

Chapter III.C

International development cooperation

1. Key messages and recommendations

The COVID-19 pandemic, the war in Ukraine and the food, fuel and climate crises are placing unprecedented demands on international development cooperation. The global financing landscape has also changed since the adoption of the Addis Ababa Action Agenda, making it increasingly complex to navigate. Urgent action is needed to boost all sources of international development cooperation, which needs to be complemented by fast-tracking progress on all the Addis Agenda action items.

Limited resources amid massive demands requires prioritization and better targeting of international development cooperation. Climate- and debt-vulnerable countries, such as many least developed countries (LDCs) and small island developing States (SIDS), need more concessional resources and grants, while blended finance and non-concessional resources from multilateral development banks (MDBs) can also help to meet the broader demand. All developing countries can benefit from South-South and triangular cooperation. At the country level, integrated national financing frameworks (INFFs) can help developing countries to lay out the best use of development cooperation resources and the appropriate mix of public and private finance to support their national sustainable development priorities.

Official development assistance (ODA) providers should strive to deliver on their financing commitments, focus on collective impact and improve the quality of ODA. ODA has played a countercyclical role in response to successive crises, providing substantial additional support for the COVID-19 response. Bilateral providers can help to reshape the financing for sustainable development systems in light of shifting demands.

- *More than ever, ODA providers need to meet their ODA commitments, especially to LDCs that face massive challenges and have significant needs. Against rising debt vulnerabilities, grants rather than loans should be prioritized for LDCs and SIDS, with multidimensional vulnerability criteria used in the allocation of ODA. Additional support for Ukraine and refugees must not come at the expense of cross-border ODA flows to other countries in need;*
- *Support for social sectors, including health, social protection and gender equality during the pandemic, should be sustained—which will also fortify preparedness for future crises. Pandemic preparedness should be strengthened, building on the experience from the Access to COVID-19 Tools Accelerator (ACT Accelerator) and COVID-19 Vaccines Global Access (COVAX);*
- *Curbing growing food crises requires both humanitarian aid to address immediate needs and development assistance to tackle the structural causes of food insecurity.*

MDBs play a vital role in meeting heightened demand. The Group of 20 (G20), the United Nations Secretary-General's SDG Stimulus, the Bridgetown Initiative and other initiatives have recognized the important role that MDBs play and called on them to scale up lending to help meet sustainable development challenges.

- *The United Nations Secretary-General has called for very long-term (30-50 years) lending with significant grace periods, with all lending aligned with the SDGs;*
- *Capital infusion and balance sheet optimization can help to expand MDB lending;*
- *A more concerted effort is needed to leverage the network of public development banks (PDBs) to meet growing demands.*

Blended finance has the potential to leverage development finance resources to meet the growing demand for development support, but a new approach is needed:

- *Blending needs to be aligned with country priorities and part of broader national sustainable development strategies;*

- *The primary focus of all blended deals should be development impact rather than quantity or degree of leverage;*
- *Analysis should always include measurement of the cost of blending versus other financing mechanisms as well as ensure that the public sector is not overcompensating the private partner; and*
- *Capacity development and transparency, participation and reporting are critical.*

Complementing North-South efforts, South-South cooperation is helping developing countries meet the heightened demand for development support. Efforts to measure South-South cooperation have advanced. South-led development banks and financial institutions, including borrower-led MDBs, are playing an increasingly important role.

Amid the climate crisis, climate finance is not keeping pace with the ratcheting impact of climate change and the widening financing gap. After failing to meet the $100 billion climate finance target in 2020, efforts are under way to set a new, collective quantified goal on climate finance. On the positive side, the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27) saw a landmark decision to set up a loss and damage fund after decades of discussion. As these processes can take time, other expedient solutions are needed:

- *MDBs can play a leadership role in meeting climate finance targets, such as on adaptation and supporting LDCs and SIDS;*
- *Country platforms like the Just Energy Transition Partnership (JETP) can help to accelerate climate action and investment.*

Changes in the financing for development landscape call for a stronger, shared understanding of the development effectiveness agenda. Since the adoption of the Addis Ababa Action Agenda, international development cooperation has seen significant shifts—in terms of providers, modalities, focus and recipients. A shared understanding of development effectiveness principles by all actors can help to support policy and action at the country level.

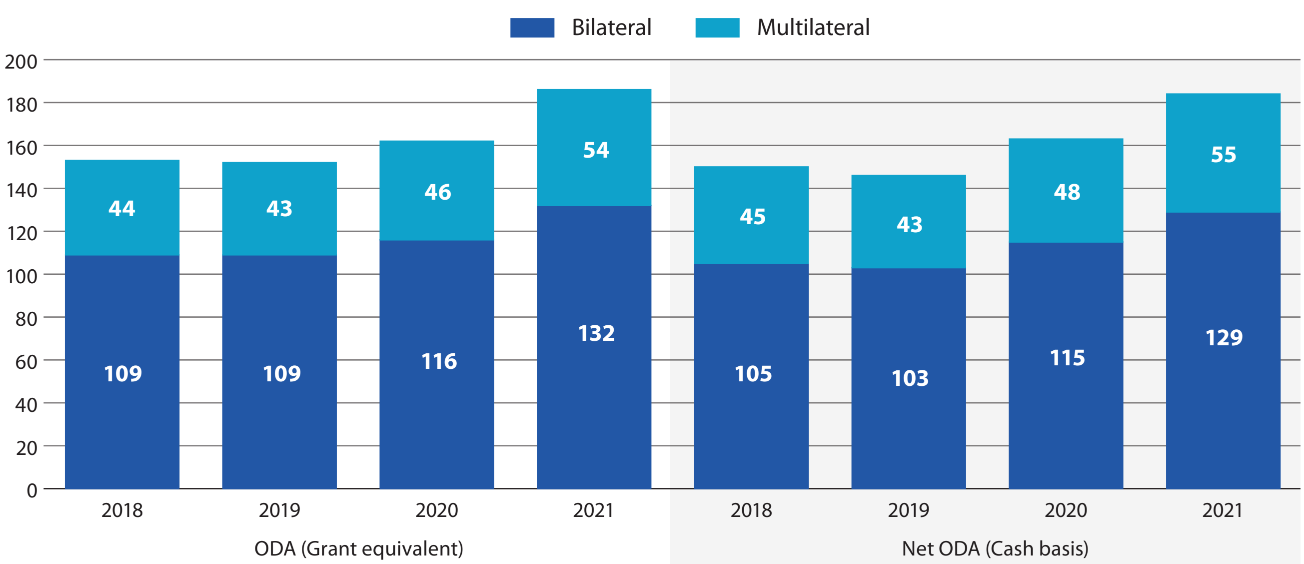
- *The COVID-19 pandemic demonstrated the importance of having in place risk-informed development cooperation;*
- *To enhance country ownership, donors should entrust more ODA to developing country governments, including for priorities laid out in national plans;*
- *Encouraging the participation of non-state actors in national development cooperation forums can help to better reach marginalized and vulnerable communities;*
- *Fostering a shared understanding of the development cooperation effectiveness principles can help all actors to influence policy and behaviour.*

2. Official development assistance

2.1 Impact of the COVID-19 pandemic

ODA rose to its highest level in 2021, underpinned by significant support for the COVID-19 pandemic response. In 2021, ODA rose by 8.5 per cent in real terms compared to 2020 to an all-time high of $185.9 billion (figure III.C.1),[1] as calculated by the grant-equivalent measure (see box III.C.1). The increase in ODA was underpinned by an increase in COVID-19-related activities, including COVID-19 vaccine support (both donations of excess doses and doses purchased for developing countries) that amounted to $6.05 billion. The Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) agreed in February 2022 that excess doses could be counted towards ODA.[2] This has drawn criticism, as these excess vaccine doses were not initially intended for developing countries and were a result of over-purchasing in the early stages of the pandemic.[3] Excluding the costs of vaccines, ODA grew

Figure III.C.1
Official development assistance, 2018–2021
(Billions of United States dollars, current prices)



Source: OECD Creditor Reporting System database.

by 4.8 per cent in 2021 (figure III.C.2).[4] According to the previous cash flow methodology, net ODA was $177.6 billion, recording an increase of 3.3 per cent in real terms. As a share of donor country gross national income (GNI), ODA was 0.33 per cent on average, the same as in 2020, remaining below the United Nations target of 0.7 per cent of GNI. Five donors met or exceeded the target: Denmark, Germany, Luxembourg, Norway and Sweden. Most donors increased their ODA, with declines noted in six countries.

ODA to LDCs increased in 2021, although growth has slowed and was likely negative after adjusting for COVID-19-related support.

Box III.C.1
Official development assistance modernization

In 2012, the OECD DAC began a process to modernize the way ODA is measured and reported. The process aimed to amend reporting rules for: ODA loans, debt relief and in-donor refugee costs; private sector instruments (PSIs); and peace and security activities. All these changes, other than the treatment of PSIs, have been agreed.[a]

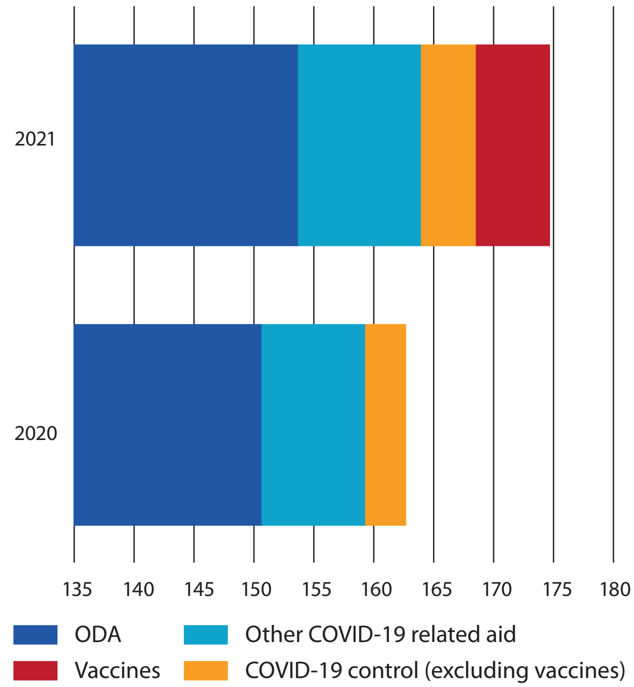
Under the grant-equivalent methodology, only the grant (or "gift") portion of a loan is reported as ODA, which is calculated using a system of differentiated discount rates that reflect the risk of lending to different country groupings.[b] In addition, to incentivize lending on highly concessional terms to LDCs and other low-income countries, the rules also include thresholds for the grant element that can be reported as ODA (45 per cent for LDCs and other low-income countries; 15 per cent for lower-middle-income countries (MICs); and 10 per cent for upper-MICs).

PSIs, however, are currently captured under the old cash flow methodology, where, in the case of loans, the full face value is counted as ODA if the grant element is at least 25 per cent, calculated using a discount rate of 10 per cent, with repayments subtracted when they are paid out.[c] This has led to a hybrid ODA measure where donor efforts in extending loans to the private sector are measured on a cash-flow basis, while efforts in providing sovereign loans are accounted for on a grant-equivalent basis.[d] To rectify this, the OECD DAC is currently reviewing a proposal that has been built on the same system of differentiated discount rates of sovereign loans. The grant element threshold is set to zero to avoid incentivizing unnecessary subsidization.[e] Although currently not reportable as ODA, the OECD DAC has also proposed to include credit guarantees as part of ODA on a grant- equivalent basis on a similar system of differentiated discount rates. The grant threshold would also be zero.[f] If agreed, implementation for both proposals would occur in 2024 for 2023 flows.

Source: UN/DESA.

a See also previous discussion in the *2021 Financing for Sustainable Development Report*.
b Ibid.
c OECD. 2021. "Modernisation of the DAC Statistical System".
d Ibid.
e OECD DAC. 2022. "Private Sector Instruments: Treatment of Loans". DAC Working Party on Development Finance Statistics, 2 December.
f OECD DAC. 2022. "Private Sector Instruments: Treatment of Credit Guarantees". DAC Working Party on Development Finance Statistics, 7 December.

