Fit for Purpose: ODA and the financing of the Post-2015 Development Agenda

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Establishing a Framework for Financing Post-2015 Development Partnerships

In September 2015, the United Nations (UN) Member States will gather in New York for a special General Assembly Summit to launch a new global development agenda for the next 15 years. The intention is to mobilize a fully inclusive global partnership of both state and non-state actors to achieve a set of Sustainable Development Goals (SDGs) that will succeed the Millennium Development Goals (MDGs).

Future success in realizing the SDGs will undoubtedly depend upon maximum efforts on the part of all development actors to harness the full range of financial resources at the country, regional and global levels. To this end, a third global conference on Financing for Development will be convened in July 2015, just prior to the historic UN General Assembly in September. Its purpose will be to draw lessons from the previous Financing for Development conferences – the 2002 Monterrey Consensus and the 2008 Doha Declaration – and apply those lessons to a comprehensive financing framework in support of the global development agenda beyond 2015.1

According to UN Secretary-General Ban Ki-moon, "Official Development Assistance [ODA] will continue to be a critical source of development finance after 2015. …ODA can be better targeted than other sources to help ensure inclusive access to public services; leverage other sources of development finance or improve their targeting; and put the world on the pathway to sustainability."2 He notes however that progress on ODA quantity, transparency and accountability is essential to achieve these ends. This chapter examines the current 'reality of aid' and its potential to make substantial contributions to financing the SDGs.

At the April 2014 High Level Meeting (HLM) of the Global Partnership for Effective Development Cooperation (GPEDC), the Secretary-General called on the GPEDC to make meaningful progress on reforms to development cooperation – strengthening country ownership, expanding diverse partnerships involving the private sector and civil society, and realizing the 2011 Busan High Level Forum commitments. He called on the GPEDC to inform discussions at the United Nations on critical strategies for implementing the Sustainable Development Goals.3

What then could be the role of development assistance in a post-2015 financial framework for the SDGs? How will this framework involve an increasingly complex architecture for development finance that has emerged globally over the past 15 years? What role will ODA and other concessional finance play in facilitating and financing development partnerships in the post-2015 agenda? Will ODA be increasingly replaced by the allocation of domestic resources, loans and private sector investment, and philanthropic finance?

This chapter first situates aid trends in the context of changing patterns of global poverty and domestic financing available through governments in developing countries. It then discusses global aid trends, as well as current directions and issues regarding the level, allocation and effectiveness of ODA from members of the OECD Development Assistance Committee (DAC). It raises questions about the amount of ODA resources that are actually available to developing country counterparts and for the financing of the MDGs and the post-2015 SDGs. It then looks at current debates on "modernizing" ODA and the inclusion of other financial flows in a new measure of "Total Official Support for Development (TOSD)."

In an increasingly complex aid architecture it is also important to look at some basic trends for resource transfers from non-state development actors such as civil society organizations (CSOs) and the private sector, as well as from aid-providing middle-income countries through South-South Cooperation (SSC). The chapter then looks at these trends.

The focus of this chapter is primarily on the contributions of ODA and other concessional assistance that could and should be dedicated to implementing the post-2015 development agenda. It does not address broader issues of development finance that are highly relevant to mobilizing global resources towards the SDGs and reducing rapidly increasing inequality. This is a world where the top 10% of the world's population holds 86% of the wealth, while the poorest 70% (over 3 billion people) holds just 3%.4 In this respect, there are a range of important issues that are essential to consider within the context of a discussion on ODA flows, but these are beyond the scope of this chapter – attention to preventing illicit financial flows and implementing country level tax reform, further initiatives in debt reduction for highly indebted countries, reform of the major institutions governing global finance, and regulations to improve the transparency and quality of other private financial flows, including the implementation of innovative taxes on the use of the global commons and financial transactions. Yet these issues must also be addressed in a comprehensive financing framework for the post-2015 agenda.

As noted by the UN Secretary-General, ODA is a unique public finance resource in that it can be utilised to overcome poverty, marginalization and inequality, and can be grounded in the values of equity, solidarity and human rights. But aid reform is an essential precondition if it is to maximize its contributions to the SDGs. How might ODA and other concessional flows strengthen the capacities of all actors to effectively implement the SDGs, and focus on ending poverty, reducing inequality and realizing peoples' human rights? The Reality of Aid Network suggests that the following key areas are essential ingredients for such a plan:

1. **In setting out the SDGs, the international community must address the human rights of all people living in poverty, an unacceptable condition that continues to affect the vast majority of people across developing countries at all levels of development.** The SDGs must not reduce the issue of global poverty and inequality to a headline focus on the eradication of extreme poverty. Of course, the notion that extreme poverty could be eradicated by 2030 is long overdue for the 1.2 billion people that continue to live in destitution on less than \$1.25 a day. Yet conditions of poverty and inequality still profoundly affect the life chances for the vast majority of the populations of developing countries. More than 40% live on less than \$2.00 a day in 2010, a level of existence still just barely above subsistence. And fully two-thirds of the population of developing countries, or 3.9 billion people, live on less than \$4.00 a day, including more than half the population of those living in upper middle-income countries.

   These populations, living on incomes of \$1.25-\$4.00 a day, are very poor, often highly marginalized, and remain vulnerable to economic, climatic and political shocks in the household, community, national or global levels. The SDGs must focus on the human rights and dignity of these populations.

2. **In allocating concessional development finance, donors and other aid providers should be guided by an assessment of conditions of poverty and inequality, as well as capacities for government spending for SDGs, not by arbitrary thresholds of per capita income levels for developing countries determined by the World Bank (WB)**. Domestic resources are the main resource for achieving the SDGs in all countries. But for low-income and the majority of middle-income countries where poverty remains pervasive, governments are currently able to mobilize less than $2,000 per person for all government programs. This fiscal capacity compares to an average of $15,000 per person for government-supported programs and institutions in the developed world.

   Preliminary estimates suggest that more than $1 trillion in incremental annual spending globally may be needed to fully achieve a range of SDGs across all developing countries. Clearly governments are not expected to provide all of these resources. But government expenditures are critical for achieving social and economic rights, particularly for marginalized and vulnerable populations, in all countries. Even in the more advanced developing countries, the capacity for mobilizing government resources to target poverty and marginalization are without doubt inadequate.

3. **Donors must allocate Official Development Assistance (ODA) as a critical and essential resource for achieving the broad range of SDGs across many different developing country contexts.** Given the pervasiveness of poverty, the growing inequality in many countries, and the severe limits on the capacity for government spending, irrespective of per capita country income levels, ODA will continue to be a unique resource to catalyse development across all developing countries. Aid modalities, types of counterparts and levels of funding can and should vary according to country conditions.

4. **Donor governments must show leadership and demonstrable global responsibility by creating domestic political momentum to urgently redress woefully inadequate levels of ODA, where many donors are projecting even lower amounts of aid in future years.** All traditional DAC donors should achieve, as soon as possible, the long-standing UN target of 0.7% of Gross National Income for ODA. Achieving this goal in 2013 would have delivered US$315 billion in aid, making a real difference for advancing the MDGs. While Real ODA increased slightly in 2013 to US$124.2 billion, it may in fact be closer to US$100 billion when fully accounting for aid loans. Moreover, the OECD DAC calculates that less than US$60 billion of ODA is actually available as an aid resource over which developing country partners have significant control, despite the rhetorical commitment to "country ownership." Aid levels have been falling or stagnant since 2010, and projections for beyond 2014 are at even lower levels. If the British government can achieve its aid pledge of 0.7%, as it did in 2013 in difficult economic circumstances, there are no irresolvable fiscal or political barriers for other donors to do likewise.

   Reality of Aid has calculated that only 35% of aid that donors have allocated to all sectors is dedicated to proxy sectors for the MDGs. Given these allocations coupled with failures to meet commitments in ODA quantity, as well as limits on government spending noted in the previous section, it should be no surprise then that the MDGs remain elusive in many countries.

5. **The resource transfers that count as ODA should be clearly directed to reducing poverty and inequality. In reforming the criteria for ODA, there must be a clear purpose to**

enable the human rights of populations most affected by marginalization, inequality and poverty, wherever they may live. The OECD DAC members are undertaking a process to clarify the definition of ODA. This process should make clear its purpose and be limited to genuine concessional resource transfers, with benefit and addition to the resources available for partner countries. Only a grant equivalency of loans should be included in "modernized" guidelines for ODA. A new metric for "Total Official Support for Development" (TOSD) can include a wider range of official resource transfers. But it should be fully transparent, and because these resources are in fact for development, they should be linked directly to realizing various outcomes for the SDGs, i.e. reducing poverty and inequality and promoting sustainability, consistent with human rights standards.

6. **Aid quality matters. The norms and commitments for effective development, established through an inclusive multi-stakeholder Global Partnership for Effective Development Cooperation, must be fully implemented, and should inform and shape the process and financing architecture for the SDGs.** Despite strong rhetorical support from donors and partner countries for the Busan principles for development effectiveness (country ownership, inclusive partnerships, focus on results, and transparency and accountability), it largely has been 'aid business as usual.' More deliberate attention, with time-bound targets for monitoring progress, is needed. Donors need to meet their commitments to use developing country systems, to improve transparency, with greater predictability and access to meaningful aid data, to gender equality and women's empowerment, and to decent work. Mutual accountability for development results should be informed by a human rights-based approach to development cooperation. In particular, lack of progress on democratic ownership of development policy and a deteriorating enabling environment for CSOs in many developing countries, will severely limit inclusive development partnerships for the SDGs.

7. **Donors must increase overall aid budgets and direct resources to countries most in need. Donors should reverse the bias in aid allocations towards upper middle-income countries, which has been existing at the expense of low-income and lower middle-income countries, including Sub-Saharan Africa.** There are still roles for ODA in upper middle-income countries, including support for local civil society to improve accountability for the reduction of poverty and inequality. However, the value of aid to these countries has increased by 30% between 2010 and 2012. In contrast, the value of aid for Sub-Saharan Africa has levelled off since 2010 and declined in 2013. For the Least Developed Countries and lower middle-income countries the value of aid declined by 3% and 13% respectively, between 2010 and 2012. Where overall aid levels are stagnant, upper middle-income countries are benefiting at the expense of poorer countries.

8. **Donors and other aid providers must step up commitments to climate change mitigation and adaptation if they are to mobilize US$100 million annually by 2020.** About 80% of Fast Start Finance for climate change between 2010 and 2012 was reported as ODA, making it difficult to determine whether it was new and additional financing as promised. Financing for the climate change 2020 target must be transparently new and additional to ODA. In this financing, donors should aim to fully capitalize the Green Development Fund as mandated by the United Nations Framework Convention on Climate Change (UNFCCC) process. And to ensure additionality, donor financing for climate change should be reported under the proposed "Total Official Support for Development" metric, separate from ODA.

9. **The SDGs will only be achieved if gender equality and women's empowerment is given priority and mainstreamed through allocations of resources gender-sensitive targets.** While measuring total donor support for gender equality and women's empowerment remains elusive, donor support - at 2.3% of aid for these purposes as a principal objective - constitutes a very small part of donor activities. Official donor support for women's rights organizations has shrunk in value since 2008. This trend needs to be reversed with new priority given by donors to funding gender equality, women's empowerment and women's organizations.

