[149] While the quality of national planning has strengthened in developing countries, the monitoring of results for national plans is weaker due to data access issues.[150] For example, only 30 per cent of LDCs and 26 per cent of SIDS had timely, regular and accurate data for their results frameworks. Prior to COVID-19, development partners' use of public financial management country systems was also weak, at 48 per cent for LDCs and 28 per cent for SIDS.[151]

Box III.C.1
Protecting the global commons and delivering global public goods

The twin concepts of the global commons and global public goods, which are used in various contexts and fields such as law and economics, lack agreed definitions. The global commons usually refers to natural or cultural resources that are shared by and benefit everyone. They include the four conventionally understood commons that are beyond national jurisdiction – the high seas, the atmosphere, Antarctica and outer space. Public goods are understood as those goods and services provided to and benefiting all of society, which at the national level may include street lighting, fire departments or clean water. Certain public goods have long been acknowledged as being global in nature, in that they concern the welfare of humanity and cannot be adequately provided by any one State acting alone. These include vaccines against transmittable diseases, global peace and climate change. Despite this, the multilateral system has not yet harnessed the strategies, investments or solidarity needed to address these challenges, resulting in heightened vulnerability to crises, such as in global public health, as demonstrated by the COVID-19 pandemic; in the global economy and financial system, as exemplified by the 2008 world financial and economic crisis and current COVID-19 shock; and in the health of the planet, resulting in the triple planetary crises of climate change, biodiversity loss and pollution.



The Secretary-General aims to set up a High-Level Advisory Board of former Heads of State and/or Government to identify the global public goods where governance improvements are most needed and offer options for how this could be achieved, with a Summit of the Future organized to advance discussions in this area.

Source: United Nations. 2021. Our Common Agenda, Report of the Secretary-General.

Box III.C.2
Broader measures of development support

Working Group on Measurement of Development Support

In March 2020, the United Nations Statistical Commission expressed support for the establishment of a working group to further develop and refine the measurement of development support in line with the 2030 Agenda. To support this decision, the Inter-agency and Expert Group on SDG Indicators (IAEG-SDGs) established the Working Group on Measurement of Development Support, including 21 Member States representing all geographic regions. The main task of the IAEG-SDGs is to further develop the measurement of development support under target 17.3: "Mobilize additional financial resources for developing countries from multiple sources". The Statistics Division of UN/DESA serves as secretariat for the Working Group.

Following a series of meetings and open consultations, the Working Group presented its indicator proposal to the IAEG-SDGs, who reviewed and approved the proposal for consideration by the Statistical Commission in March 2022. The proposed indicator 17.3.1 follows the recipient perspective and complies with the Addis Ababa Action Agenda by distinguishing flows of different types and concessionality, which have different impacts on development. It includes gross receipts from developing countries of: a) official sustainable development grants; b) official concessional sustainable development loans; c) official non-concessional sustainable development loans; d) foreign direct investment; e) mobilized private finance on an experimental basis (subject to review in the 2025 review of SDG indicators); and f) private grants.

The indicator proposal builds on existing work, in particular standard OECD and UNCTAD data collections and the work on TOSSD. It is further underpinned by an initial conceptual framework on South-South cooperation developed by a sub-group. The OECD and UNCTAD would be co-custodians of SDG indicator 17.3.

While the Working Group discussed the measurement of international public goods and acknowledged their importance, it recognized that there was no universally accepted concept or framework for their measurement and that there were challenges in reconciling the notion of global public goods, where all countries may benefit, for the focus of Target 17.3, which refers to mobilizing additional resources for developing countries. The Working Group recommended that a further review be conducted in the context of other relevant discussions in the United Nations and other fora.

Total official support for sustainable development

Initiated by the OECD and developed by an international task force of experts created in July 2017, TOSSD captures both cross-border resource flows and support to international public goods and global challenges. It includes concessional and non-concessional support from traditional and emerging bilateral and multilateral finance providers, including South-South and triangular cooperation providers. It also captures private finance mobilized by official interventions.[a]

TOSSD data on 2020 flows was published in March 2022, covering activities from 98 respondents, including 44 countries and 54 multilateral organizations, and including official statistics on the financing of international public goods.[b] Several pilot studies (e.g., Burkina Faso, Indonesia) have also been conducted and more are ongoing in 2022 and 2023.[c] TOSSD is proposed as a data source for indicator 17.3.1 on the measurement of development support of the global indicator framework for the SDGs.

Source: UN/DESA.

a See United Nations. Total Official Support for Sustainable Development (TOSSD). "TOSSD at a glance". https://www.tossd.org.
b See United Nations. Total Official Support for Sustainable Development (TOSSD). Data Visualization Tool. https://tossd.online.
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Increased use of country public financial management systems can help to strengthen national systems. In addition, while 120 countries have disaster risk reduction strategies in place, only a few national development cooperation policies cover this issue; and capacity and financing gaps make it difficult to realize them.[152] For many LDCs, LLDCs and SIDS, development cooperation is a major source of financing for investment in resilience, risk reduction and climate adaptation, as market sizes are small and the private sector can be deterred by perceived and real risks to return on investment. However, disaster-related development assistance remains predominantly focused on preparedness and response. For every $100 spent on disaster-related ODA, only 50 cents are invested in protecting development from the impact of disasters.[153] INFFs can help to align development cooperation with country priorities, including disaster risk reduction strategies.