Figure III.C.2
ODA disbursements for COVID-19 response, 2020–2021
(Billions of United States dollars, 2020 constant prices)

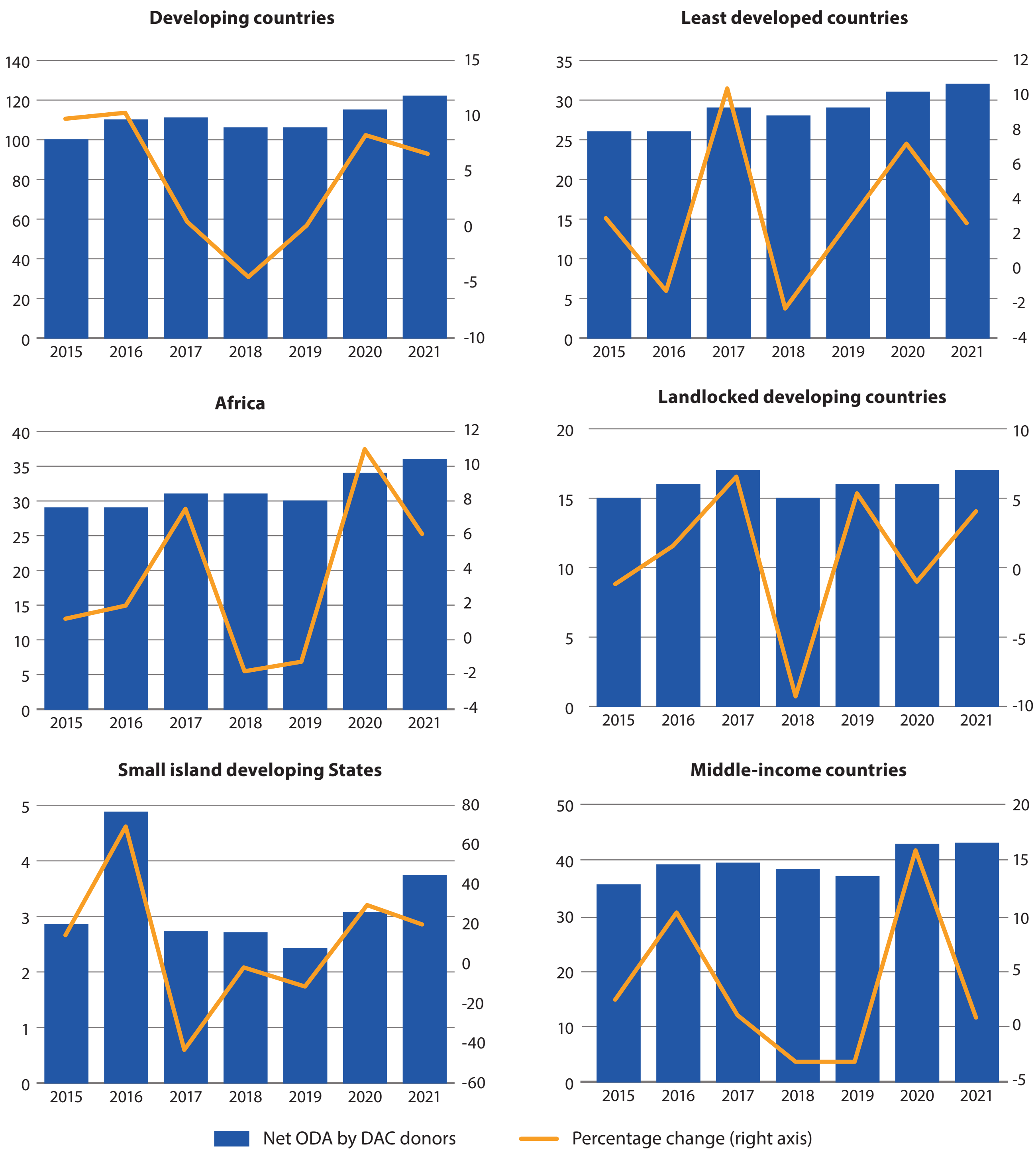


Source: OECD Creditor Reporting System database.

ODA to LDCs increased by 2.6 per cent in real terms in 2021 and accounted for only 0.09 per cent of DAC members' GNI, below the 0.15–0.20 per cent LDC target. From 2010 to 2021, bilateral aid to LDCs declined by more than 5 percentage points as a share of DAC member countries' total.[5] ODA to Africa increased by 3.3 per cent, while ODA to landlocked developing countries (LLDCs) increased by 4.3 per cent (figure III.C.3). ODA to SIDS increased by 21.4 per cent, though from a low base. In 2020, when COVID-19-related aid was excluded, bilateral ODA fell for LDCs and other developing countries except for upper-middle-income countries.[6] This trend is anticipated to have continued in 2021. An increase in concessional outflows by multilateral organizations across all income groups—a consistent pattern since 2010—partly compensates for the decline.[7]

The war in Ukraine has exacerbated the demand for ODA. There is increased demand for humanitarian support to Ukraine, which is an ODA-eligible country, as well as higher in-donor refugee spending due to the surge in Ukrainian refugees in many DAC member countries. The war in Ukraine has also underpinned steep increases in global food and energy prices (see chapter I), increasing the global need for humanitarian aid (see section 2.2). In addition, many developing countries are yet to recover from the COVID-19 pandemic and face significant debt sustainability issues (see chapter III.E), which may increase the demand for debt relief. At the same time, many DAC donors are facing sluggish domestic economic conditions, placing pressure on national budgets, and high inflation, lowering the purchasing power of ODA. There are also concerns that ODA to support the poorest and other most vulnerable countries could be diverted to meet needs that have resulted from the war in Ukraine. For example, by mid-2022, a few donors had announced plans to redirect

Figure III.C.3
Total net ODA by DAC donors by country group on a cash basis, 2015–2021
(Billions of United States dollars, 2020 constant prices)



Source: OECD Creditor Reporting System database.

ODA to cover in-donor refugee costs, though some later reversed these announcements.[8]

Cross-border ODA to countries should be sustained. Country programmable aid, which is provided to countries and regions (and excludes donor refugee costs, humanitarian aid, debt relief and administrative costs) increased significantly in 2020, especially to MICs and SIDS (figure III.C.4). Country programmable aid then rose slightly, by 1.5 per cent, in 2021, underpinned by increases in the health sector. Humanitarian aid and in-donor refugee spending also increased in 2021 (figure III.C.5). Donors will need to improve communication on the importance of international development cooperation to garner public support to increase the total ODA envelope.

Lessons from the COVID-19 pandemic underscore the importance of sustaining ODA for the social sectors in the poorest and most debt-vulnerable countries. Prior to the pandemic, there was a decline in country-programmable aid for the social sectors, including health and social protection systems, particularly for LDCs, LLDCs and SIDS. This has been reversed in the last two years (figure III.C.4) due to the COVID-19 response and should continue to be prioritized for these countries. There are already concerns that some national governments will spend less on health between now and 2027 than they did in the pre-pandemic period due to rising debt payments.[9] ODA for the social sectors will help vulnerable countries to continue to strengthen their systems as a core strategy for building resilience to future shocks.

Pandemic preparedness should build on the lessons of the ACT Accelerator and COVAX. Since the beginning of the pandemic, the ACT Accelerator, a global coalition convened by the World Health Organization (WHO), the European Union, the United Nations and a range of global health organizations, succeeded in raising $24 billion for COVID-19 response efforts.[10] However, there remains a $329 million funding gap as the ACT Accelerator phases out. COVAX, its vaccine distribution component, has also been successful despite vaccine nationalism, hoarding and export restrictions. With imminent pandemic threats, as demonstrated by the outbreak of the monkeypox disease in late 2022, lessons from implementation of the ACT Accelerator and COVAX can help to improve the financing of pandemic preparedness. This includes improving coordination and investment in research and development to develop medical responses to future pandemics, ensuring poor and vulnerable countries have immediate access to pandemic response funding, building regional capacity in pandemic preparedness and strengthening national health systems.[11] This will help to ensure that the focus and attention on pandemic preparedness does not wane in the aftermath of COVID-19, as it did after the 2003 SARS outbreak, the 2009 H1N1 pandemic and the 2014-2016 West Africa Ebola outbreak.

A new Pandemic Fund was launched but falls short of estimated resources needed. The WHO-established Independent Panel for Pandemic Preparedness and Response (IPPPR),[12] the G20's High-Level Independent Panel[13] and the G7's Pact for Pandemic Preparedness[14] all recommended increasing ODA for health systems strengthening and setting up a new pandemic preparedness fund. In September 2022, with the support of the G20, the World Bank launched the Pandemic Fund, dedicated to strengthening health systems in collaboration with WHO.[15] However, the $1.6 billion in financial commitments made towards the Fund[16] falls short of estimates made by the High-Level Independent Panel and IPPPR of $5 billion to $10 billion needed for an effective pandemic response.

ODA for gender equality and women's empowerment has stalled in recent years. The share of ODA[17] with gender equality as a policy objective dropped slightly from 45 per cent in 2018-2019 to 44 per cent in 2020-2021 (figure III.C.6).[18] This signals a need for DAC members to intensify their efforts to direct more financial resources for gender equality and the empowerment of women and girls. Leadership commitment by donors, sound policy frameworks and well-designed, adaptive programming can help to advance ODA for gender equality.[19] The focus on gender equality as a share of ODA is particularly low in humanitarian aid, where only 19 per cent had gender equality as a policy objective, and in energy, where this rate was at 27 per cent in 2020-2021. There is significant scope to strengthen the focus on gender equality in these sectors.[20]

More grants are needed, especially for LDCs and SIDS. The grant component of ODA to developing countries declined from 83 per cent in 2015 to 81 per cent in 2021. A considerable decline was noted for LDCs, from 93 per cent to 87 per cent, and for SIDS, from 87 per cent to 71 per cent (figure III.C.7). In addition, average maturities on loans to LDCs fell and interest rates rose (table III.C.1).[21] The Doha Programme of Action for LDCs underscores the need to scale up support for LDCs, while SIDS have made repeated calls for the use of multidimensional vulnerability as criteria to access concessional finance. A United Nations High-Level Panel was appointed in February 2022 to develop a multidimensional vulnerability index (MVI) (see chapter IV),[22] and if accepted 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.

Table III.C.1
Characteristics of bilateral ODA loans to LDCs

	2015	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*
Average grant element—new (%)	78	75	75	73	70	73	70
Average grant element—old (%)	81	78	78	77	73	76	73
Maturity period (years)	35.7	33.4	32.5	32.0	28.3	30.5	27.3
Interest rate (%)	0.35	0.49	0.59	0.67	0.80	0.43	0.63

Source: Carey, Eleanor, and Harsh Desai. 2023. "Maximising Official Development Assistance". In *Development Co-Operation Report 2023: Debating the Aid System*. OECD.

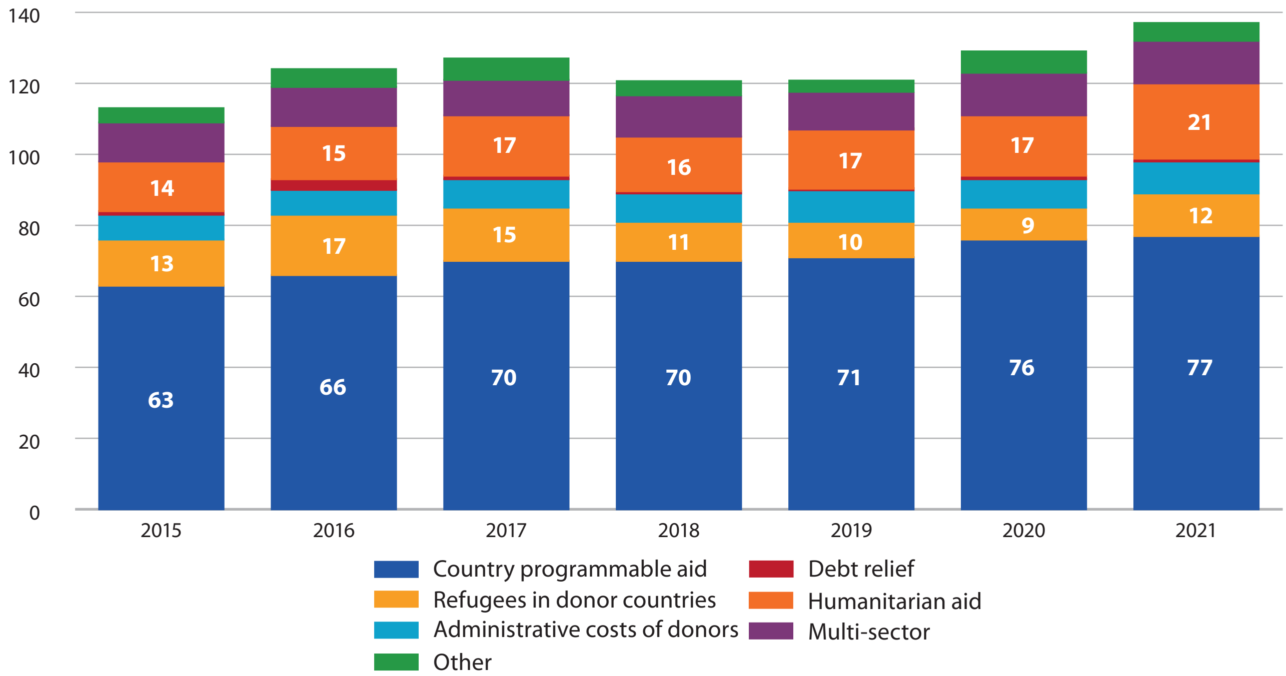
The COVID-19 pandemic also highlighted the importance of support for MICs in times of crisis. ODA to MICs rose significantly in 2020 (figure III.C.3), underpinned by pandemic-related support reflected in the health sector (figure III.C.4), after falling between 2017 and 2019. Much of this assistance was provided in the form of loans (figure III.C.7). Generally, support to MICs has been driven by issue-based ODA allocations, such as climate mitigation or providing humanitarian aid for refugees.[23] Support for MICs should not, however, come at the expense of support to LDCs and other countries most in need.