10. **The inclusion of CSOs as equal partners in implementing the post-2015 agenda requires the commitment of not only CSO financial resources to the SDGs, but also measures to address the deteriorating enabling environment of CSOs as development actors in many developing countries.** It is estimated that CSOs are managing about US$65 billion in development assistance annually, amounting to about 60% of DAC Real ODA in 2012. CSOs are crucial partners in realizing the post-2015 agenda and holding governments to account. Any post-2015 framework needs to include CSOs as equitable partners in development through a multi-stakeholder global partnership responsible for monitoring the implementation of the framework. All governments must realize their commitment to establish an enabling environment for civil society.

11. **The private sector can be as an active partner in achieving the SDGs. But how will the private sector be accountable to normative human rights and development effectiveness principles in defining their roles in the post-2015 agenda?** The private sector is an essential contributor to sustainable livelihoods, with the potential to mobilize domestic resources and investment for development. The Busan development effectiveness principles and the normative human rights framework of the United Nations should be the basis for assessing the various financing modalities for engaging and strengthening the private sector, instead of the quality of public-private dialogue for an enabling environment for business, as is the current indicator for the Global Partnership.

12. **All development actors should collaborate in ways that strengthen South-South Cooperation (SSC), respecting the differential responsibilities of Southern assistance and the unique principles that Southern aid providers have established to guide SSC.** South-South Cooperation is estimated to have grown rapidly to US$23.6 billion in concessional international assistance in 2013. While not a substitute for North-South Cooperation, SSC will play increasingly crucial roles in financing, and in knowledge exchange, in the post-2015 agenda. Increased transparency of SSC activities will be essential not only for knowledge exchange, but also for accountability to affected populations. Engagement with other development actors, such as CSOs, has not been a notable element of SSC partnerships. But CSOs in SSC aid-providing countries, such as Brazil, have established parallel relationships with CSOs in partner countries for SSC in order to share relevant development experience from a civil society perspective.

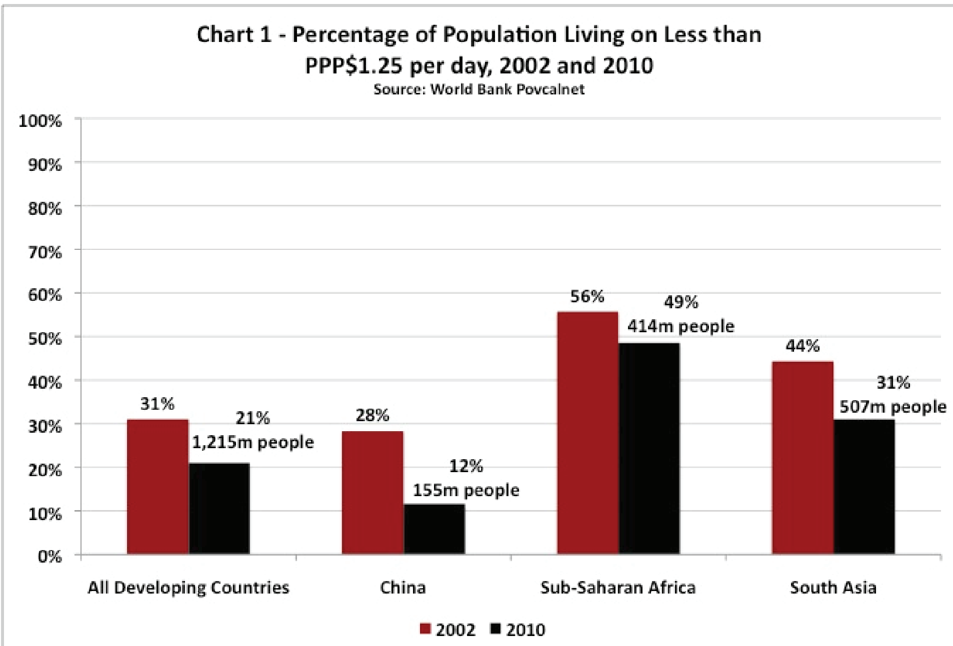
Trends in Global Poverty

The reality of poverty across all developing countries requires aid strategies that provide resources to tackle conditions of poverty which still affect the vast majority of the populations of these countries, not just those living in extreme destitution on less than $1.25 a day. More than 40% of the population of developing countries live on less than $2.00 a day, and two-thirds on less than $4.00 a day, forming the vast majority in all developing countries, including upper middle-income countries.

How to end poverty, both in terms of its depth and geo-location, is a prominent issue in debates about the current and future allocations of ODA for the SDGs. In April 2014, WB President Jim Yong Kim joined the 2013 UN High-Level Panel on the Post-2015 Development Agenda with a call to "make poverty history."[5] Both the WB President and the High-Level Panel have called for the elimination of "extreme poverty" by 2030 through a global partnership to promote equitable and inclusive growth. They are referring to the condition of absolute poverty and deprivation, defined as people living on less than $1.25 a day.

Elimination of extreme poverty is a highly ambitious and worthy goal. It raises the bar substantially in relation to the more modest first Millennium Development Goal (MDG), which is to halve the proportion of people living in extreme poverty between 1990 and 2015. This MDG gave impetus to a greater focus on poor countries for aid allocations in the early 2000s (see section 6 below). But in doing so, the MDGs did not require any fundamental rethinking of ODA. Priorities mainly stressed increasing aid quantity, increasing allocations to countries in Sub-Saharan Africa and improving the delivery of aid (2005 Paris Declaration on Aid Effectiveness). By backdating the MDG target to 1990, it was possible to retroactively claim the large reduction in poverty in China in the 1990s.

At a global level, it seems that the first MDG on reducing the proportion of extreme poverty in developing countries has been achieved (**Chart 1**). But the numbers of poor people are still staggering. At best, an estimated figure of over 1.2 billion people continues to live in extreme poverty in 2012. This fact gives strong moral weight to the call to eliminate these conditions by 2030. But is this more ambitious goal realistic in the absence of a more comprehensive focus on all levels of poverty? Is an exclusive focus on extreme poverty the best approach for a human rights-based post-2015 development agenda that also must address inequality? And should ODA become the resource dedicated to this new goal, while other development resources (domestic resources, private sector investments) respond to other dimensions of the SDGs? This section provides a wider context for



understanding poverty in developing countries and argues that ODA cannot ignore broader dimensions of poverty.

No doubt significant progress has been made in reducing the proportion of people living in extreme poverty at the global level.[6] But as noted above, approximately one-fifth of the population of the developing world still have incomes of less than $1.25 a day. This is a level of destitution where meeting even basic human needs, such as enough food and basic health, are in question.

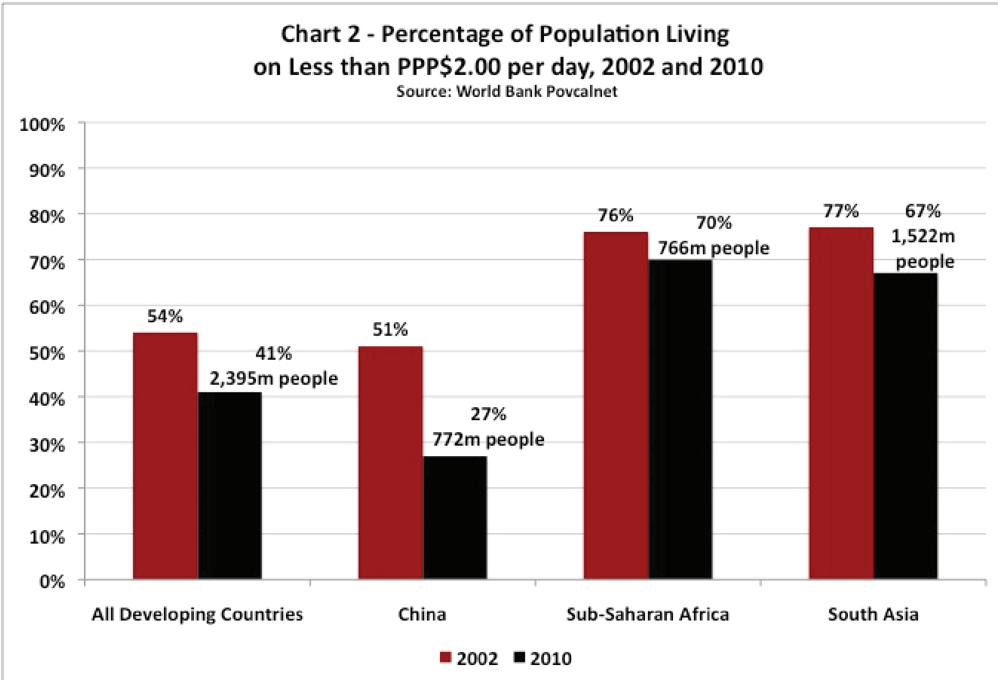
Economic advances in China, based on a largely unsustainable export-oriented economic model, have played a big role in the success of this MDG. Since 2002 the number of extremely poor people in China have declined from 28% to 12% of the population. The decline of proportions of the population living in extreme poverty in Sub-Saharan Africa and South Asia, however, have not been nearly as dramatic, with 49% of Sub-Saharan Africa's population still affected by these conditions and 31% of South Asia. Extreme poverty is often very deep and multi-generational. Evidence suggests that many people actually live on much less than $1.25 – some as low as $0.77 a day, particularly in rural societies and in Sub-Saharan Africa.[7]

Attention to conditions of extreme poverty is an essential part of the post-2015 agenda and the future allocation of ODA. But there is also evidence that poverty is much more widespread across countries, and is prevalent in various income groups of developing countries. Without concerted attention to other levels of poverty, particularly the very large majority that currently live on less than $4.00 a day, tackling extreme poverty alone may not be sustainable and may lead to greater levels of inequalities in these societies. An exclusive focus on the extreme poor in the SDGs is potentially discriminatory in terms of the rights of others living in poverty. It is also highly 'convenient' for donors who argue that levels of ODA might be limited by fiscal constraints and therefore should be devoted to eliminating extreme poverty.[8]

Many people are locked permanently in extreme poverty. The 2014 *Chronic Poverty Report* points out that extreme poverty affects some of the most excluded groups such as indigenous minorities, castes, the elderly, informal sector labourers, etc.[9] But many others move through different gradations of poverty in their lifetime and across generations. Without attention to broader systemic issues (conflict or environmental change) and social security (ill health, disability, unsustainable livelihoods), people can return to conditions of extreme poverty after some fleeting progress. This *Chronic Poverty Report* points to household surveys that demonstrate that 30% to 40% of people who may escape extreme poverty in Kenya or South Africa fall back into this level of poverty at a later point.