Enhancing development partner coordination is crucial to meeting the rising complexity and interconnectedness of challenges facing developing countries. Development partners have made some progress in reducing aid fragmentation, with the fragmentation ratio for LDCs with bilateral donors declining from 61 per cent in 2015 to 54 per cent in 2019.[154] However, it remains an issue, including on a sectoral basis, particularly for climate finance (see section 6.1) and health.[155] Launched in 2019, the Global Action Plan for Healthy Lives and Well-being for All, which brings together 13 multilateral health, development and humanitarian agencies, is an effort by agencies to better align their efforts to reduce inefficiencies and provide more streamlined support to countries to deliver on the health-related SDGs.

Accountability and transparency mechanisms, as well as inclusive partnerships, are key to improving the effectiveness of development cooperation. Pre-COVID-19 assessments indicated that while LDCs had regular and transparent mutual accountability mechanisms, these were weaker for SIDS.[156] Corruption, lack of transparency and misappropriation of funds have also beset COVID-19 responses.[157] Strengthening mutual and domestic accountability mechanisms, including addressing capacity gaps, should be a focus moving forward. Building on inclusive partnerships can also help to better engage a diversity of stakeholders, including the private sector and civil society. The Kampala Principles for effective private sector engagement provide practical guidance for building stronger partnerships with the private sector on development cooperation.[158] Action dialogues for effective development cooperation, which are led by partner country governments, also help to bring stakeholders together at the country level to build a shared understanding on why effectiveness matters and how to scale up effective partnerships for COVID-19 recovery and achievement of the SDGs (see box III.C.3).

Box III.C.3
Action dialogues: country-level action to strengthen the effectiveness of development cooperation

In 2021, around two dozen developing countries either held or were planning to hold action dialogues, country-level, multi-stakeholder dialogues to strengthen partnerships for sustainable development and improve their impact. The focus and outcomes of these action dialogues were diverse. Topics included: forging effective partnerships for stronger COVID-19 recovery (Rwanda); promoting effective country level partnerships and accountability (Cameroon); ideas for making South-South cooperation more effective (Colombia); strengthening effective development cooperation (Dominican Republic); and INFFs for sustainable development (Senegal). In terms of outcomes, some countries prepared action plans following their discussions, such as Rwanda, where key activities and lead entities from the Government and development partners were identified to take forward several action areas. Colombia used the opportunity to advance a community of practice on the measurement and quantification of South-South cooperation, while Senegal aims to build on its discussions to strengthen implementation of an INFF.

Source: Global Partnership for Effective Development Co-operation. 2021. "Action Dialogues for Effective Development Cooperation".

New United Nations guidelines on the taxation of aid provide an opportunity to further align support for domestic resource mobilization efforts. Exemptions for project aid were around 3 per cent of GDP in countries where tax revenues were below 15 per cent of GDP.[159] Although discussions on the tax treatment of government-to-government aid projects started in 2005, it was not until the Addis Agenda commitment to "consider not requesting tax exemptions" did work gain traction. In April 2021, the United Nations Committee of Experts on International Cooperation in Tax published revised guidelines for the tax treatment of government-to-government aid projects[160] in order to facilitate the consideration of whether or not tax exemptions should be requested with respect to international aid projects and, if tax exemptions are requested, how they should be negotiated and implemented. The guidelines, which are non-binding, recognize that tax exemptions create significant difficulties for developing countries and run counter to the objective of strengthening domestic resource mobilization. The guidelines also address issues of transparency and accountability (see box III.C.4). They aim to assist donors and recipient countries in determining the appropriate tax treatment of government-to-government aid projects by facilitating their discussion of this issue. A new OECD hub[161] for the transparency of taxation of aid provides a platform for tracking donor approaches to claiming tax exemptions and to follow up and monitor the Addis Agenda commitment.[162]

Box III.C.4
A synopsis of the Revised Guidelines on the Tax treatment of Government-to-Government Aid Projects

The first two Guidelines—there are a total of 13 Guidelines—address whether tax exemptions should be granted with respect to government-to-government aid projects.

Guideline 1 encourages donors to refrain from requiring exemptions from taxes levied in recipient countries with respect to transactions relating to government-to-government aid projects, except in a few circumstances, such as when tax rules in the recipient country are not consistent with internationally agreed tax principles.

Guideline 2 encourages recipient countries to ensure that their tax treatment of transactions relating to government-to-government aid projects is consistent with internationally agreed tax principles to reduce situations in which specific tax exemptions with respect to government-to-government aid projects might be requested.

The subsequent revised Guidelines address cases where specific exemptions are requested. The Guidelines suggest that the tax authorities should be involved in the negotiation and drafting of the exemptions, and that their scope be restricted to donors (so that they do not apply to other parties such as subcontractors and consultants).

The revised Guidelines also deal with the transparency of country policies concerning tax payments related to government-to-government aid projects. Other Guidelines, which deal with the implementation of negotiated tax exemptions, emphasize the importance of ensuring that negotiated tax exemptions are provided for in documents with the force of law. They also point out the need for analysing the revenue impact resulting from the exemptions, and for putting in place mechanisms that minimize the administrative burden and reduce the risk for fraud related to such exemptions.

Source: Committee of Experts on International Cooperation in Tax Matters. 2020. "Revised Guidelines on the Tax Treatment of Government-to-Government Aid Projects, Note by the Subcommittee on the Tax Treatment of ODA Projects". United Nations. 5 October 2020.

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