Country-owned INFFs can help to align development cooperation with country priorities. INFFs can guide ODA allocation to areas where it is most needed, as well as make explicit the links between development cooperation and other financing policy areas (such as domestic resource mobilization and private investment). INFFs can also be used to enhance coherence, development effectiveness and complementarity between humanitarian and long-term development finance.

Figure III.C.4
Country programmable aid, by sector, on a cash basis, 2015–2021
(Billions of United States dollars, 2020 constant prices)

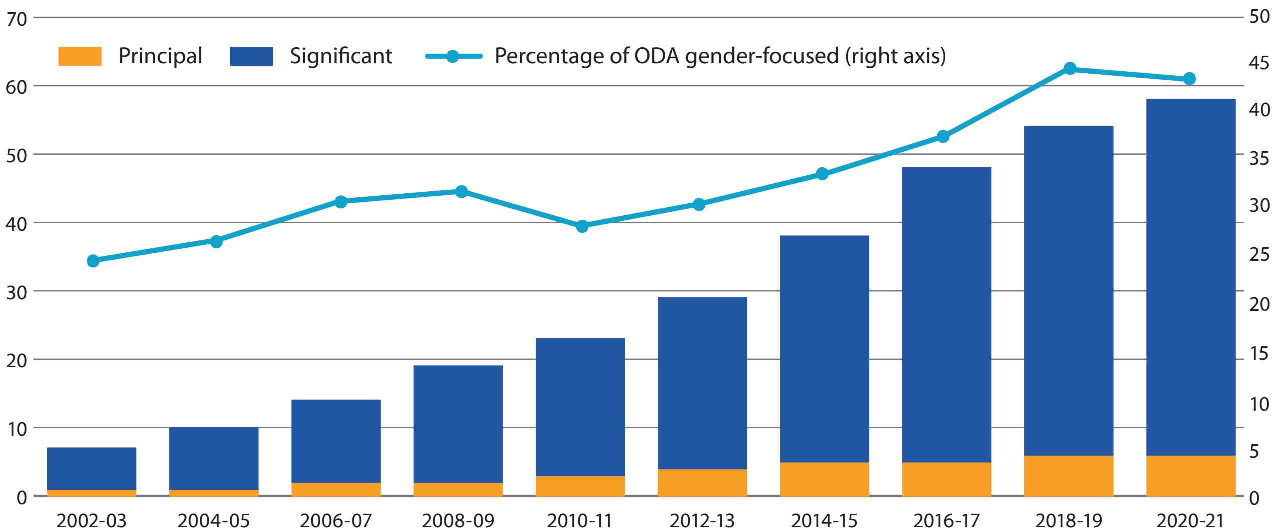
Source: OECD Creditor Reporting System database.

Figure III.C.5
Gross ODA disbursements by DAC members to developing countries on a cash basis, 2015–2021
(Billions of United States dollars, 2020 constant prices)



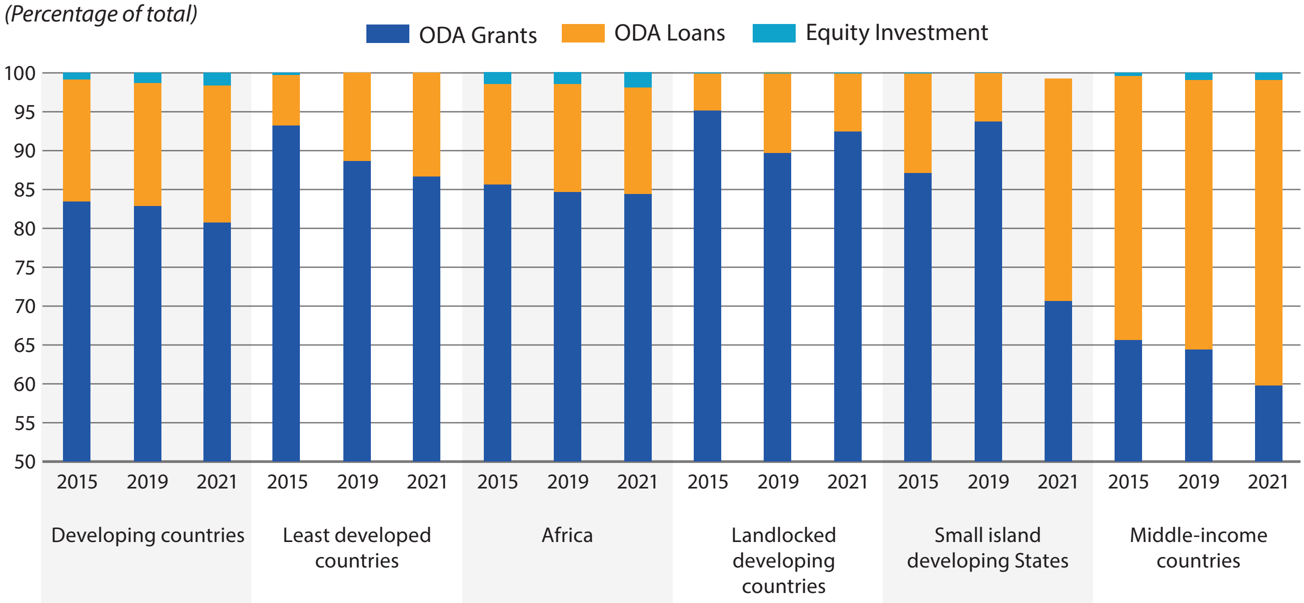
Source: OECD Creditor Reporting System database.

Figure III.C.6
Volume and share of ODA with gender equality and women's empowerment as principal and significant policy objective, 2002–2021
(Billions of United States dollars, 2020 constant prices)



Source: OECD Creditor Reporting System database.

Figure III.C.7
Gross bilateral ODA disbursements by instrument and country groups on a cash basis, 2015, 2019, 2021
(Percentage of total)



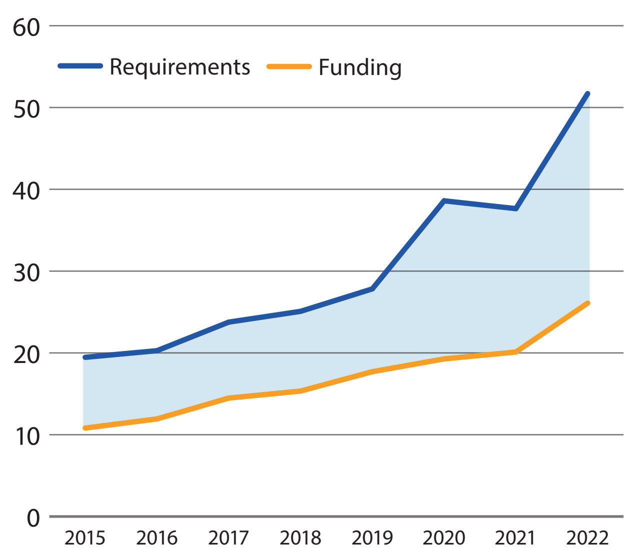
Source: OECD Creditor Reporting System database.

2.2 Humanitarian finance

The need for humanitarian finance rose steeply in 2022 and is expected to remain elevated in 2023, reflecting the unprecedented level of humanitarian needs globally. The sharp rise in humanitarian finance needs is due to the war in Ukraine, protracted armed conflicts, the climate crisis and increasingly frequent and destructive disasters caused by natural hazards, the global food crisis (including the risk of famine), ongoing health epidemics (COVID-19, monkeypox, cholera outbreaks, rising cases of Ebola) and high inflation. The United Nations-coordinated humanitarian response plans' funding requirements and received contributions increased significantly in 2022, with $4.75 billion of assistance provided to Ukraine and the region impacted by the war, as well as $3.32 billion for Afghanistan.[24] However, although funding increased, it was not enough to close the financing gap, which has widened considerably (figure III.C.8). It is estimated that one in every 23 people will need humanitarian assistance in 2023, with United Nations and partner organizations aiming to assist 230 million people most in need across 68 countries, estimated at $51.5 billion. Rising operational costs are also contributing to these requirements. For example, the World Food Programme's monthly food procurement costs are now 44 per cent higher than before the pandemic.[25]

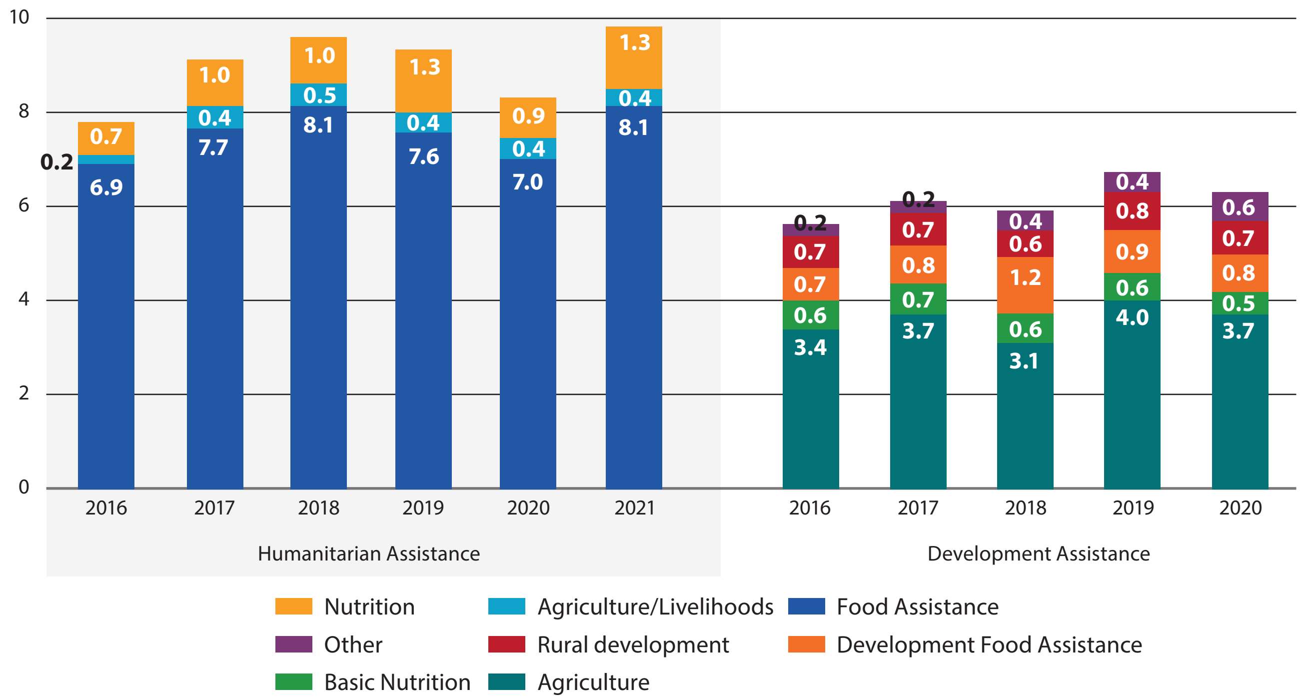
Immediate needs should be addressed while tackling the structural causes of acute food insecurity to avert growing food crises. By September 2022, the number of food insecure people had risen to unprecedented levels of between 201.4 million and 205.1 million in 45 countries/territories, making 2022 the fourth consecutive year of rising levels of acute food insecurity.[26] The increased severity and magnitude of food insecurity is rooted in the increased number of humanitarian crises and food inflation.[27] The majority of humanitarian assistance is provided in the form of cash and in-kind food assistance, with much smaller contributions accorded to nutrition and agriculture/livelihoods (figure III.C.9). Support to agriculture is the largest component of humanitarian assistance, compared to investments in social protection programmes, rural development and basic nutrition (figure III.C.9). Addressing immediate needs while tackling the structural causes of acute food insecurity requires a holistic approach. This means treating food assistance, agriculture/livelihoods assistance and nutritional assistance as equally important.