As Duncan Green underlines there is little justice and well-being for a person who is able to 'come out of poverty,' but remains at daily income of $1.26 a day.[10] **Chart 2** demonstrates that considerably more people in developing countries (2.4 billion people or 41% of the population) live below $2.00 a day – amounting to 70% of the population of Sub-Saharan Africa and 67% of the population of South Asia – a standard of living only marginally better than $1.25 a day. These populations are still very highly vulnerable to economic, climatic or political shocks in the household, community, national or global levels. They are a mix of people, all of them very poor and vulnerable – some below $1.25 a day, but many more just above this extreme level, where they can just meet most basic human needs such as an acceptable daily caloric intake.[11]

Poverty is not a static state for many poor people. There is a huge chasm between those living above and below arbitrary lines for measuring extreme poverty and the very poor, whether $1.25 a day or $2.00 a day. And poverty in developing countries does not end when incomes rise above $2.00 a day. Populations with incomes between $2.00 and $4.00 a day can be considered the "near poor." The "near



poor" continue to live with widespread informality in livelihoods and a high degree of vulnerability to unexpected economic or household shocks. WB statistics identify 3.9 billion people in developing countries – *two-thirds of the population of the South* – that live on less than $4.00 a day (or less than US$1,460 per year). Reality of Aid considers such populations as poor: they face widespread marginalization, gendered inequality, discrimination and a denial of many of their fundamental human rights.

Those living on less than $4.00 a day certainly constitute a very large share of the population in the least developed and low-income countries, but they also comprise the vast majority of populations in middle-income countries. This reality of deep and widespread poverty in middle-income countries cannot be ignored in strategies to end poverty. It puts in high relief recent policies on the part of an increasing number of donors to narrow the focus of ODA exclusively to the very poorest people and to reduce the number of countries eligible for their aid programs.[12]

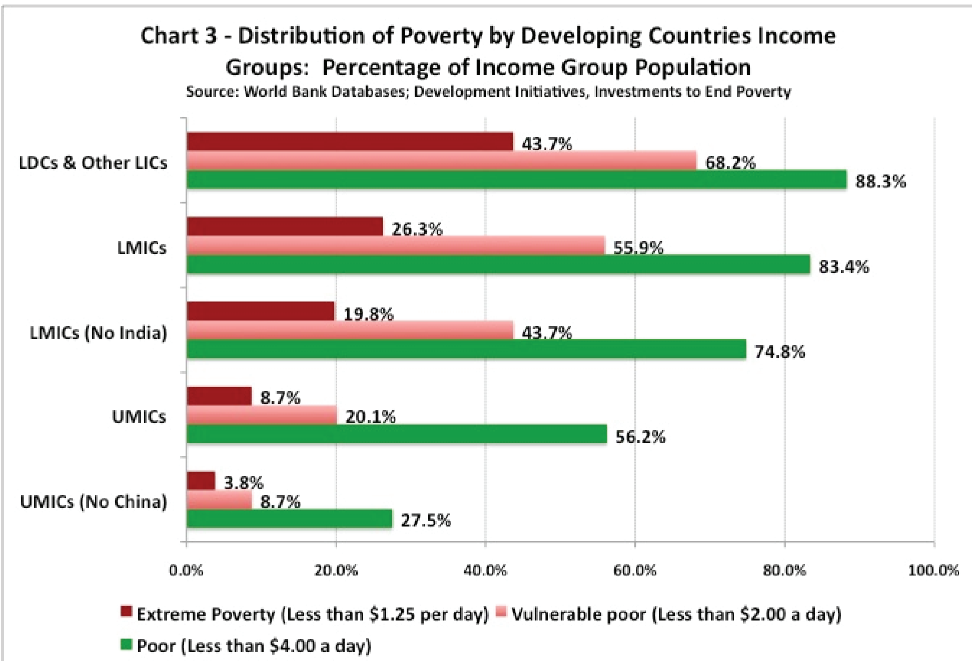
To effectively reduce and end poverty, Reality of Aid argues that donors and other aid providers must frame policies for their assistance as a resource that must be used to address all conditions that sustain poverty and inequality in their many dimensions. These targeted concessional resources are still highly relevant across a wide range of country contexts, although aid priorities and modalities may differ for different country income groups. But what is the evidence in the distribution of poverty among income groups of developing countries that would support a broad donor aid policy for the post-2015 agenda?

The demography of poverty is complex. Using WB data on the incidence of poverty, **Chart 3** clearly demonstrates the prevalence of extreme poverty (less than $1.25 a day) among all countries, and even to some degree upper middle-income countries (where China tends to dominate poverty trends). A poverty line of $2.00 a day, where people are highly vulnerable to slipping back into extreme poverty, is even more pervasive, capturing more than two-thirds of people in low-income/least developed countries, but also 60% of populations in lower middle-income countries (including India). While not vulnerable to absolute deprivation, people living on less than $4.00 a day, as noted above, should also be considered 'near poor.' These people make up close to 90% of people in low-income countries, more than 80% in lower middle-income countries, and more than 50% of people in upper middle-income countries (including China). While low-income countries are clearly highly vulnerable with pervasive levels of poverty, poverty is in fact also widespread in lower middle-income and in many upper-middle-income countries (taking into account the near-poor).

An SDG that focuses exclusively on extreme poverty (below $1.25 a day), and a corresponding concentration of ODA resources for this Goal, will not address the pervasiveness of poverty affecting the lives of many additional people across the countries of the South, nor the complex movement of people within and out of poverty.[13]

DAC donors and the World Bank point to a growing "middle class" in developing countries, particularly in middle-income countries such as China, India or Brazil. This emerging middle class is seen as the rationale for an exit strategy for allocation of ODA to many middle-income countries. It is argued that they create the potential tax base for government resources to tackle poverty in middle-income countries. However, while indeed growing in numbers — particularly in Latin America and in upper middle-income countries — a secure middle class, one that will drive robust consumer-based economic growth and government revenue, remains small and fragile for most of these countries.[14] As will be evident in an analysis of government domestic revenue, most developing countries with emerging middle classes are still severely resource-challenged in addressing conditions poverty and inequality.

What constitutes a stable middle class in developing countries?[15] People with incomes between $4 and $10 are not poor, but should they be considered middle class? In changing economic circumstances, they too



can be vulnerable to slipping back into some levels of poverty. A common measure then of a stable middle class income in developing countries is $10 to $50 a day.[16] Using this definition, overall about 300 million families in developing countries could be considered middle class. In China, despite its substantial economic progress in the past two decades, only 6% of the population earned more than $10 a day in 2009. In India, at only 8.8 million people, the middle class is very small in both absolute and relative terms. Brazil on the other hand is a country where the middle class has grown rapidly, and this sector now constitutes about one-third of the population. But even here the reality is complex. Brazil remains a highly unequal society, with still 6% of the population living in extreme poverty, 11% living on an income of less than $2.00 a day, and 28% below $4 a day.[17]

From the perspective of addressing poverty and inequality, these statistics on the distribution of poverty demonstrate that a focus on extreme poverty in low-income countries, while essential, is too narrow to address conditions of global poverty. As a poverty-focused resource that can be a catalyst for development in combination with domestic resources, ODA is highly relevant in all developing countries, including some that are considered "emerging economies" and aid providers in their own right. Average per capita income is not an indicator, per se, of progress for poor and vulnerable people. Evidence on the reality and capacities for spending by developing country governments for MDGs/SDGs provides further support both for an overall increase in ODA by all donors, and for its fair application to conditions of poverty in a wide variety of country contexts.

Government Spending and the Capacities to Invest in the Post-2015 SDGs[18]

> Developing countries' government spending ranges from less than $200 to more than $4,000 per capita, compared to $15,025 per person for developed countries. Lower middle-income country (LMIC) governments' face severe resource constraints to address conditions of poverty and should not be abandoned or de-prioritised by donors and other aid providers. Even in the 24 upper middle-income countries (UMICs), where government spending is above $2,000 per person, this level of spending is inadequate to address 28% of the population living on less than $4.00 day. ODA that is focused on reducing global poverty and inequality cannot just ignore such conditions in LMICs and UMICs – they affect the rights of large numbers of people.

Financing strategies for the post-2015 SDGs have put renewed attention on a diversity of public and private flows to and within developing countries. These flows involve not only ODA, but also trade and private investment flows, development cooperation through not-for-profit organizations, remittances between family members, and developing country government spending. While many of these private flows are important for economic change and development, the focus of this chapter is on trends for resources that have the potential to be proactively devoted to addressing poverty and inequality.

What domestic resources are available?

Clearly, developing country governments themselves invest significant resources in development, particularly in the social sectors, but also in enabling economic growth and improved livelihoods for their citizens. Government is a close partner with many ODA donors and other aid providers in these efforts, particularly in low-income countries. The Global Partnership for Effective Development Cooperation (GPEDC), as well as many individual donors, stress the importance of strengthening developing country revenue collection and administration of its taxes, including controlling illicit financial flows.[19]

After the disastrous donor-inspired experience with "structural adjustment" and policies to diminish government in the 1980s and 1990s, the role of government is now widely acknowledged as an essential catalyst for development. But what are the capacities of government spending for development? How do these financing capacities relate to the prevalence of poverty? To what degree are governments in middle-income countries able to finance increased investments in post-2015 SDGs? What roles should ODA play in bridging spending gaps in these countries?

In all but the very poorest and conflict affected countries, domestic government resources for development far surpass international resource flows. According to a detailed study by Development Initiatives, an NGO, government spending for all developing countries amounted to US$5.9 trillion in 2011, almost three times the level in 2000, and much larger than gross international resource flows of US$2.1 trillion to these countries in that year.[20] However, regarding the data for international resource flows, DAC ODA only amounts to approximately $55 billion, as a net of loan repayments and resources spent in donor countries (see below for calculations of ODA flows available to developing country counterparts). But while ODA resources may be small for many countries, they are often very strategic, particularly for the poorest countries.

At the country level, there is great variance in the level of total government spending per capita. As a point of reference, northern developed countries spend US$15,025 per person on average for all government services and programs. These expenditures include defence, rule of law, infrastructure, payment on domestic and foreign debt, social safety nets, environment and conservation, the conduct of foreign policy, etc. For Northern countries, real ODA makes up a mere US$30 or 2% of this spending.[a] With the exception of ODA, developing country governments are also expected to finance government activity in all of these same areas.

The comparable figures for government spending in developing countries range from less than US$200 per capita to more than US$4,000 for a country like Brazil – albeit still very far below the spending capacities of a government in the North to meet obligations to its citizens. Overall, developing country governments spend 29% of their Gross National Product, compared to 46% on average in developed countries. Yet despite a relatively high investment of government resources, Northern countries continue to experience many socio-economic challenges of poverty and injustice. Southern governments, even if they were to improve the efficiency of revenue collection, must make do with considerably less revenue.

Table One demonstrates a correlation between levels of government spending and the per capita income of a developing country, but one that is not as robust as might be assumed. The distribution is not surprising for least developed and upper middle-income countries, given the obvious reliance on the economic well-being of citizens as a primary source

Table 1: Per Capita Government Spending by Country Income Groups: Number of Countries

Government Spending Per Capita (Number of countries)	Least Developed Countries / Low- Income Countries (39)	Lower Middle-Income Countries (28)	Upper Middle-Income Countries (31)
Less than $500	30	4	0
$500 to $1,000	7	12	0
$1,000 to $2,000	2	11	7
More than $2,000	0	1	24

Source: Development Initiatives, Investments to End Poverty, World Bank Data, 2014

a For a definition of Real ODA, see section 3 below.

for government revenue. What is important to note, however, is the number of lower middle-income countries (amounting to 16) that spend less than $1,000 per person on all government services, with all but one country spending less than $2,000. Almost a quarter of the upper middle-income countries (7 out of 31) are countries where governments spend less than $2,000 per capita.