Figure III.C.8
Humanitarian response plans: funding gap, 2015–2022
(Billions of United States dollars)



Source: United Nations Office for the Coordination of Humanitarian Affairs (OCHA). 2022. "Appeals and Response Plans 2022". Financial Tracking Service, accessed 25 January 2023.

Figure III.C.9
Humanitarian and development assistance to food crisis countries and territories, by sector, 2016–2021
(Billions of United States dollars)



Source: Global Network Against Food Crises. 2022. *2022 Financing Flows and Food Crises Report: Analysis of Humanitarian and Development Financing Flows to Food Sectors in Food Crisis Countries.*
Note: Development food assistance are those intended for social protection programmes and long-term household food security.

Urgent action is required to meet goals set under Grand Bargain 2.0. In 2016, a Grand Bargain was made between donor countries and aid organizations to improve the efficiency and effectiveness of humanitarian aid. In 2021, signatories adopted a narrower set of priority objectives under Grand Bargain 2.0 to be achieved by June 2023. An independent review of implementation in 2021 indicates that urgent action is required in the following areas if goals are to be met: increasing the provision and ensuring more equitable distribution of quality funding; supporting local leadership and enhancing institutional capacities; giving affected people meaningful influence over aid provided; enhancing coordination of efforts to maximize multiplier effects; strengthening governance and accountability; and simplifying monitoring and reporting to better track progress.[28]

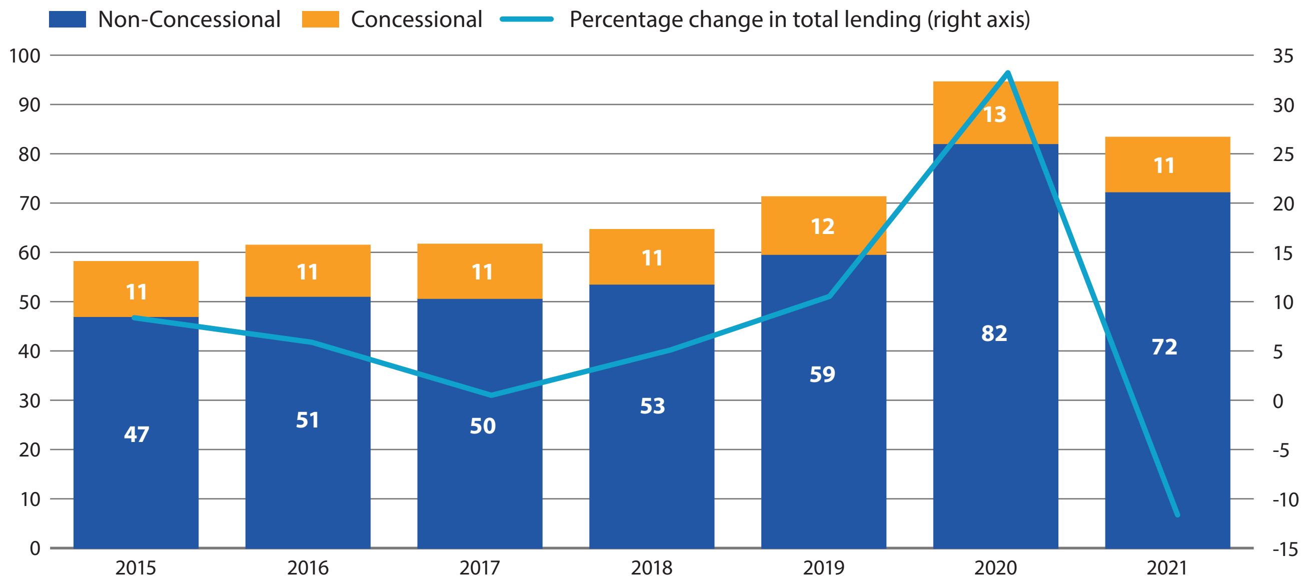
2.3 Official development assistance and a sustainable and inclusive transformation

ODA can help to support sustainable and inclusive industrialization in several ways. In addition to addressing immediate needs related to humanitarian aid, ODA is meant to promote medium- and long-term development. While ODA for "industrial development and policies" is quite small—at around $3.4 million in 2021, with almost half going to MICs—ODA also supports "production and economic sectors" (figure III.C.4), such as electricity, transportation, and water and sanitation, which are essential to industrialization. ODA can also be used to crowd in private finance in some of these sectors, such as through project preparation grants to help countries to develop investible projects (see section 4).[29] Supporting clean energy and low-carbon transport solutions can also help with the transition to sustainable industrialization (see box III.C.4). ODA support for increasing the productivity of primary sectors (agriculture, forestry and fisheries) and the rural economy is also key for inclusive transformations (see chapter II). In addition, ODA support for trade (see chapter III.D), public sector policy, macroeconomic policy and domestic resource mobilization (see chapter III.A) can support an enabling environment for investment in sustainable industrialization.[30] The system of PDBs, including MDBs, provides additional support for a sustainable inclusive transition, including through non-concessional loans (that are cheaper than borrowing on commercial markets).

3. Lending by multilateral development banks

MDBs provide countercyclical support in times of crisis; in line with this role, lending by MDBs fell in 2021 as demand for countercyclical support eased. After reaching a peak in 2020, all major MDBs except the European Investment Bank and a few other smaller regional MDBs, recorded a drop in lending activities in 2021 as demand for COVID-19 countercyclical support eased. Total gross MDB lending fell by 12 per cent (figure III.C.10)—led by declines in both non-concessional and concessional loans—but remained higher than pre-pandemic levels. For 2022, the World Bank Group reported increased commitments, totalling

Figure III.C.10
Lending by MDBs, 2015–2021
(Billions of United States dollars, current)



Source: World Bank, International Debt Statistics.

$115 billion, a record high.[31] Overall, the loans and assets of MDBs total around $500 billion per year collectively (see table III.C.2). MDBs also play an important role in channelling support directly to governments using budget support[32] and providing advisory services.

PDBs play a central role in supporting long-term investment in the SDGs and climate action. PDBs already have a large footprint—the 528 development banks and development finance institutions (DFIs) have total assets of $23 trillion and are estimated to finance around 12 per cent of investment globally. Launched in 2020, the Finance in Common initiative, in partnership with the International Development Financing Club, civil society and the private sector, helps to strengthen partnerships among PDBs and DFIs, with the aim of aligning financial flows in support of the 2030 Agenda and the Paris Agreement.

Table III.C.2
Capitalization of selected MDBs, 2021

Institution	*Existing paid-in capital (A)*	*Callable capital (B)*	*Subscribed capital (A + B)*	*Existing assets & loans*
International Bank for Reconstruction and Development	$20 billion	$279 billion	$298 billion	$227 billion
African Development Bank	$14 billion	$194 billion	$208 billion	$32 billion
Asian Development Bank	$7.5 billion	$141 billion	$149 billion	$140 billion
Inter-American Development Bank	$6 billion	$171 billion	$177 billion	$110 billion
TOTAL	**$47 billion**	**$785 billion**	**$831 billion**	**$509 billion**

Source: S&P Global, MDB annual reports.

Development banks have the potential to play a larger role in development finance. In the Addis Ababa Action Agenda, Member States recognized the important role of MDBs and other DFIs in providing long-term development finance by mobilizing resources from capital markets, and stressed that "development banks should make optimal use of their resources and balance sheets, consistent with maintaining their financial integrity, and should update and develop their policies in support of the . . . sustainable development goals". The G20, the United Nations Secretary-General's SDG Stimulus, the Bridgetown Initiative and other initiatives have also recognized the important role of PDBs and MDBs in particular, and called on the MDBs to scale up lending to help meet sustainable development challenges, including by optimizing their balance sheets. The African Development Bank (AfDB) is exploring the expansion of its lending through a special drawing rights (SDR) recycling initiative, which could also be considered by recently approved prescribed holders of SDRs (e.g., Caribbean Development Bank, Development Bank of Latin America, Inter-American Development Bank).[33] This initiative requires the support of donors to be successful.[34] The final report of the July 2022 G20 independent review of the capital adequacy frameworks of MDBs highlighted five areas for exploration, including the approach to defining risk tolerance, the financial benefits of callable capital,[35] the use of financial innovations, improving credit rating agency assessment of MDB financial strength, and transparency and information.[36]

MDBs are taking action. In the Addis Ababa Action Agenda, Member States encouraged MDBs "to establish a process to examine their own role, scale and functioning to enable them to adapt and be fully responsive to the sustainable development agenda".[37] As of 2023, the World Bank is discussing a roadmap to better address the scale of development challenges and consider priorities for its evolution. The roadmap outlines three building blocks for this process: (i) review the Bank Group's vision and mission; (ii) review the Bank Group's operating model; and (iii) explore options to enhance its financial capacity and model, taking into account the recommendations made in the G20 capital adequacy framework review.[38] The roadmap lays out a timeline, with the adoption of proposals planned for the World Bank Group's Annual Meetings in October 2023. The European Bank for Reconstruction and Development (EBRD) is incrementally expanding its operations to sub-Saharan Africa and Iraq, which will help to meet the growing financing gap in these regions.[39] The European Investment Bank has established a new development arm, EIB Global, to increase its development impact outside Europe.[40] MDBs are also committing to greater action to address biodiversity loss by mainstreaming nature considerations into their policies, investments and operations, including through defining and making "nature-positive" investments.[41]

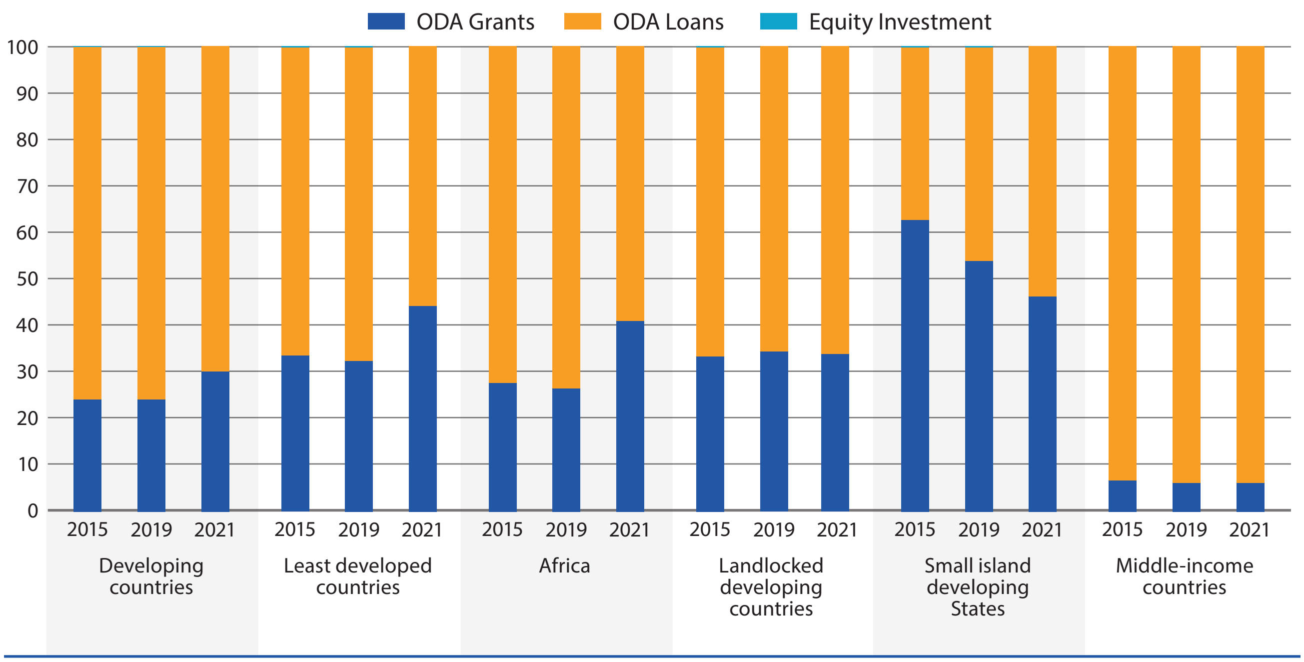
Increasing paid-in capital is also important to scale up lending. Although the World Bank and AfDB received a sizeable capital increase in 2018 and 2019, respectively, heightened development challenges since then would require further capital injections to meet the demand for MDB lending. There have been some positive developments. In December 2021, the International Development Association received a new replenishment of $93 billion for the fiscal years 2022 to 2025. A year later, the African Development Fund, the concessional arm of the AfDB, received a new replenishment of $8.9 billion for its 2023 to 2025 cycle, which was a 14 per cent increase over its previous cycle.[42] Additional leverage, including through capital adequacy reforms, and capital infusions would provide the room to increase lending and improve lending terms.

First, prioritizing grants to LDCs and SIDS is important. Since 2015, the share of grants to LDCs has increased while the share to SIDS has fallen significantly (figure III.C.11).

Second, MDBs also provide very long-term non-concessional lending at affordable rates, including to MICs. In recent years, multilateral development finance has also focused on MICs.[43] While some MICs can access private debt markets, others have difficulty accessing affordable, long-term commercial finance, underscoring the important role of MDB lending. Loans can also be long-term (30 to 50 years), with more significant grace periods to allow time for SDG-related investments to yield results in terms of contributing to economic growth, realizing improved well-being and productivity from human capital investments, and generating savings from resilience to shocks. Borrowing rates can be affordable: as of October 2022, the World Bank-administered International Bank for Reconstruction and Development (IBRD) loans are less than 150 basis points over US Treasuries for most of the bank's clients.[44] MDBs can further reduce the cost of borrowing for vulnerable countries, for example by mixing concessional and non-concessional[45] resources. In addition, greater use of state-contingent clauses in MDB lending can provide breathing room to countries hit by shocks by automatically suspending debt payments in the case of a disaster, economic or financial crisis, or other shock, as is already done by some bilateral and multilateral lenders. An example of this is the World Bank catastrophe deferred drawdown option and contingent emergency response component. State-contingent clauses could be structured to be net-present-value (NPV) neutral to have minimal impact on MDB credit quality. Debt sustainability issues should also be a factor in offering appropriate support to countries, including using debt sustainability analyses to differentiate liquidity from solvency crises, as called for in the United Nations Secretary-General's SDG Stimulus (see chapter III.E).

Providing a greater share of lending to governments in local currencies would also contribute to lowering borrowers' debt

Figure III.C.11
Gross MDB disbursements by instrument and by country groups on a cash basis, 2015, 2019, 2021
(Percentage of total)



Source: OECD Creditor Reporting System database.

risk profiles. This is particularly important when lending for projects is unlikely to generate foreign currency earnings. MDBs and other international financial institutions are better placed than sovereigns to manage currency risk since MDBs can diversify across currencies while sovereigns face a concentrated foreign exchange risk. Several MDBs have increased their local currency offerings. To date, however, the costs have been passed on to borrowers; MDBs could instead consider their large balance sheets as a diversified portfolio, as called for in the Addis Ababa Action Agenda.

The network of PDBs can be leveraged to meet growing demands. The system can leverage the local knowledge and expertise of national and subregional development banks; MDBs can share global expertise with national and subregional development banks, thus helping these banks to build capacity where appropriate. A study of nine MDBs and select national development banks (NDBs) in four regions found that MDBs' lending to NDBs is uneven (ranging from extensive financial cooperation to relatively non-existent lending). Key barriers included currency mismatch, market conditions, availability of concessional financing, fiscal barriers, and political factors.[46] The study also found that there was no alignment or tracking of SDG financing within or among MDBs or between MDBs and NDBs in their respective regions. The Finance in Common initiative can help to address these challenges.

4. Blended finance

After steady growth between 2012 and 2020, the expansion of blended finance has slowed. Convergence, a global network for blended finance, reported that the value of blended finance transactions only picked up slightly after halving in 2020.[47]

Blended finance, which uses public finance to crowd in private finance, is most relevant for investments in projects with high sustainable development impact that are not attracting private investment but still have a solid business rationale and potential cash flows to repay the private partner. The objective is to make SDG investments that the private sector might not have done on its own, competitive with other investment opportunities—and to do this with minimum concessionality or subsidy (i.e., just enough to make a project attractive to commercial investors).

To date, most blended finance deals have occurred in MICs. LDCs receive a small share of blended finance—an average of 15 per cent of private finance mobilized between 2018 and 2020—through a small number of large-scale projects. The low proportion of deals in LDCs (as well as in conflict and post-conflict countries) highlights the fact that blended finance, like private finance, is drawn to areas with lower barriers to private capital mobilization. It can also indicate a tendency of blended finance to focus on less costly projects with lower risk profiles and potentially lower developmental impacts. In most cases, the developmental impact of deals is unknown, in part due to weak monitoring and reporting and poor transparency.[48] The 2021 OECD-UNDP Impact Standards for Financing Sustainable Development aims to address this gap.

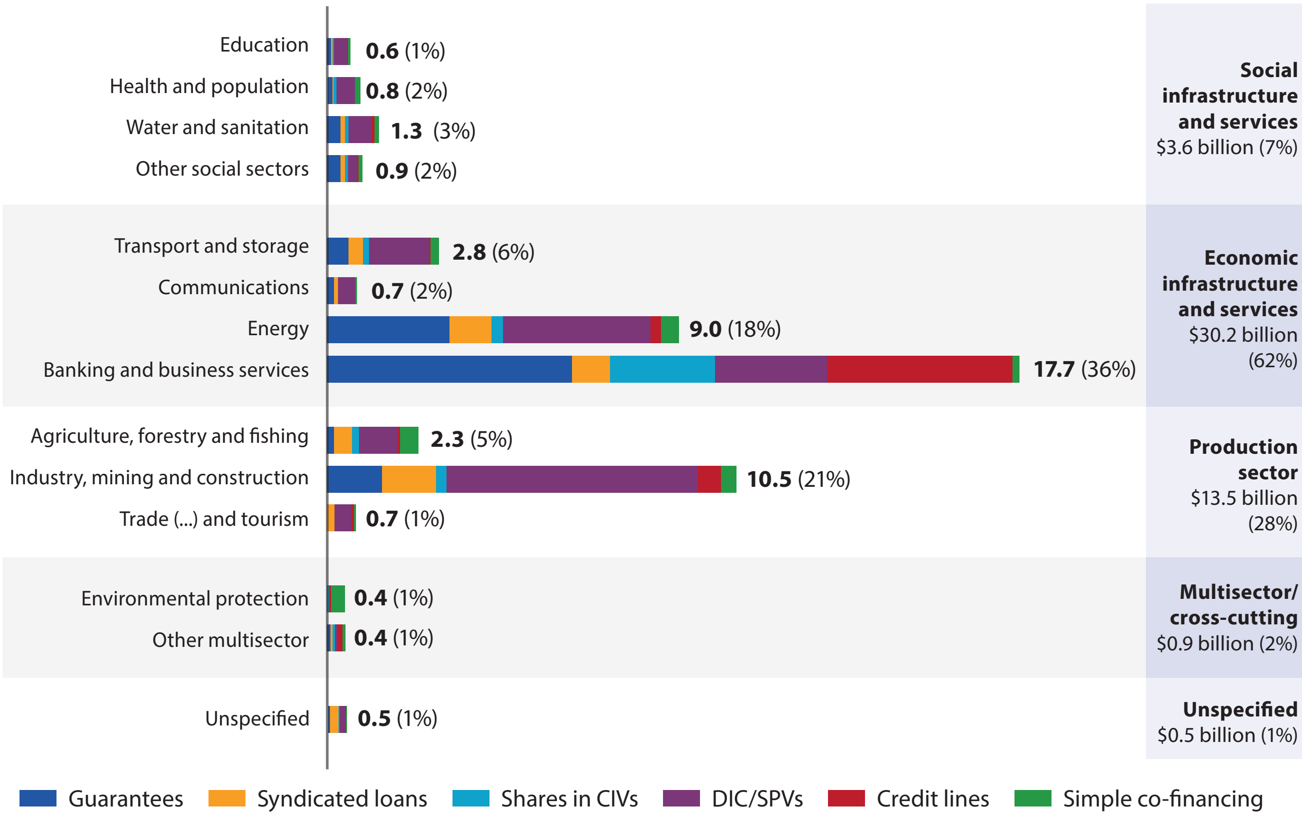
Blended finance is also focused on economic infrastructure and services. Because blended finance is most effective in projects with a solid business rationale, the bulk of projects are in areas with the potential for financial profit. Almost two-thirds of mobilized private finance is focussed on economic infrastructure and services, including energy-related projects (figure III.C.12). Mobilized private finance for renewable energy totalled $6.8 billion in 2018 to 2020,[49] with a large majority of mobilized private finance for climate action addressing mitigation. Given the profit potential of clean energy, a shift from traditional development assistance towards private finance mobilization in the clean energy sector, particularly for MICs, could potentially expand climate finance resources (see also section 6).[50] In addition, a significant portion of support flows into banking and business services, including on-lending to local markets, which can help to support the domestic business sector (see chapter III.B).

Blended finance can thus play a key role in sustainable and inclusive industrialization. Blended finance that supports economic infrastructure and services complements sustainable and inclusive industrial policies (see chapter II). Such national policies are similar to blended finance in that they aim to stimulate private investment in sustainable and productive assets with a positive development impact. When blended finance is aligned with the national priorities of countries, it brings national and global priorities together, leveraging local and international finance, capacities and knowledge. For example, the Acumen Resilient Agriculture Fund, an equity fund designed to build the climate resilience of smallholder farmers, is supported by the Green Climate Fund and several private entities.

Despite high interest in blended finance, there have been a range of obstacles to scaling it up. An OECD survey of 64 bilateral and multilateral providers highlighted that mobilizing private resources for development is one of their strategic objectives. However, the survey also showed that only 18 per cent of these institutions' portfolios ranked private finance mobilization as their main objective.[51] The OECD survey and others have highlighted the shortage of bankable/viable projects, perceived high risk/low return, and lack of financial/investment expertise as obstacles to ramping up private finance mobilization.[52]

To scale up blended finance transactions, a new approach may be needed, building on principles for blended finance (box III.C.2). As highlighted in earlier *Financing for Sustainable Development Reports*, this approach includes: First, blending using concessional finance needs to be aligned with country priorities and part of broader national sustainable development strategies. Projects that are aligned with national plans and that involve local and national actors are much more likely to have long-lasting impacts. INFFs provide a platform to tie financing to national priorities. Second, the primary focus of all blended deals should be development impact. If the goal of blending is to increase the volume of deals, blending will focus on where it is easiest to make deals. This would inevitably result in LDCs being overlooked by blended instruments. Development partners need to acknowledge this reality and customize blended instruments to local circumstances. DFIs also need to reflect this in staff internal objectives so the focus is on delivering impact rather than volumes. Third, analysis should always include measurement of the cost of blending versus other financing mechanisms. For example, the biggest infrastructure needs may be in social infrastructure that might not be profitable to private investors, even with enhancements. Water and sanitation—where commercial viability is often challenging due to equity concerns—has attracted a limited amount of private finance mobilized by official development finance; social sectors, such as health, education and gender equality, are scarcely covered (figure III.C.12). In those cases, public

Figure III.C.12
Mobilized private finance by sector, 2018–2020 average
(Billions of United States dollars, current)



Source: OECD. 2023. "Private Finance Mobilised by Official Development Finance Interventions: Opportunities and Challenges to Increase Its Contribution towards the SDGs in Developing Countries" (OECD Development Co-operation Directorate).
Note: CIV – collected investment vehicles; DIC – direct investment in companies; SPVs – special purpose vehicles.

investments might be more appropriate, even if a complex blended deal could be arranged. Capacity development and transparency, participation and reporting are critical. The new INFF facility[53] can support capacity development, including helping countries to identify appropriate instruments and pricing to provide sufficient risk-adjusted returns to investors without over-compensating them. Ensuring transparency and impact reporting, participation and monitoring throughout the life cycle of a project is important both to decision-making and to monitoring and review.