While government spending per capita is only one measure of the effectiveness of government in addressing the human rights of its citizens, it is clearly still a severely limiting factor in many developing countries. Policies and the effective use of resources are also very important factors. But even at $2,000 per capita, a developing country government has access to domestic resources that amount to just over 10% of the average spending of a northern developed country government. Despite approaches to limit country eligibility for aid by income group on the part of some donors, it is apparent that the traditional World Bank/DAC division of countries by per capita income is a very poor indicator of the financial capacities of developing country governments to meet their obligations of governance and enable the socio-economic rights of their citizens. Donors need to take into account a broader set of criteria that include the distribution of poverty and marginalized populations as well as per capita spending capacities of governments.

What scale of finance is required to meet the SDGs?

There are no easy and accessible calculations of the additional financing needs of developing country governments for current MDGs or the post-2015 SDGs. The World Health Organization (WHO) estimates that low-income countries need at least $60 per capita to provide even the most basic health care. The UN Millennium Project estimates US$50 to US$100 per pupil to achieve full quality primary education and US$100 to US$200 for secondary education.[21] Others have attempted to measure what levels of resources might be required to meet the post-2015 SDGs. One estimate, based on a review of the literature, indicates that US$1,086 billion annually in incremental spending is required (i.e. beyond existing levels of spending by governments and donor agencies).[22] This study covered only potential goals in education, universal health coverage, water and sanitation, food security and sustainable and renewable energy. Another study noted that it would take upwards of 20% of global GNP to raise all people above a $10 per day income, concluding that such efforts to reduce inequalities will require a much longer-term project for development cooperation.[23]

How affordable is this additional spending for developing countries?

The current estimates, as shown above, do not include other important potential areas for SDGs, or other government spending priorities. According to the calculations made by Development Initiatives:

> "Almost 3 billion people [out of 5.9 billion in developing countries] live in countries with annual government spending of less than PPP$1,000 per person, [and] 1 billion of them – more than the population of Western Europe and the United States combined – live where it is less than PPP$500 per person, and 200 million people live where it is less than PPP$200 per person – a little over 1% of the DAC average [government spending per capita]."[24]

Table Two looks more closely at the range of government spending levels per person in relation to the proportion of the population living in various conditions of poverty – the target populations for many of the post-2015 SDGs. As would be expected, with increasing levels of government spending per capita, the proportion of people living in extreme poverty ($1.25 a day or less) decreases.

Nevertheless, the analysis also reveals that conditions of poverty affect large proportions of the population

Table 2: Per Capita Government Spending Level: Proportion of People Living in Poverty in Countries at that Level

Government Spending Per Capita (Number of Countries in brackets)	Extreme Poverty (Percentage living on $1.25 per day or less)	Vulnerable poor (Percentage living on $2.00 per day or less)	Poor (Percentage living on $4.00 per day or less)
Less than $200 (6)	53.7%	75.2%	91.4%
$200 to $500 (28)	35.5%	63.4%	86.9%
$500 to $1,000 (19)	29.6%	60.9%	87.2%
$1,000 to $1,500 (6)	6.3%	16.4%	46.5%
$1,500 to $2,000 (14)	10.5%	24.9%	56.3%
$1,500 to $2000 (13, no China)	5.1%	15.4%	51.2%
More than $2,000 (25)	3.9%	8.6%	25.2%

Source: Development Initiatives, Investments to End Poverty, World Bank Data, 2014

at all levels of government spending. This observation includes those countries above US$2,000 per capita in government spending, with an average of more than a quarter of the population (25.2%) living in poverty on less than $4.00 a day. While the capacities of governments may be greater at this level of government spending, certainly more so than those below $1,000 per capita, they nevertheless face severe resource constraints in addressing the multiple aspects of poverty, often in contexts with increasing inequality and social strife. ODA and other concessional resources can be an important catalyst for innovative and targeted programs tackling the different dimensions of poverty in these countries.

How do different levels of capacity for government spending in the various WB categories of countries (classified by per capita income) affect the ability of these countries to address poverty and the SDGs? A series of tables in Annex One sets out the proportion of people living in different conditions of poverty, in relation to different levels of government spending in least developed/low-income countries, lower middle-income countries, and upper middle-income countries.

It is striking that among the 16 lower middle-income countries where government spending amounts to less than $1,000, 44% of the population live on less than $1.25 per day, more than two thirds (68%) live on less than $2,00 a day, and more than 88% of the population live on less than $4.00 a day! There seems little doubt that the 39 lower-middle income country governments face severe resource constraints in addressing conditions of poverty and should not be abandoned or de-prioritized by donors and other aid providers, simply on the basis of per capita incomes. Rather, donors must ramp up levels of ODA, finally meeting their international commitments to the UN target of 0.7% of their Gross National Income. Only then will the concessional resource pie grow, in combination with domestic resources, in ways that can truly tackle poverty and inequality.

The realities of poverty in upper middle-income countries (UMICs) are more complex, particularly when China is removed as a special case within this group of countries. While extreme poverty and those in vulnerable poverty (living on less than $2.00 a day) exist at all levels of government spending among UMICs (Annex One, Tables One and Two), reducing such poverty seems manageable with appropriate government policies and priorities. However, there are still significant proportions of the population living on less than $4.00 a day in UMICs (Annex One, Table Three). For example, about a third of the population (32%) live in these conditions of poverty, where governments spend less than $2,000 a person. Even in the 24 UMICs, where spending is above $2,000 a day, 28% of the population live on less than $4.00 day.

The stated policies of most DAC donors for ODA, while often not realized in the actual allocations of aid, seek to address global social justice and the reduction of poverty. The need for development finance by low-income and conflict affected countries is clear. But ODA that is truly focused on reducing global poverty and inequality cannot just ignore such conditions even in upper middle-income countries – poverty and marginalization affect the rights of large numbers of vulnerable people.

DAC donors should also continue to make some focused space available for aid relationships in upper middle-income countries. But recognizing their different domestic capacities, greater attention in ODA allocation in these countries might be given to innovative North-South partnerships, including supporting South-South collaborations, focusing on the exchange of knowledge and experiences in various sectors relevant to strengthening of human capacities (social welfare schemes) for improving livelihoods and reducing inequalities. Some forms of ODA loan finance may also be appropriate for these countries.

Can developing countries improve their revenue collection?

What are the prospects for future government revenue growth? A study by the Overseas Development Institute looked at the prognosis for future increases in government revenue that might be applied to realizing post-2015 SDGs.[25] The IMF suggests that the positive trend of the 2000s will continue, with government revenues in all emerging and developing countries expected to reach US$10.7 trillion by 2017, up from the current estimate of US$7 trillion. The vast majority of the value increase in this revenue, both since 2000 and expected up to 2017, is attributed to government revenue growth in middle-income countries, and particularly in upper middle-income countries. At best, low-income countries can expect from their revenues to increase from US$95 billion to $177 billion by 2017.

According to the Greenhill and Ali study, "even if [their calculation of] the full $82 billion in additional revenue were to be allocated to the five post-2015 sectors discussed [noted above], it would not meet even half of the funding gap identified." Clearly these government for the most part are not able to meet current MDGs, and as the study points out they are likely to have additional spending priorities, including other post-2015 SDGs.[26] The authors quote another ODI study of several African countries that concluded that if these countries met all agreed international sectoral spending targets, they would exceed total current government expenditures and leave no resources for other areas.[27]

Can governments increase their revenue through more effective tax collection efforts? Greenhill and Ali summarize several studies, concluding "the majority of the countries that had potential to collect more domestic resources were countries that have already made significant progress in achieving the MDGs and are unlikely to have a significant financing gap in the future."[28] They point to evidence that demonstrate that upper middle-income countries have the highest potential to increase government resources, capturing the vast majority of revenue increases: UMICs could increase their revenue base by US$60 billion, compared to $1 billion for LMICs and $3 billion for LICs.[29] Nevertheless, in 2012, only US$120 million, or 0.07% of ODA, was invested by donors in supporting and strengthening developing country tax-related activities.[30]

These trends in poverty and developing country government spending capacities point to the urgency of dramatically increasing ODA to address SDGs across many different developing country contexts. They indicate the need for greater analysis of the relevance of different aid modalities and partnerships, which effectively address the different needs and capacities of low-income, lower-middle and upper-middle income countries, respectively. But while an increased quantity of ODA is essential, as much attention is needed on the quality of the ODA resource and its focus on countries and targeted populations most affected by marginalization, inequality and poverty — and not just *extreme* poverty. How effective has ODA been to date in contributing to the MDGs and focusing on improving conditions for poor and vulnerable people? What are the implications for the SDGs?

The next sections look more specifically at ODA provided by OECD Development Assistance Committee (DAC) donors. Subsequent sections will look at trends for non-DAC aid providers, civil society actors, and partnerships with the private sector.

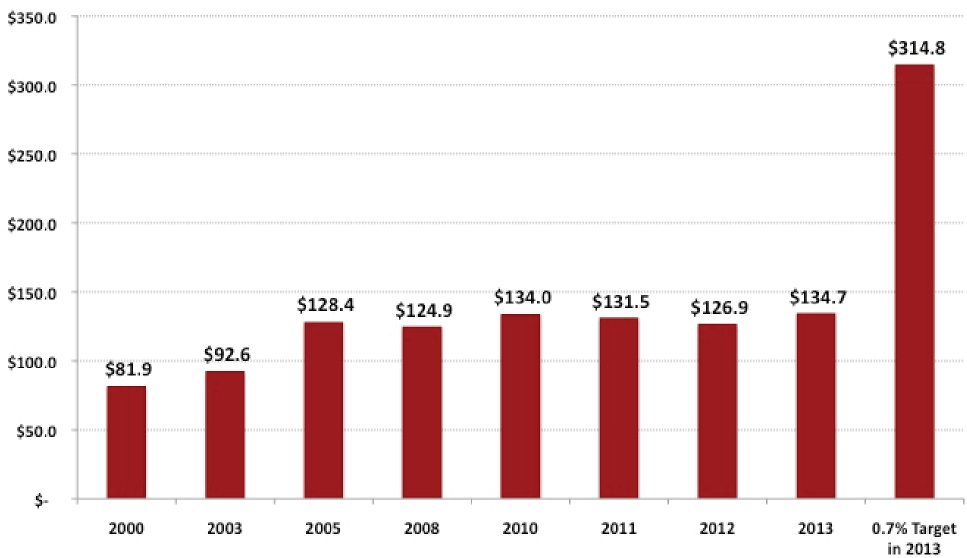
Meeting DAC Donor Commitments to Aid Quantity

> While welcoming the increase in 2013, after two years of successive declines in ODA, this increase is a very marginal improvement – in particular when set against the commitments made by donors since 2005 and the UN target of 0.7% of Gross National Income. Since 2005, Real ODA has increased in value, but these increases may not be sustainable: in 2013, four donors accounted for most of the improvement between 2012 and 2013.

In April 2014, the OECD DAC headlined a significant increase in ODA for 2013, reversing a two-year trend of declining ODA in 2011 and 2012. Preliminary figures for 2013 put ODA at US$134.8 billion, compared to US$126.9 billion in 2012, a 6.1% increase. While clearly welcome, how real is this increase in terms of the value of ODA resources? And what do individual donor trends suggest for sustainable ODA increases that will be available to contribute to the financing of post-2015 development goals?

Chart 4 looks at recent DAC donor aid trends, converting each year into the value of 2012 dollars, i.e. it looks at the value of ODA since 2000, taking account exchange rate differences and changes in purchasing power of the US dollar over these years.

Chart 4: DAC Donor Official Development Assistance, 2000 to 2013
Disbursements, Billions of constant 2012 US dollars
Source: OECD Stat DAC1



A number of observations arise from this Chart:

- The value of ODA in 2013 has grown very significantly (by 65%) since 2000, but by only 6.4% since 2005, the year in which donors made pledges to increase ODA at the 2005 Gleneagles G7 Summit.
- Furthermore, ODA in 2013 is only equal in value to ODA in 2010, the peak achieved in the last decade, the result of largely unmet Gleneagles aid pledges.
- If all DAC donors honoured the UN target to devote 0.7% of their Gross National Income (GNI) to ODA, ODA would have been US$314.7 billion in 2013, about 133% more than the level reached. Even if the EU donors had achieved their collective goal of 0.56% of GNI, there would have been US$25.3 billion extra resources for aid in 2013. At 0.7% of GNI, ODA has the potential to be a substantial catalyst for efforts to achieve the SDGs, end poverty and address inequalities.
- Among the 19 DAC donors whose performance is less than the 0.7% target in 2013, ten saw their ODA performance to GNI fall between 2012 and 2013, and another five remained the same, leaving only four donors (Finland, Germany, Italy, and Japan) who managed to improve their performance against the ODA target.

All development actors strongly praised the government of the United Kingdom for its achievement of the UN goal (0.72%) in 2013. The UK did so in the context of continued fiscal challenges, and is the first G7 country to achieve this level of ODA. UK ODA increased from US$13.9 billion to US$17.9 billion between 2012 and 2013, and presumably will continue to track growth in UK's GNI. Still only five traditional DAC donors have met this UN target – the UK (0.72%), Denmark (0.85%), Luxembourg (1.00%), Norway (1.07%) and Sweden (1.02%). The Netherlands, a long-standing country devoting more than 0.7% of its GNI to ODA since the 1970s, cut its ODA below the UN threshold, with a performance ratio of 0.67%. The Netherlands is expected to reduce even further its ODA in 2014 and beyond.

Beyond those that have been achieving 0.7%, Finland is the only other EU donor with a performance ratio above 0.50% (at 0.55%), despite a 2005 EU donor commitment to achieve at least 0.56% by 2010 and 0.7% by 2015.

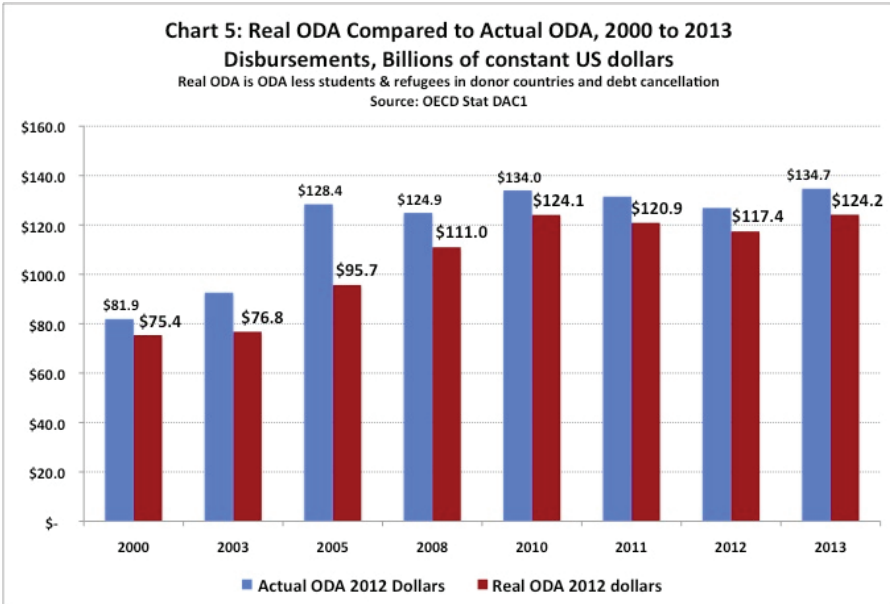
Trends in "Real Aid"

Under DAC guidelines for what can be included in ODA, donors have been able to 'inflate' their ODA through the inclusion of disbursements and items that many consider inappropriate. In this regard, Reality of Aid has focused on three areas that have had significant impact on levels of ODA: 1) The counting of the full value of debt cancellation in the year that it is cancelled; 2) The inclusion of donor-country costs for refugees for their first year; and 3) The imputing of a value of institutional support for students from developing countries studying in the donor's country.

While all of these policies are important in their own right, Reality of Aid discounts these amounts when assessing the true amounts of ODA as concessional development assistance for counterparts in developing countries. The resulting "Real Aid" is therefore actual ODA, less debt cancellation and expenditures for refugees and students in donor countries.[b] Trends in Real Aid provide a more accurate picture of aid resources allocated more directly to development assistance (see **Chart 5**).

Real Aid in 2013 was approximately 5% less than ODA reported by the DAC for that year. But in fact,

b There are other issues affecting the quality of ODA under the DAC rules, such as the methodology for the inclusion of loans in ODA. The OECD DAC also developed a measure of "Country Programmable Aid" (CPA) in 2007, which addresses some of the same issues. See below for more discussion of these issues and CPA.



the trends for Real Aid since 2000 demonstrate even greater recovery of ODA in 2013 than is the case for the increases in actual reported ODA referenced above:

- The value of Real Aid grew strongly from 2000 to 2010 by more than 65%, and by 30% between 2005 and 2010. After declining by a modest 5.4% from 2010 to 2012, the value of Real Aid at US$124.2 billion in 2013 is at its highest level since 2000. It represents an increase of 5.8% over Real Aid in 2012.
- Nevertheless, as measured by the UN target of 0.7% of GNI (**Chart 6**), Real Aid in 2013 was 0.28% of GNI, a better performance than 0.21% in 2000 and 0.24% in 2005, but down from its peak of 0.29% in 2010, and not even half of what is required to meet the UN target.
- What were the particular drivers for the increase of Real Aid in 2013, and how sustainable are these increases?
- Eight donors (Japan, Australia, Canada, Portugal, the Netherlands, Greece, Spain and the Czech Republic) together cut US$2.3 billion from their Real Aid disbursements between 2012 and 2013. The remaining 19 donors increased their ODA by a cumulative US$9.5 billion.
- But only five donors (the UK, Germany, Norway, Sweden and Italy) are responsible for a large share of the increases in Real Aid, accounting for almost 80% of the US$9.5 billion, and the UK, having committed to reach 0.7% of their GNI, alone accounts for close to half (43%).
- The preliminary (April 2014) DAC report on 2013 ODA does not provide sufficient detail to determine precisely which components of ODA were affected by the increase between 2012 and 2013. Overall ODA increased by 5.9%, but bilateral disbursements increased by a slightly lesser proportion – 5.2% – and multilateral disbursements by a larger proportion – 7.4%. There were increased disbursements to UN agencies (increased by 9.1%), to EU institutions (increased by 7.3%), and to World Bank institutions (increased by 14.0%). It seems likely that together, multilateral institutions were significant beneficiaries of the overall increases in ODA.
- This trend towards multilateral institutions is born out by UK spending. It increased its overall ODA by 28% between 2012 and 2013, but increased multilateral disbursements by more than 38%,

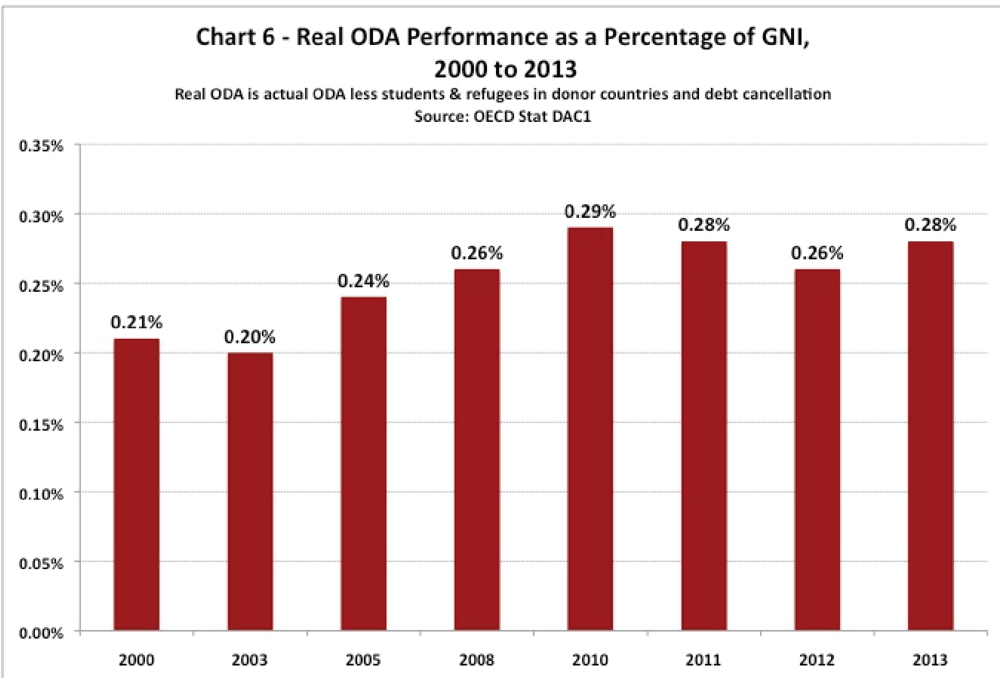
with disbursements to World Bank institutions doubling from US$1.26 billion to US$2.52 billion.

- In its April 2014 preliminary report, the DAC noted that within donor bilateral aid, disbursements of loans and equity investments in 2013 "rose by about 33% in real terms from 2012," while grants only rose by only 3.5%.[31]
- In conclusion, it does not seem that the recent increases in nominal ODA and the trends in Real ODA are sustainable as the international community launches an ambitious post-2015 agenda. The political momentum for aid increases in many donor countries is weak. Those few countries, with the exception of the UK, which have reached the 0.7% target, may sustain their aid levels, but these are not the major donors. The five largest bilateral donors – the United States, Japan, the UK, Germany, and France – accounted for 63% of ODA in 2013, but this amounted to only 0.26% of their collective GNI.

What are the future projections for ODA spending?

The key components of ODA available to developing countries are expected to stagnate, and even decline, in 2014 and beyond. As a troubling context for the post-2015 SDGs, donors have long abandoned the world's commitment in the 2000 Millennium Declaration "to spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty." Evidence suggests that aid will fall after 2014 or at best stagnate at present levels.