Box III.C.2
Principles for blended finance extracted from the Addis Ababa Action Agenda[a]

1. Appropriate use
2. Sharing risks and rewards fairly
3. Alignment with sustainable development
4. Clear accountability mechanisms
5. Transparency
6. Participation, particularly of local communities, in decisions affecting their communities
7. Effective management, accounting, budgeting for contingent liabilities, and debt sustainability
8. Alignment with national priorities, promotion of country ownership and other relevant principles of effective development cooperation

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, the 2017 DFI Working Group Enhanced Blended Concessional Finance Principles, and the Global Partnership for Effective Development Co-operation (GPEDC) Kampala Principles for effective private sector engagement through development co-operation. These share broader development effectiveness principles such as the importance of country ownership.

Source: UN/DESA and OECD.
a A/RES/69/31.

The Addis Ababa Action Agenda also calls on countries to share risk and returns fairly in blended finance (box III.C.2). For deals with high financial upside potential, the public entity could use instruments with equity-like characteristics that allow it to share in the financial profit (over a threshold that covers the private partner's costs). Profits can then be used to fund other investments. This can be done most efficiently through a DFI or through pooling resources in a blended finance investment/venture fund (see chapter II). Blended finance deals should also be disaster-risk informed, clearly defining the risk reducing roles and responsibilities of the public and private sector to attract sufficient private investment.

5. South-South cooperation

Efforts to measure South-South cooperation are advancing. Following the breakthrough in 2021 by a subgroup on South-South cooperation as part of the Inter-agency Expert Group on SDG Indicators Working Group on Measurement of Development Support,[54] the United Nations Statistical Commission, in 2022, supported the development of an initial conceptual framework for the measurement of South-South cooperation, enabled by the co-custodianship of the United Nations Conference on Trade and Development (UNCTAD) and led by countries from the global South.[55] Preparatory work and early pilot initiatives rolled out in 2022, with wider regional work expected from 2023. UNCTAD is also currently building a mechanism for the reporting of South-South cooperation, with an advisory group expected to steer capacity-building efforts.[56]

South-led development banks and financial institutions play a role in supporting developing countries. The Asian Infrastructure Investment Bank approved 35 projects totalling $7.3 billion in 2022, which benefited many MICs as well as some LDCs, SIDS and LLDCs.[57] In 2021, the New Development Bank approved 10 new loans worth $5.1 billion related to COVID-19 support and infrastructure projects.[58] The New Development Bank is expected to continue to grow given its expanded membership (Bangladesh, Egypt, the United Arab Emirates and Uruguay joined in 2021). Subregional development banks and financial institutions such as those in Latin America and Africa also continue to support COVID-19 recovery efforts, regional integration and infrastructure development projects.

Borrower-led MDBs, which are owned and controlled by borrower countries with little or no governance input from donor countries, are relatively small but rapidly growing. The outstanding loan portfolios of 10 borrower-led MDBs grew from $7.2 billion in 2000 to $73.4 billion in 2021. This was underpinned by several borrower-led MDBs in Latin America, Africa and Eastern Europe/Central Asia,[59] and driven by internal reforms and improved access to bond market financing. For example, the West African Development Bank issued the first sustainability bond in Africa in 2021. The bond was issued to support governments to fund non-commercial SDG-related projects across the West African Development Bank's eight member countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.[60] Some were quick to react to the COVID-19 pandemic as well as support their members tackle the impact of the war in Ukraine. The operations of borrower-led MDBs align more closely with their member countries' priorities compared to other MDBs but they may have more difficulty in accessing funding.[61] Leveraging their potential can also help to meet heightened demand.

South-South cooperation can support industrial development. BRICS countries (Brazil, Russia, India, China and South Africa) are exploring cross-border collaboration around industrial development and related policy matters to better respond to emerging development challenges and opportunities.[62] BRICS, through their Industry Ministers Meeting and a shared action plan, are considering joint strategies to boost trade and sustainable economic growth, strengthen industrial ties, promote technology transfer and innovation, and improve investment climates and job creation. They are also considering a proposal for joint training and skills development programmes, collaborative research and development and business development opportunities.

Triangular cooperation complements South-South and North-South cooperation. Data collected by OECD shows that triangular cooperation is deployed across all regions, with the largest share undertaken in Latin America and the Caribbean region although there has been a swift rise in Sub-Saharan Africa and Asia since 2018. While triangular cooperation is used across multiple sectors, it is a popular instrument for sharing experiences and knowledge on how to support government and civil society, protect the environment and tackle health issues.

The United Nations system continues to support South-South and triangular cooperation. A 2021 survey indicated that 80 per cent of the 27 United Nations development system entities had included advancing South-South and triangular cooperation in their strategic frameworks or planning and programming instruments at the global and regional levels.[63] The United Nations Capital Development Fund and the Intergovernmental Authority on Development (IGAD) supported the harmonization of remittance policies across IGAD countries (Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda). The International Labour Organization issued a peer-learning guide on South-South and triangular cooperation for decent work[64] as well as a good practices guide.[65] This adds to the available knowledge products by the United Nations Office for South-South Cooperation.[66]

6. Climate finance

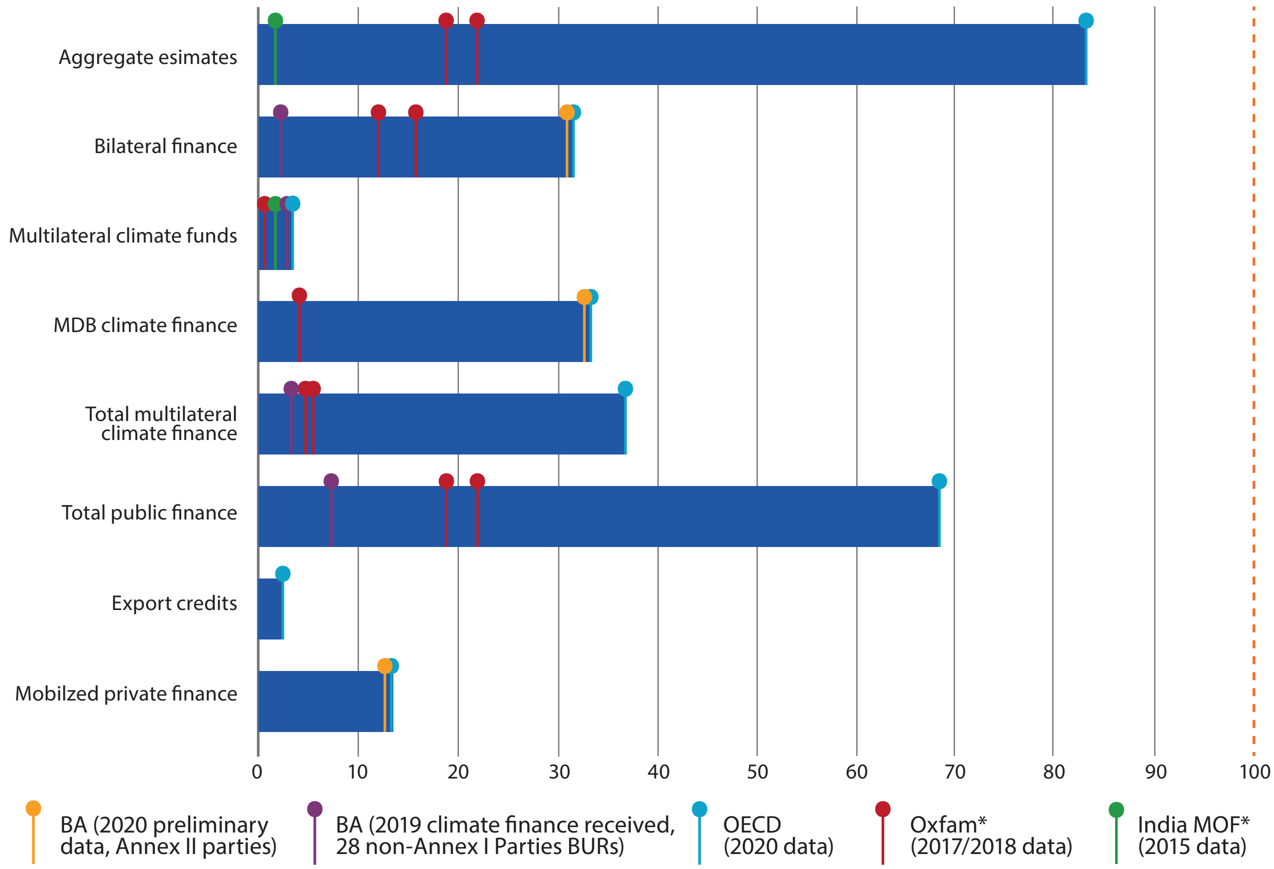
It is now widely accepted that the $100 billion climate finance target was not met in 2020. Under the climate agreements, developed countries agreed to jointly mobilize $100 billion a year by 2020 from public and private sources to support climate action in developing countries. Despite a lack of agreed accounting methodologies and boundary conditions for assessing progress under the United Nations Framework on the Convention on Climate Change (UNFCC), and a range of estimates (figure III.C.13), it is widely accepted that the goal was not achieved by 2020.[67] The latest OECD assessment of progress showed that climate finance totalled $83.3 billion in 2020 (figure III.C.14).[68] Developed countries expressed confidence that climate finance would exceed $100 billion by 2023.[69] Concerns have been raised about lack of clarity regarding the relationship between ODA and climate finance, and increased transparency could help to achieve the right balance between development and climate spending while highlighting their strong interlinkages.[70]

Work commences on a new collective quantified goal on climate finance. In 2021, the United Nations Climate Change Conference in Scotland (COP26) agreed on the process to set a net collective quantified goal on climate finance by the end of 2024, starting from a floor of $100 billion

Figure III.C.13

Range of climate finance estimates per channel from sources of information in the latest available year

(Billions of United States dollars)



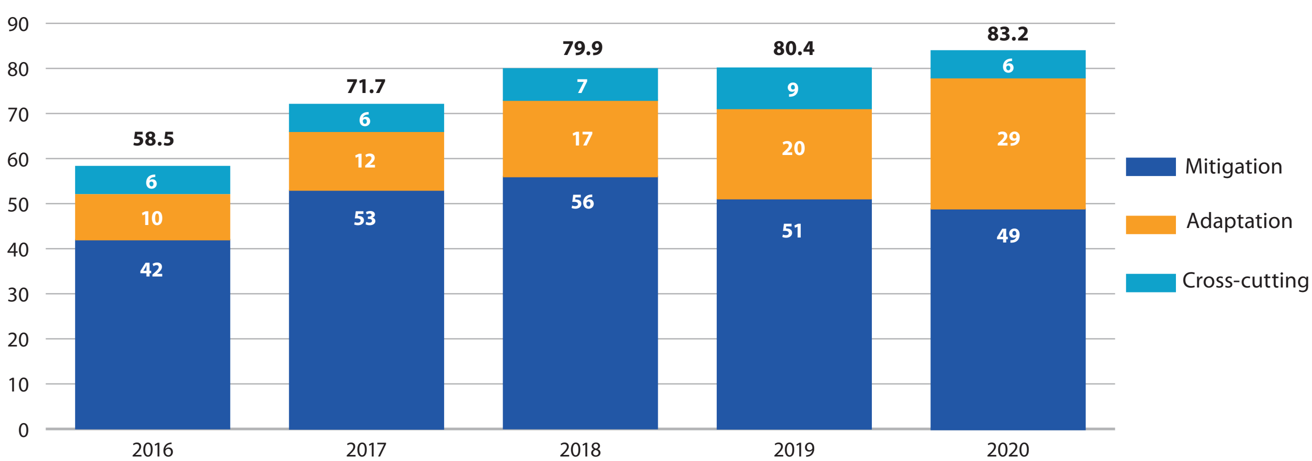
Source: UNFCCC Standing Committee on Finance. 2022. *Report on Progress towards Achieving the Goal of Mobilizing Jointly USD 100 Billion per Year to Address the Needs of Developing Countries in the Context of Meaningful Mitigation Actions and Transparency on Implementation.* Technical Report.