Projections for the future of DAC ODA as a substantial resource dedicated to the post-2015 SDGs are not promising. The DAC publishes an annual *Survey on Donors' Forward Spending Plans* based



on reports from various donors (but not all). The 2014 *Survey* suggests that key components of ODA available for programming in developing countries will largely stagnate after 2014.[32] This trend of declining or stagnating resources for aid is reinforced by contributors to this Reality of Aid Report and by other independent observers.

Annex Two sets out a Table summarizing expected future trends for ODA in 14 donor countries. Of these donors, only six are expecting to increase their ODA in 2014 and beyond, and most of these donors are suggesting that these increases will be modest. The remaining eight donors will see their aid decline. Among these eight, for five donors (Australia, Canada, France, Ireland, the Netherlands) future declines will build upon existing declines between 2010 and 2013.

As noted above, the UK's widely celebrated achievement of the 0.7% UN target accounted for a significant share of ODA's increase in 2013. While UK ODA will grow modestly in relation to its GNI in the following years, they will not repeat the large increase seen in 2013 needed to achieve this target. Other donors, such as Finland, Spain and the United States had increased ODA in 2013, but indications are that ODA for these donors will be cut in the next few years.

Donor governments have long abandoned the world's commitment under the 2000 Millennium Declaration "to spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty."

The allocation of an extra US$180 billion annually in ODA, which would result from all donors achieving the UN target of 0.7%, would go a long way to creating a dedicated resource for the post-2015 development goals. Aid commitments at this level are very much affordable despite challenging fiscal realities in some donor countries. If the UK can fulfil its commitment to 0.7%, there are no excuses for other donors, many of whom have better fundamental economic conditions. On average, Real Aid was responsible for a mere two cents in each revenue dollar in donor countries in 2012. Reaching the 0.7% target would mean only an additional 3 cents of each revenue dollar dedicated to meeting repeated global commitments. By contrast, current military expenditures, at US$1.1 trillion, amount to approximately 20 cents from each donor government's revenue dollar.[33]

But if ODA is to be effective as this dedicated resource, major reforms are urgently needed to address current issues in the quality of ODA. Unfortunately, there is little indication that efforts underway since 2005 among donors and partner countries are resulting in meaningful reform. Important areas to be addressed include:

1. Focusing ODA as a dedicated resource for poverty eradication;
2. Addressing the use of concessional loans in ODA; and
3. Meeting the commitments made in Paris, Accra and Busan for improving the development effectiveness of ODA.

The Quality of DAC ODA

ODA as a dedicated resource for poverty eradication

ODA dedicated to the MDGs has improved modestly since 2000, but the proxy indicator for what donors allocate to the MDGs still remains below 35% of aid allocated to all sectors.

While "country ownership" for directing aid is the first principle of the 2005 Paris Declaration on Aid Effectiveness, in 2012, just over half of DAC bilateral aid is potentially available to developing country partners in ways that respond to their priorities and needs. Country Programmable Aid (CPA) has been declining since 2010.

> Foreign policy priorities relating to anti-terrorism continue to drive country priorities, with at least 10% of real bilateral aid dedicated to Afghanistan, Iraq and Pakistan since 2008.

Donors committed in 2000 to spare no effort to reduce poverty through global partnerships (MDG 8), yet there were no specific commitments to ODA targets dedicated to achieving the MDGs. While the actual allocation of ODA since 2000 to the MDGs would be an important indicator for the future dedication of ODA to the post-2015 SDGs, the DAC does not track current ODA resource commitments to the MDGs.

Reality of Aid has consequently developed and tracked a proxy indicator for ODA dedicated to the MDGs[c] **Chart 7** demonstrates some fairly small improvements in this indicator since 2000, but even accounting for the partial nature of the indicator, the level of ODA dedicated to the MDGs has been modest at best, with these improvements stalling after 2010. Given failures to meet commitments in ODA quantity and in addressing the MDGs, as well as limits on government spending noted in the previous section, it should be no surprise then that the MDGs remain elusive in many countries.

All aid actors accept that strengthening country ownership through developing country governments and other development counterparts is essential for effective programs to address poverty. An important DAC measure in this regard is "country programmable aid" (CPA). CPA is the portion of DAC bilateral aid disbursements over which developing country partners have a significant say. **Chart 8** indicates that there has been little improvement in CPA since 2008. Improvements since 2005 were mainly the result of high levels of debt cancellation in 2005 (which is excluded from CPA). "Country ownership" has been a first principle in aid reform since the Paris Declaration in 2008; still, in 2012, just over half of DAC bilateral aid was actually available to developing country partners in ways that respond to their priorities and needs.

DAC CPA has been declining since 2010, by 3.8% from US$58.6 billion in 2010 to US$56.1 billion in 2012. In April 2014 the DAC reported that CPA for bilateral donors increased by 2% in 2013 and by an expected 2.4% in 2014.[34] However, as noted above, DAC bilateral ODA increased by 5.2% in 2013, and therefore CPA as a proportion of gross bilateral ODA will actually decline in 2013 despite increased ODA.

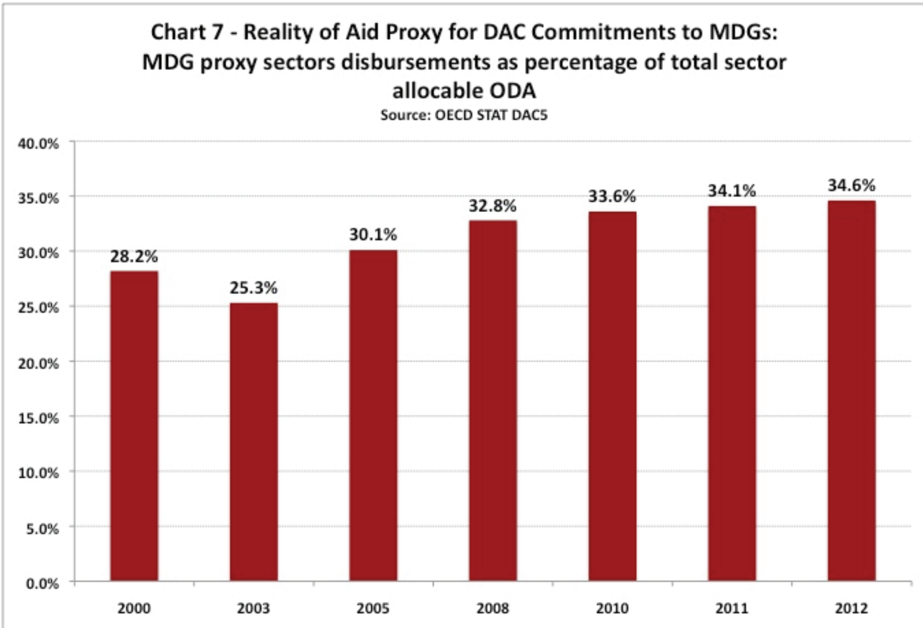
While CPA is a valuable measure of resources available at the country level, it overestimates these resources by including freestanding technical assistance and donor personnel for project activities. Technical assistance is still very strongly tied to donor country consultants and priorities. In 2012 allocations of ODA for technical assistance totalled US$8.0 billion or 10% of net bilateral aid. Discounting 80% of technical assistance and donor personnel from CPA as donor-driven reduces CPA to less than half of bilateral ODA (49%) in 2012.

Finally, foreign policy priorities relating to anti-terrorism continue to drive the country priorities for a significant proportions of ODA, limiting a fair allocation to other low-income and lower middle-income countries for their poverty reduction goals.

The Use of Concessional Loans in ODA

> At US$29.4 billion in 2012, the use of concessional loans has been growing among DAC donors. The DAC points out that

c The Reality of Aid proxy indicator is based on DAC sector codes in OECD Dataset DAC2a. It includes CRS sector codes for basic education, basic health, population and reproductive health, water supply and sanitation, agriculture, development food aid and food security, and general environmental protection. Bilateral sector allocated aid is bilateral commitments to sectors less debt cancellation, support for refugees, support for NGOs, administration, and aid unallocated to sectors (such as humanitarian assistance) in the DAC sector codes.



recently the growth of ODA loans has surpassed the growth of ODA grants. And many of these concessional loans are not truly concessional due to very liberal rules in the DAC regarding the calculation of concessionality.

Most DAC donors provide aid in the form of grants, although there is evidence that there is a renewal of interest in providing ODA as loans in response to donor fiscal pressures. This trend will have implications for ODA directed towards accomplishing the post-2015 SDGs.

With the exception of the World Bank's International Development Assistance (IDA) program, loans are usually provided to middle-income countries. Given the widespread conditions of poverty and limited government revenues across most developing countries noted above, ODA as grants provides the needed budget additionality for governments to meet their obligations to provide social services and most infrastructure, while avoiding deepening unsustainable debt. Appropriate modalities of aid may be different in upper middle-income countries, such as Brazil or China.

On the whole, allocating ODA through loans is usually justified in terms of potential for economic growth, rather than based on the needs of millions of people living in poverty, many of whom have benefited the least from this economic growth in middle-income countries.

In 2012, ODA included US$29.4 billion in the form of "concessional loans," which developing countries must pay back to the donor with (subsidized) interest payments over long amortization periods. The dollar amount of loans in ODA has grown by close to 80% since 2000 (US$17.1 billion in that year), with most of this growth coming from DAC bilateral donors.

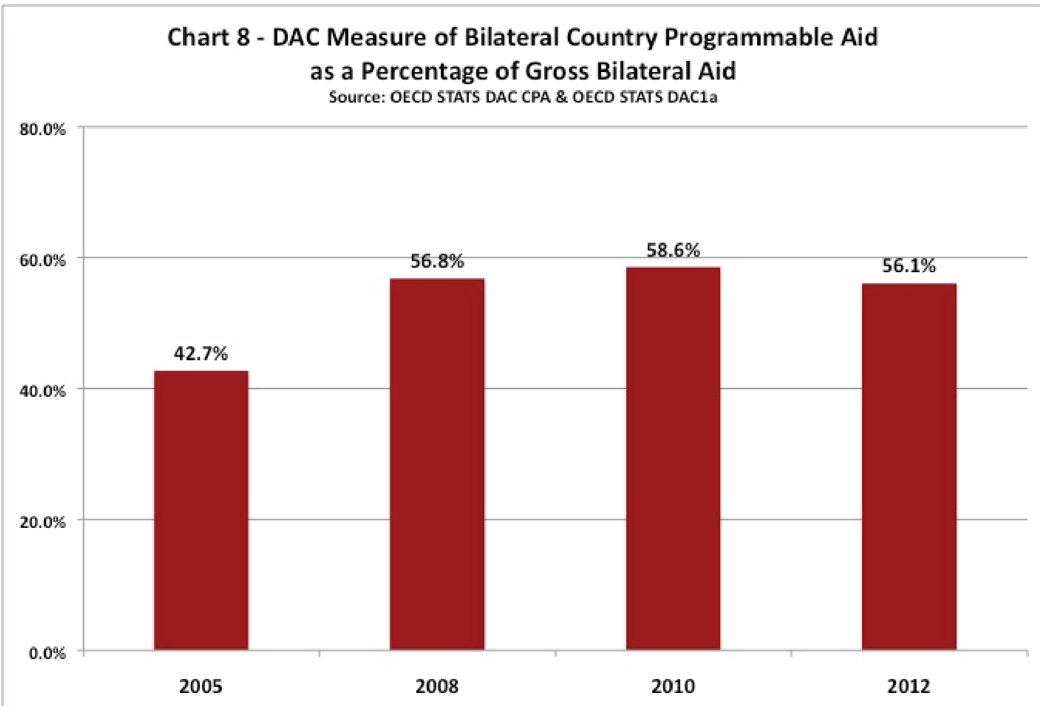
The most recent replenishment of the IDA also emphasizes this trend among bilateral donors towards loans. While successful in achieving a record three-year replenishment of US$52 billion, for the first time US$4 billion of this amount was in the form of concessional loans from donors. This practice reduced the real value of the replenishment to at most US$46.5 billion (in 2010 dollars) compared to the US$49.3 billion in the last replenishment.[35]

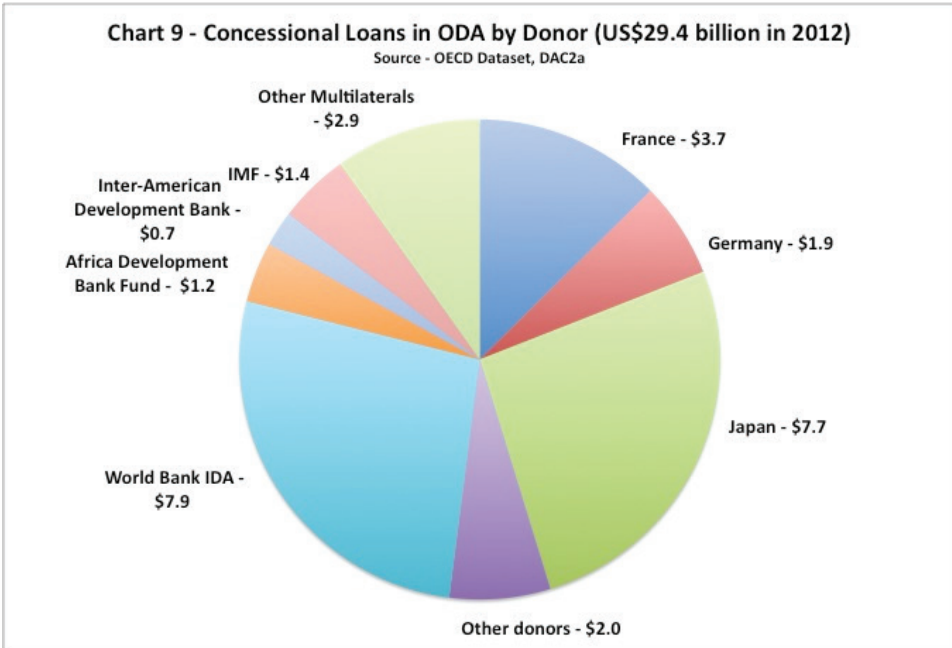
Interest and loan repayments back to donors have been growing alongside the growth in loans. In 2012 they amounted to US$24.7 billion or 17.6% of gross ODA for that year. This is an increase of US$3.1 billion since 2010, when these repayments were US$21.6 billion or 15% of gross ODA. In 2012, large payments came from China, Indonesia, the Philippines, India and Egypt. Countries in Sub-Saharan Africa, some of the poorest in the world, sent back more than $US1.1 billion in loan repayments and interest to DAC donors in that year.

The amount of grants in ODA has also increased in the past decade, and by an even greater amount than loans. As a result, as a share of Gross ODA (net of debt cancellation and humanitarian assistance), loans have declined steadily since 2000, from 28.9% in 2000 to 20.4% in 2010. This pattern has changed since 2010 as some donors look to loans to sustain their ODA in the context of continued fiscal challenges in allocating tax dollars. The DAC recently has noted, "in the past three years the growth of ODA loans has surpassed the growth of ODA grants," and loans as share of Gross ODA may be growing again.[36]

While a number of countries such as Canada have re-introduced or increased the use of loans in their ODA disbursements, the use of loans is still highly concentrated among three donors. These three countries (**Chart 9**) – Japan (US$7.7 billion), France (US$3.7 billion) and Germany (US$1.9 billion) – account for 45% of the US$29.4 billion in 2012. Several multilateral institutions – the World Bank's IDA (US$7.9 billion), the African Development Bank Fund, the Inter-American Development Bank and the IMF make up another 38% of the US$29.4 billion.

As indicated in **Table Three**, the use of concessional loans is also highly concentrated in lower middle-income countries and in upper middle-income countries, making up almost three-quarters (72.3%) of gross loan disbursements in 2012. The highest concentration is among lower middle-income countries where vast majorities of poor people live and where there is weak government revenue to service these loans. Several of these countries have only just emerged from programs to cancel unsustainable debts. The remaining quarter (27.7%) have been disbursed to low-income countries,





mainly through the World Bank's IDA window for low-income countries. It was recently reported that the Bank intends to increase lending to middle-income countries, from all its windows, to as much as US$28 billion up from US$15 billion currently.[37]

Are many of these loans even truly "concessional?"[38] In order to be considered "concessional in character" an ODA loan must have a grant element of at least 25% when measured against a discount rate of 10%.[d] The DAC makes no distinction between loans with a grant element of 26% and one with a grant element of 75% as the full loan is included as long as the threshold criteria are met. With commercial interest rates well below 10%, loans that are effectively at commercial rates can have substantial grant elements when measured against a hypothetical interest rate of 10%. These loans can be included as ODA, producing a potential profit for the lending donor.[39] In its recent review, a DAC paper made the following observation:

> "A growing share of loans from DAC members is made from market-raised funds, some of which without a subsidy. Provisional data for ODA loans indicate that, in 2011, 88% of concessional loans were made from market-raised funds, either in full (48.5%) or partially (39.8%), and market-raised loans without a subsidy represented 31% of all loans. "[40]

David Roodman from the Center for Global Development among others (EURODAD and Development Initiatives) has pointed to the 10% discount rate as a major problem.[41] Richard Manning, former Chair of the DAC, concluded an article in the Financial Times noting that, "it is shocking that the OECD should publish official statistics … which make a mockery of its own requirement that loans are concessional in character."[42] Roodman proposes an alternative, using the OECD's Differentiated Discount Rates (DDR), which has been agreed by all OECD

d The reference discount rate for the DAC is 10%. This rate is the basis for calculating the grant element of a loan, i.e. the cost to the donor of making the funds available. Thus, the grant element is nil for a loan carrying an interest rate of 10 percent or more; it is 100 per cent for a grant; and it lies between these two limits for a soft loan. If the face value of a loan is multiplied by its grant element, the result is referred to as the grant equivalent of that loan. See http://www.oecd.org/dac/dac-glossary.htm#Grant_Element

Table 3 Allocation of Concessional Loans by Income Group (2012)

Income Group	Share of Concessional Loans	Share of Total ODA (net of debt relief)
Low Income Countries	27.7%	51.3%
Lower Middle Income Countries	40.3%	29.1%
Upper Middle Income Countries	32.0%	19.6%

Source: OECD Dataset DAC2a

members for export credit subsidies.[43] He suggests this rate would have reduced bilateral loans by more than half (56%) in 2012.

The donor members of the DAC are seeking a new consensus that would reform the treatment of loans in ODA. Such reforms are urgently needed (and discussed in more detail below). To date (September 2014) there is not much support for the DDR, but most donors are moving towards the idea of reporting only the grant equivalency for loans, rather than the full loan as is the current practice.[44] One concern with this proposal is that such a move may encourage more loans to LDCs, because such loans would have a high grant equivalency. Many of these countries have just emerged from unsustainable debt loads.
The inclusion of essentially non-concessional loans is not the only issue arising from DAC rules governing loans. While DAC members are required to calculate their annual net ODA, subtracting payments on the principal of each loan, they are not required to deduct the interest payments on these loans. According to Rob Tew, "the data published by the OECD DAC shows that, if interest repayments are taken into account, the net resource flows associated with global ODA are approximately $5 billion per annum lower than the reported total net ODA figure suggests."[45]

Overall, considering both the estimates of non-concessional loans made in 2012 (approximately US$9 billion as noted above) and the US$5 billion in non-reported interest payments on previous loans, "Real Aid" in 2012 is even lower than previously stated, not US$117 billion, but would fall to US$103 billion. This amount is US$24 billion less than reported-ODA (US$126.9 billion) for that year. Applied to Country Programmable Aid that takes account technical assistance, net CPA, which includes loans, also declines significantly.[46]

Implementing Aid and Development Effectiveness Reforms

> There remains strong rhetorical support for the Busan principles for development effectiveness and the need to improve aid practices among all development actors accordingly. Nevertheless CSOs have witnessed 'business as usual' among most donors and little progress at the country level in implementing these principles, including democratic ownership of development policy and an enabling environment for civil society organizations.
>
> At the same time, while not without its challenges, the multi-stakeholder Global Partnership for Effective Development Cooperation (GPEDC) is a uniquely inclusive space for policy dialogue and monitoring commitments in aid reform on the part of most aid actors. How can the advances in norms and commitments resulting from the informal and voluntary GPEDC processes translate into practice? Will reformed aid practice be the standard in the more formal UN post-2015 development agenda?

The real amount and terms of ODA resources available for programming in developing countries is an important, but not the only, consideration for understanding the role of ODA in financing the SDGs. Equally important is the effectiveness of these resources in sustainably addressing the conditions shaping poverty, inequality and marginalization. In this regard, development actors have come together at a series of informal High Level Forums (HLF) since 2002,[47] where they have agreed on principles, and some measurable commitments, to improve the effectiveness of aid as a development resource.

The Paris Declaration, agreed by donors and partner governments at the HLF in Paris in 2005, set out five high profile principles for improving aid effectiveness (country ownership, alignment to country strategies, harmonization of donor terms and conditions, managing for results and mutual accountability). These principles were intended to guide donor and partner country reforms in aid practices.

After a review of limited progress on these Paris principles at the 2008 Accra HLF, development actors, including CSOs, parliamentarians, local governments, the private sector, and some southern aid providers (with qualifications), participated in the Busan HLF in 2011 to shape an agreement that focused on the development impact of aid, not just the modalities under which aid is delivered, as was agreed in Paris in 2005.

At Busan, all actors agreed on a set of common principles for development effectiveness, "consistent with our agreed international commitments on human rights." These principles include:

1. Ownership and leadership on development priorities by developing countries themselves;
2. Focus on results that must have a lasting impact on eradicating poverty and reducing inequality, and on sustainable development;
3. Inclusive development partnerships, recognizing the different and complementary roles of all actors; and
4. Mutual accountability involving the intended beneficiaries of our co-operation, as well as respective citizens, organizations, constituents and shareholders. Transparent practices form the basis for enhanced accountability. [Busan Partnership for Effective Development Cooperation, §11]

These Busan principles were to guide actions to "operationalise the democratic ownership of development policies and processes." [Busan Partnership for Effective Development Cooperation, §12] Together, they form the basis for specific commitments on the use of country systems, transparency, CSO enabling conditions and development effectiveness, gender equality, and more, for the various development actors, recognizing that there will be "differential commitments" for each stakeholder.