Note: Pins represent specific values from each source of information per channel. The extent of the bars represent the maximum value of estimates on the latest available year across sources of information. *Analyses which make assumptions on sources and instruments which are not aligned with the language of the $100 billion goal. Note that sources of information reflect datapoints for the latest available year that differ across sources of information and are therefore non-comparable; BUR – biennial update reports; MOF – Ministry of Finance.

Figure III.C.14

Climate finance provided and mobilized by component, 2016–2020

(Billions of United States dollars)



Source: OECD. 2022. *Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013-2020*; OECD. "Climate Finance and the USD 100 Billion Goal".

and taking into account the needs and priorities of developing countries.[71] An ad hoc work programme was set up from 2022 to 2024 with four technical expert dialogues each year. In 2022, the dialogues highlighted that the net collective quantified goal provides an opportunity to accelerate the implementation of the Paris Agreement and discussed: quantitative and qualitative elements; reflecting a long-term perspective; creation of incentives to allocate financial resources to address the needs and priorities of developing countries; and how the net collective quantified goal may be informed by a set of principles, including accessibility, inclusivity, predictability, measurability, transparency, and be time-bound.[72]

The United Nations Climate Change Conference in Sharm El Sheikh (COP27) reached a breakthrough agreement to provide loss and damage funding for vulnerable countries hit hard by climate disasters. The historic decision follows decades of slow progress in global discussions on the issue of loss and damage (box III.C.3). A transitional committee, to be set up by March 2023, will make recommendations on how to operationalize both the new funding arrangements and the fund, for consideration and adoption at the 2023 United Nations Climate Change Conference (COP28).[73]

Adaptation finance is increasing but not at the pace of climate impacts and a widening financing gap. Adaptation finance rose significantly to $28.6 billion in 2020 despite concerns over the impact of COVID-19 on climate finance, accounting for 34 per cent of total climate finance, its largest share yet (figure III.C.14). If this trend continues, the new commitment to double adaptation finance by 2025 could be met. However, the growth in adaptation finance has not kept up with climate impacts.[74] The adaptation finance gap is also growing, estimated at five to ten times greater than current adaptation finance flows.[75]

Box III.C.3
A history of discussions on financing loss and damage

Proposed by SIDS in 1991 and long advocated by developing countries, finance for loss and damage is predicated on the principle that developed countries, majorly responsible for climate change, should provide support to developing countries for irreversible losses and costly damages from the impact of climate change. Advances in global discussions have been slow, with the term "loss and damage" first introduced at the United Nations Climate Change Conference held in Bali in 2007 (COP13).[a] In 2013 in Poland (COP19), the Warsaw International Mechanism for Loss and Damage was established to address the loss and damages "associated with the adverse effects of climate change, including impacts related to extreme weather events and slow onset events".[b] These effects occur despite global mitigation and local adaptation efforts and have economic and non-economic impacts. While Article 8 of the Paris Agreement devotes attention to loss and damage, it was not included in relation to Article 9 on climate finance.[c] The guidelines agreed under the Enhanced Transparency Framework (ETF) recognized the potential overlap with adaptation action providing space for Parties to report on averting, minimizing and addressing loss and damage. In Glasgow, reporting tables agreed for climate finance under the ETF provided scope to report on loss and damage support provided, needed or received under additional information. However, it was not until the decision on funding arrangements for addressing loss and damage were agreed at Sharm el Sheikh, that the issue was identified as specifically separate to adaptation in the area of climate finance. The decision further emphasized that it should "not involve or provide a basis for any liability or compensation".[d]

The Warsaw International Mechanism intended to enhance cooperation and facilitation of finance, technology and capacity-building support to help victims of climate change recover after extreme weather or slow-onset events,[e] possibly through solidarity-based instruments that transfer responsibility to the international community, such as taxation and transfers from developed countries to climate-vulnerable countries.[f] However, the focus has only been on private sector insurance-type mechanisms, such as risk pooling and transfer, catastrophe risk insurance, contingency finance, and climate-themed and catastrophe bonds.[g] Critics argued that these market-based mechanisms place responsibility on the communities at risk, for example, by expecting them to pay an insurance premium.[h,i,j] They are also unlikely to be sufficient to meet the costs, with estimates ranging from $50 billion to $428 billion by 2030.[k] In addition, these mechanisms were not well suited to address slow-onset and non-economic events, which could be better served through development support for building resilience, including for social protection.[l] Several alternative options, including a dedicated loss and damage fund, have been discussed but had not previously gained traction in the Warsaw International Mechanism. Other options included solidarity taxes (e.g., financial transaction tax, airline levy), carbon taxes (e.g., levies on air and ship fuels, fossil fuel levies, global carbon tax) and issuance of additional special drawing rights.[m] The COP27 decision on establishing funding arrangements to address loss and damage, including a dedicated fund, is thus a historic breakthrough.

Source: UN/DESA.

a UNFCCC. 2022. "Chronology – L&D Workstream". United Nations Climate Change.
b Ibid.
c Gewirtzman, Jonathan, et al. 2018. "Financing Loss and Damage: Reviewing Options under the Warsaw International Mechanism". *Climate Policy* 18, no. 8 (14 September).
d Ibid.
e Farand, Chloe. 2019. "Loss and Damage: Who Pays for the Impacts of the Heated Earth?" Climate Home News, 3 December.
f Gewirtzman, Jonathan, et al. 2018. "Financing Loss and Damage: Reviewing Options under the Warsaw International Mechanism". *Climate Policy* 18, no. 8 (14 September).
g Ibid.
h UNFCC. 2022. "Chronology – L&D Workstream". United Nations Climate Change.
I Farand, Chloe. 2019. "Loss and Damage: Who Pays for the Impacts of the Heated Earth?" Climate Home News, 3 December.
j Richards, Julie-Anne, and Liane Schalatek. 2017. "Financing Loss and Damage: A Look at Governance and Implementation Options". Discussion Paper (Heinrich Böll Stiftung North America).
k Ibid.
l Gewirtzman, Jonathan, et al. 2018. "Financing Loss and Damage: Reviewing Options under the Warsaw International Mechanism". *Climate Policy* 18, no. 8 (14 September).
m Roberts, Timmons J., et al. 2017. "How Will We Pay for Loss and Damage? *Ethics, Policy & Environment* 20, no. 2 (4 May).

As the largest providers, MDBs should play a leadership role in meeting climate finance targets, including on adaptation and increasing support to LDCs and SIDS with grants. In 2020, MDBs accounted for around 40 per cent of total climate finance attributed to developed countries, compared with bilateral climate finance of 38 per cent.[76] In fiscal year 2022, the World Bank delivered a record $31.7 billion to help countries address climate change.[77] Many MDBs also increased collaboration with dedicated climate Funds, such as the Green Climate Fund and the Global Environment Facility. To date, the Green Climate Fund and MDBs have co-invested over $20.6 billion in climate finance.[78] In regard to achieving climate finance goals, the leadership of MDBs can help to spur similar action among other providers. This includes scaling up adaptation finance, which in 2021 only accounted for 35 per cent of total MDB climate finance of $51 billion.[79] By fiscal year 2022, adaptation finance had reached 49 per cent of the World Bank's overall climate finance.[80] In other areas, the share of MDB finance to LDCs (20 per cent) and SIDS (1 per cent) is low compared to bilateral providers (25 per cent and 2 per cent, respectively) and multilateral climate funds (26 per cent and 7 per cent, respectively).[81] Increasing the overall share, including allocating more grants than loans, and continuing to ensure a balance between adaptation and mitigation finance, can help LDCs and SIDS to keep up with growing demands. The challenges facing SIDS include the measurement of "return" on mitigation investment and the difficulties of technically demonstrating adaptation needs, which might affect future allocations.[82] In addition, by expediting the alignment of their activities with the Paris Agreement and the SDGs, MDBs can help to meet climate targets. This includes realizing their commitment to end their support to fossil fuel projects as the European Investment Bank has done.[83] The World Bank aims to align all new operations with the Paris goals by 1 July 2023.[84]

Country platforms such as the JETPs can help to boost climate action and sustainable industrialization. A country platform provides a way to organize international development cooperation and climate change action at the country level. Broadly, it is a government-led, multi-stakeholder partnership used to attract and coordinate international public finance in support of common goals.[85] The JETP in South Africa, which was announced at COP26 and aims to help the transition away from coal, is an example of a country platform. Since then, JETPs have been announced for Indonesia, India, Viet Nam and Senegal (box III.C.4). Country platforms such as the JETP can also help to facilitate strategic collaboration between the government and the private sector, which is key for sustainable industrialization policy implementation (see chapter II).[86] Financing strategies to deliver on the aims of country platforms should be based on a detailed understanding of the different areas being financed.[87] INFFs can help country platforms to match different types of financing with the most appropriate investments as well as ensure coherence with different financing policies.

7. The quality, impact and effectiveness of development cooperation

Changes in the financing for development landscape call for a stronger, shared understanding of how the development effectiveness agenda can inform policy and action at the country level. Since the adoption of the Addis Ababa Action Agenda, international

Box III.C.4
Just Energy Transition Partnerships

JETPs aim to help coal-dependent emerging economies make a just energy transition away from coal, including tackling the social consequences of the transition, such as through training and alternative job creation for affected workers and new economic opportunities for affected communities.[a]

The JETP model was pioneered at COP26 in 2021, where South Africa and an International Partners Group comprising France, Germany, the United Kingdom, the United States and the European Union announced an $8.5 billion JETP, to be provided over the following three to five years in the form of concessional loans (63 per cent), commercial loans (18 per cent) and grants (4 per cent).[b] In 2022, at COP27, South Africa published its JETP Implementation Plan, which laid out its priority investment requirements in the electricity, new energy vehicles and green hydrogen sectors, totalling $98 billion, much higher than the JETP commitment.[c]

The second tranche of JETPs for Indonesia, Viet Nam, India and Senegal was announced at the G7 Leaders meeting in Bali in November 2022.[d] The inclusion of Senegal, which is not currently a major coal producer/consumer or major carbon emitter but a future gas producer, widened the scope of the JETPs.[e] While negotiations are ongoing for JETPs in India and Senegal, JETPs have been established for Indonesia and Viet Nam. Canada, Italy, Norway and Denmark joined the International Partners Group for Indonesia and Viet Nam.

The aim of the JETP for Indonesia is to mobilize $20 billion in public and private financing over a period of three to five years, using a mix of grants, concessional loans, commercial loans, guarantees and private investments. Ten billion dollars of public money will be mobilized by the International Partners Group members and at least $10 billion of private finance will be mobilized and facilitated by the Glasgow Financial Alliance for Net Zero (GFANZ) Working Group.[f] Similarly for Viet Nam, the JETP aims to mobilize $15 billion over a three-to-five-year period, with International Partners Group members mobilizing $7.5 billion and the GFANZ Working Group $7.5 billion.[g]

Source: UN/DESA.

a Kramer, Katherine. 2022. "Just Energy Transition Partnerships: An Opportunity to Leapfrog from Coal to Clean Energy". International Institute for Sustainable Development, 7 December 2022.
b Mustapha, Shakira. 2022. "Providing Climate Finance in the Context of a Looming Debt Crisis". ODI: Think change, 11 November 2022.
c Republic of South Africa. 2022. "South Africa's Just Energy Transition Investment Plan (JET IP) for the Initial Period 2023-2027".
d Kramer, Katherine. 2022. "Just Energy Transition Partnerships: An Opportunity to Leapfrog from Coal to Clean Energy". International Institute for Sustainable Development, 7 December 2022.
e Ibid.
f United Kingdom Government. 2022. "Indonesia Just Energy Transition Partnership Launched at G20", 15 November 2022.
g United Kingdom Government. 2022. "Political Declaration on Establishing the Just Energy Transition Partnership with Viet Nam", 14 December 2022.

development cooperation has seen significant shifts in its provision, modalities, focus and recipients. In terms of providers, there is increased delivery of ODA through multilateral rather than bilateral providers, a rise in South-South and triangular cooperation (see box III.C.5) and a nascent contribution of philanthropy. On modalities, there has been a growth of ODA through loans relative to grants, an increase in blended finance (though it remains small) and greater use of regional and subregional mechanisms (see box III.C.6) on broader measures of development support). In terms of focus, there has been a shift from a concentration on poverty to broader goals such as the SDGs and climate finance (particularly given the climate crisis and COVID-19 experience), as well as an increase in allocation for humanitarian aid. Changes in recipients are in part due to the graduation of low-income countries and LDCs to higher-income categories, a concentration of the poor and vulnerability in MICs, and increased attention to climate-vulnerable countries and those in conflict or post-conflict situations.[88] While a recent survey of providers and recipient countries indicated that the current development effectiveness agenda remains relevant, respondents also indicated the need for reform and revitalization due to the changed landscape and lagging attention to the agenda.[89] A shared understanding of development effectiveness principles by all actors can help policy and action at the country level.

Box III.C.5
North-East Asia Development Cooperation Forum

East and North-East Asia are home to countries that have emerged as key providers of development assistance. Several countries (e.g., the Republic of Korea and China) have transitioned from being recipients to providing development assistance through various modalities (e.g., knowledge-sharing platforms, South-South and triangular cooperation, and multilateral mechanisms).

To improve the effectiveness of development cooperation efforts, the North-East Asia Development Cooperation Forum was set up in 2014. The annual engagement platform brings together researchers and experts to discuss experiences and potential areas of cooperation for North-East Asia.[a] Lessons from the COVID-19 pandemic have prompted partners to reflect on the new international development cooperation landscape,[b] including the cross-border and interconnected nature of development challenges, massive finance gaps to address global challenges (e.g., pandemic, climate change, energy crisis) and widening within-country inequalities among development assistance providers.[c]

Source: United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).

a See UNESCAP. 2018. *Achieving the Sustainable Development Goals through Enhanced Development Cooperation in East and North-East Asia*.

b See UNESCAP, "6th North-East Asia Multistakeholder Forum on Sustainable Development Goals 2022", 7–8 September 2022; Korea International Cooperation Agency. "The 15th Seoul ODA International Conference", September 2022.

c See Xiaoyun, Li, et al. 2020. "New Landscape of International Development Cooperation in Post-Covid-19 – Implications for North-East Asia Countries". North-East Asia Development Cooperation Forum Policy Brief, UNESCAP East and North-East Asia Office, 24 December 2020.

Box III.C.6
Broader measures of development support

Measurement of development support under the global indicator framework for the SDGs

At its fifty-third session in March 2022, the United Nations Statistical Commission adopted the proposed new indicator 17.3.1[a] by the Inter-agency and Expert Group on SDG Indicators (IAEG-SDGs) Working Group on Measurement of Development Support. Indicator 17.3.1 aims to capture broader measures of development support under target 17.3: "Mobilize additional financial resources for developing countries from multiple sources". The indicator 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 OECD and UNCTAD are the co-custodians of the new indicator and work is under way for the first global reporting on this indicator, including capacity-building.

The United Nations Statistical Commission also agreed to review the issue of the measurement of global and regional efforts in support of the SDGs. However, consultations indicated that national efforts were not sufficiently advanced to form the basis for further work. The Commission decided not to pursue a review at the international level at this time but is open to discuss the issue in the future.[b]

Total official support for sustainable development

Initiated by the OECD and developed by an international task force of experts created in July 2017, TOSSD aims to capture both cross-border resource flows and support to international public goods and global challenges with substantial benefits to developing countries. 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. TOSSD data on 2021 flows was published in January 2023, covering activities from 106 respondents, including 46 countries and 60 multilateral organizations. Several pilot studies have also been conducted.[c] TOSSD 2021 data includes activity-level information for $395 billion of official support and an additional $41 billion of private finance mobilized by official interventions.[b] TOSSD data is one of the data sources for indicator 17.3.1.

Source: UN/DESA.

a E/CN.3/2023/2.

b Ibid.

c See the TOSSD website at https://www.tossd.org and TOSSD data at https://tossd.online.

Development cooperation platforms can help actors to navigate the changed landscape and accelerate behaviour change in line with the development effectiveness agenda. There are currently two main global platforms dealing with the development effectiveness agenda—the United Nations Development Cooperation Forum and Global Partnership for Effective Development Co-operation (GPEDC). The Development Cooperation Forum holds a biennial forum, the latest in March 2023, generating and disseminating analysis and data through its biennial Development Cooperation Forum survey, the seventh being the most recent. The 2022 GPEDC Summit launched various instruments, including a new global partnership monitoring exercise to help members meet commitments on effective development cooperation and drive action at the country level (box III.C.7).[90] Ensuring the complementarity of global arrangements to advance the development effectiveness agenda is critical to meet the massive global development challenges and changed financing landscape.

Box III.C.7
New monitoring exercise of the Global Partnership for Effective Development Co-operation

Launched in December 2022, the new Global Partnership monitoring exercise aims to provide evidence on progress made by members in implementing effective development cooperation commitments.[a] Monitoring findings aim to support multi-stakeholder dialogues to advise governments and partners on their joint actions to achieve the SDGs, including through INFFs. There is to be a focus on leave no one behind, data and statistical systems, as well as a new assessment area on private sector engagement in development cooperation against the Kampala Principles.[b]

Source: GPEDC.

a See Global Partnership for Effective Development Co-operation. "2022 Effective Development Co-Operation Summit Declaration", 14 December 2022.

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A shared understanding of development effectiveness principles is key in the new development financing landscape. Shared principles include: aligning activities with country priorities, promoting country ownership, strengthening partnerships, increasing transparency and mutual accountability. However, harmonizing development effectiveness principles between traditional ODA providers and South-South cooperation has been challenging due to differences in historical context, scope and motivation. There are significant divides, such as on solidarity, equality, mutual benefit, respect for national sovereignty and non-interference in domestic affairs, as well as conditionalities related to human rights, good governance and democracy.[91]

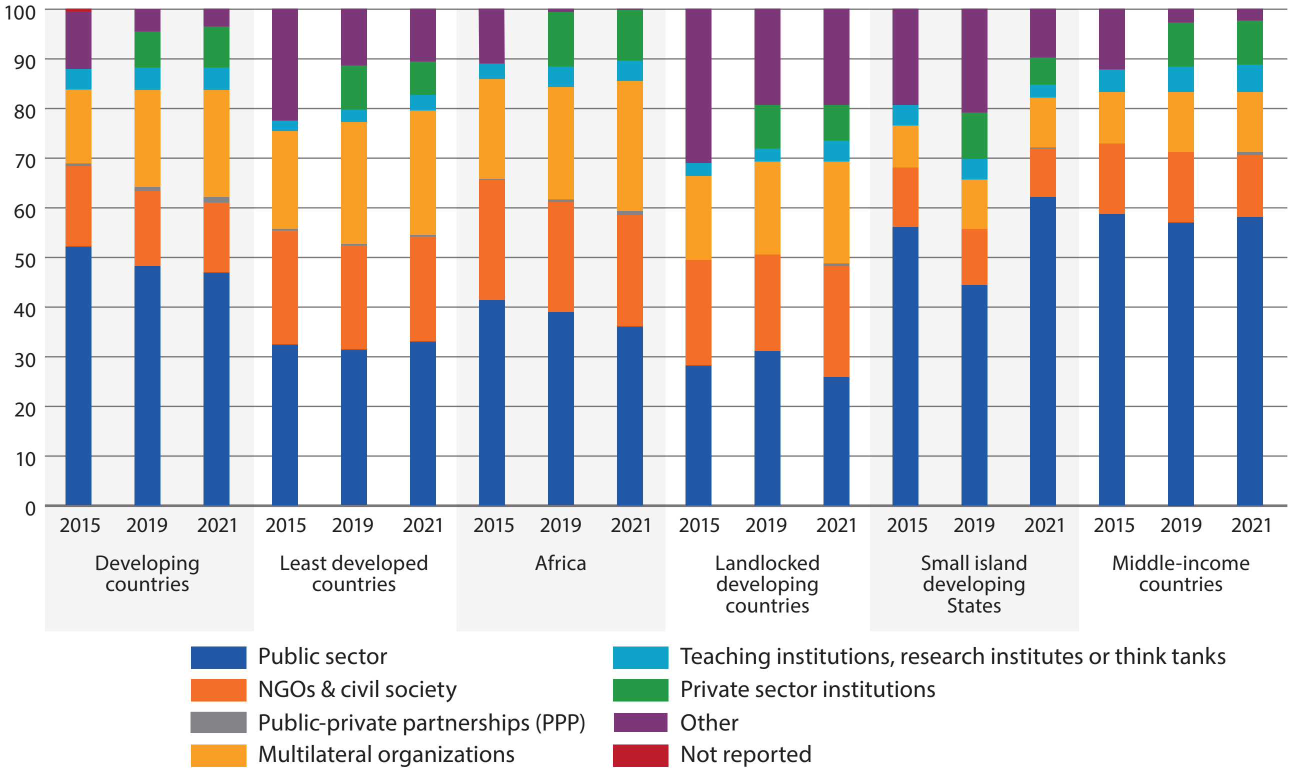
The COVID-19 pandemic demonstrated the importance of having in place risk-informed development cooperation. This includes development cooperation policies that contain a comprehensive assessment of known risks, while building in sufficient flexibility to swiftly respond to potential future crises and emergencies. Such risk assessments should be reviewed and revised on a regular basis. According to the 2021/2022 Development Cooperation Forum Survey, national development cooperation policies that built in disaster response contingencies were better prepared for the pandemic and able to rapidly mobilize resources for the COVID-19 response. Risk assessments can also be embedded in country results frameworks, which set out various performance targets, as well as through development cooperation information systems. These information systems act as the "nerve centre" of development cooperation—collecting, analysing and reporting information, identifying gaps, duplication of efforts and blockages to progress, and feeding analysis, evaluation and learning into decision-making on development cooperation. This information can be useful for risk planning, budget preparations and macroeconomic assessment, which can form a key part of INFFs. While countries may have information systems in place, lack of complete and timely data from development partners can hinder their effectiveness.[92]

To enhance country ownership, donors should entrust more ODA to developing country governments and local stakeholders. While country-programmable aid has increased (see section 2) and direct budget support almost doubled during the pandemic,[93] less than half of ODA is channelled through the public sector of recipient developing countries; and only one third in LDCs (figure III.C.15). Compared to other country groups, the public sector in MICs receives a larger share of ODA, the majority of which is through loans (figure III.C.7). It appears that donors who channel more ODA through the public sector also rely more on loans than grants to these countries.[94] Many MICs have better governance systems in place to absorb loans directly. Channelling less ODA through partner governments may reflect political concerns in donor countries, including over state delivery; and those donors that bypass governments may be less inclined to align their objectives with country priorities.[95] INFFs can help countries to align development cooperation with country priorities and ensure more coordinated and needs-driven interventions by development partners—enhancing overall control over development cooperation by governments.[96]

Encouraging the participation of non-state actors in national development cooperation forums can help to better reach marginalized and vulnerable communities. National development cooperation forums are typically the primary platform for developing country governments, development partners and stakeholders to transparently discuss and enhance development cooperation efforts. While national governments generally invite all stakeholders to these forums, international development partners usually dominate, with less engagement by non-state actors, including civil society organizations (CSOs).[97] Lessons from the pandemic underscore the important role of non-government organizations and CSOs in reaching vulnerable communities. Many developing countries are making more concerted efforts to enhance (particularly local) CSO engagement in decision-making to improve the effectiveness of development cooperation.[98] Development partners can also help to develop the capacity of local CSOs.[99]

Recent work to increase the transparency of the tax treatment of ODA-financed goods and services reveals considerable diversity in donor positions on the tax exemptions for ODA. At the end of 2022, of the 21 donors included in the new OECD tax transparency hub, 12 had either undertaken a review or were planning a review of policy in this area, while nine had no plans to review. In terms of the policy positions, six countries had no general policy, eight countries generally request exemptions, three sometimes request exemptions, and four never or rarely request exemptions.[100] There are also differences in how recipient countries approach the taxation of ODA.[101]

Figure III.C.15
Gross bilateral ODA disbursements by channel, 2015, 2019, 2021
(Percentage of total)



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