Now more than two years after Busan, how well are we doing? Following the Busan HLF, in 2012 the Steering Committee for the Global Partnership agreed on a set of ten indicators to measure progress on the commitments made in Busan and uphold global accountability for delivering them. A report drafted for the first High Level Meeting of the Global Partnership in Mexico in April 2014 by the OECD/UNDP monitoring team concludes, "globally, the results are mixed:"

> "Longstanding efforts to change the way development cooperation is delivered are paying off, but much more needs to be done to transform cooperation practices and ensure country ownership of all development efforts, as well as transparency and accountability among development partners."[48]

There remains strong rhetorical support for the principles and the need to improve the development effectiveness of aid among all development actors. Nevertheless, CSOs have witnessed 'business as usual' among most donors, and little progress at the country level in implementing these principles.[49] In some areas, such as a commitment to an enabling environment for CSOs as effective development actors, there has been marked deterioration.

Specifically, much more progress is needed in the following areas:

- Country Ownership: There has been limited and very mixed progress in the use of a partner country's own indicators and monitoring systems to measure results for ODA. The OECD/UNDP reported that about two-thirds of development cooperation scheduled for the government sector is now reflected in national budgets; but it also cautions that much greater transparency is required for donor information at the country level. Only half of development cooperation is channelled through a partner country's own public finance management system, and this has not changed since 2010.[50]
- An important indicator for country ownership in the GPEDC monitoring framework is the level of untied aid. The first monitoring report suggested that aid providers are delivering on this commitment with close to 80% of aid formally untied to specific geographic sources for procurement. Tied aid is 15% to 25% less cost effective than untied aid.[51] However, independent research of one donor's policies and practices highlights the continued informal tying of aid contracts, with more than 88% of aid contracts going to UK firms despite the UK policy of 100% of untied aid.[52]
- Inclusive development partnerships: Contrary to the explicit commitments in Busan, inclusion of CSOs in development processes has been adversely affected by a significant deterioration in the enabling conditions within which CSOs must operate in an increasing number of developing and some developed countries.[53] There has been modest progress in countries implementing systems to track and make public allocations for gender equality and women's empowerment. On the other hand, women's rights CSOs have expressed concern that much more needs to be done to deepen inclusive and democratic multi-stakeholder dialogue on gender equality and women's rights at country and regional level. The number of countries engaged in future monitoring of the post-Busan gender equality indicator must grow. [54]

Transparency and accountability: There has been good progress in gradual implementation of the International Aid Transparency Initiative (IATI) Standard for transparency. But not nearly enough has been implemented in publishing timely, comprehensive and forward-looking information on development cooperation resources. Just over half of partner countries in the OECD/UNDP survey have a mutual assessment review for aid in their country, and less than half of these processes include non-state actors such as CSOs at any level.[55]

An inclusive multi-stakeholder process

The creation of the Global Partnership for Effective Development Cooperation (GPEDC) has been a unique and highly inclusive space for non-state actors to engage with governments, donors and multilateral institutions on a somewhat equal footing. CSOs are active participants in the Global Partnership through the CSO Partnership for Development Effectiveness (CPDE).[56] The OECD, multilateral organizations and bilateral donors have also been working to increase the participation of the private sector in the Global Partnership, consistent with recent renewed aid allocations to public-private partnerships.

Southern aid providers, such as Brazil, China and India, on the other hand, are reluctant to participate directly in the Busan commitments and the GPEDC, seeing the UN as a more legitimate forum for discussion of global finance and cooperation. Herein lies the greatest challenge for the Global Partnership and its efforts at inclusivity in global policy dialogue. How can the advances in norms and commitments resulting from the informal HLF process translate not only into better practice for all aid providers, but also inform the formal and more legitimate outcomes for the UN post-2015 sustainable development agenda?[57]

Despite concerns of lost momentum and truly modest change on the ground, the HLF process over the past twelve years has advanced broad awareness of the norms and directions for more significant reforms in aid practice. These norms, alongside inclusive efforts to reform aid practices, need to be more directly reflected in the post-2015 development agenda and should guide the ways in which development actors allocate finance for the SDGs.

"Modernizing ODA": Aid resources and the post-2015 sustainable development goals?

> Reality of Aid welcomes the DAC initiative to "modernize ODA" and to sharpen ODA as a true measure of donor commitments to poverty reduction and social justice at the country level. This requires donors to include only resources that are grants or the grant equivalent of loans, excluding expenses for students and refugees in donor countries and counting the full face value of debt cancellation in a given year.
>
> Any new measure of "Total Official Support for Development" should develop clear norms and standards for the transparent inclusion of finance in this measure, based on demonstrable outcomes for any future SDGs, i.e. reducing poverty and inequality and promoting sustainable development, consistent with human rights standards.

In parallel with the Global Partnership and its efforts to reform aid practices, is a more recent initiative in the OECD DAC to "modernize ODA." The latter focus is on fair measurements of donor contributions to development cooperation. Many aid actors, including the global Reality of Aid network, have long called for such reforms in the guidelines for determining DAC ODA - guidelines that affect the level of resource commitments specifically dedicated to poverty reduction for which donors can be held accountable.[58] In 2012, for example, real concessional ODA is at least 20% less than reported ODA. The DAC Development Cooperation Directorate (DCD) and many DAC donors have also come to acknowledge these issues, particularly when viewed from a partner country perspective.

At the DAC's December 2012 High Level Meeting, donors asked the Development Co-operation Directorate (which supports the work of the DAC) to lead a process to "modernize the ODA concept" and to "elaborate a proposal for a new measure of "Total Official Support for Development (TOSD)." There are three main aspects of accounting for development finance under review: 1) a "modernization" of the concept of ODA; 2) a more comprehensive measure of official financial resources for development – Total Official Support for Development; and 3) the eligibility criteria for inclusion of countries for ODA.

The DAC is undertaking this review as an explicit contribution to the ongoing UN discussions on financing options for the post-2015 SDGs, with a global Financing for Development conference likely in 2015. Domestic resources will be a primary source of finance to implement the post-2015 goals for most developing countries; nevertheless various forms of external finance will be crucially important for achieving the Goals. ODA is but one flow among other external financing from government sources – others include official risk management instruments to promote private lending and investment or measures to provide an incentive to private charitable giving.

In modernizing the notion of ODA, the DAC is clarifying the place of ODA alongside other official resources. In this regard, there is a push to have donors report their development finance from a recipient country point of view, i.e. capturing all of the donor's different financial flows beyond what is currently considered ODA. There is a proposal along these lines for a new measure – Total Official Support for Development – regardless of how these flows might contribute to poverty reduction and the SDGs.[59] From a partner country point of view, where a government must meet its obligations to its citizens financed by a variety of flows and revenue sources, a more comprehensive measure of resource transfer is an important metric. But this legitimate interest is different than assessing the quantity and quality of a dedicated flow of concessional resources that has the unique potential to be devoted to reducing poverty and inequality. Presumably all stakeholders, North and South, share a common interest in maximizing this concessional resource. It will be important for all countries and development actors, not just donors, therefore, to have a say in defining the objectives, norms and standards that might govern TOSD and the place of a reformed notion of ODA.[60]

The DAC expects to reach consensus on a proposal for modernizing ODA by December 2014, one that would presumably improve the transparency of official flows to developing countries. The process now underway, however, also has the risk of further undermining the transparency of donor resources for poverty reduction through the creation of a broad measure of TOSD. But it is also an opportunity to simplify and focus on what are truly concessional resources to be included in ODA, and what might be counted in this broader measure of TOSD. Whatever the measure of total official support for development, it will be essential to clarify the development character of these resources in relation to the overarching goal of poverty eradication.

Modernising ODA

There are currently three proposals for modernizing ODA developed by the DCD for the DAC members to consider: 1) "Focused ODA": Removing many current donor-centric costs (refugees, students, etc.), reporting contributions to multilateral financial institutions on an encashment basis, counting only expenditures actually incurred by a donor; 2) "New ODA": ODA would include grants and only the "grant equivalent" of loans taking account the cost of borrowing and country risk, and would remove bilateral debt relief, but not in-donor costs such as refugees and students; and 3) "Updated ODA": Including the gross amounts of loans assessed as concessional using a risk adjusted discount rate, as well as flows mobilized or leveraged by ODA. At this point none of these proposals are fixed or mutually exclusive.[61]

CSOs will certainly see the merit of this process, and have lobbied for a more focused ODA, including measuring only the grant equivalency of loans. However, there is evidence that donors are opting towards measures that emphasize linking ODA to market instruments and actually expanding what could be included. In making the three proposals in January 2014, the DAC Secretariat notes "that there has been wide interest in exploring how to incentivise the provision of development finance in the form of market-like financing as appropriate, so options to accommodate this interest are incorporated in the scenarios presented." They also draw attention to a "strong interest in exploring an expanded treatment of security as an enabler of development and possible broader coverage of such activities in ODA."[62] CSOs have argued that these security and market-linked contributions to development properly belong in a separate measure of Total Official Support for Development.[63]

Total Official Support for Development

To date, there has been little specific elaboration of the proposed new measure of Total Official Support for Development. The intent is seemingly not to replace the concept of ODA and its role in holding donors to account for measures to address poverty and inequality. However, the criteria for inclusion of financing in this broader measure of TOSD are not clear. Are donors attempting to "move the goal posts," in the context of wide failure by most to live up to commitments they made only a decade earlier at Gleneagles to increase ODA and contribute 0.7% of their national income to such efforts? At the same time CSOs understand the importance of, and advocate for, a comprehensive approach to development financing – bringing attention to the need to cancel unpayable debts, promote fair trade and investment that respects the right to development, as well as tax justice and stopping illicit capital flows.

In a submission to the DAC by CONCORD's AidWatch Europe (with the support of Eurodad),[64] European CSOs have drawn attention to a number of essential notions that should inform the development of a measure of Total Official Support for Development:

- Development results and their implications for poverty eradication should be demonstrable goal of TOSD, not just a "modernized ODA;"
- TOSD should align with internationally agreed principles and commitments to inclusive development effectiveness;
- Private development finance mobilized by official guarantees or incentives must demonstrate clear additionality for development goals;
- There should be transparency on gross and net disbursements for loans/export credits included in TOSD; and
- There should be clear attention to transparency and accountability in TOSD at the level of each transaction, with transparency consistent with the International Aid Transparency Initiative (IATI) Standard.

Threshold for ODA

Currently the upper-middle income country cut-off for eligibility for ODA is a per capita income of US$12,615 (in 2012). The DCD issued a discussion paper in October 2013 following up DAC interest "in the possibility of revising the DAC's list of ODA-eligible countries and territories …, so as to focus concessional finance on countries that need it."[65] All options being considered by the DAC would lower the current threshold. The paper suggests revising the threshold to US$7,115, which is the per capita point at which countries begin the transition from World Bank (IDA) concessional lending. The authors argue that this would bring greater consistency between bilateral and multilateral concessional finance for development. They calculate that such a move would affect 18 current recipients and US$2.1 billion in ODA (1.7% of ODA in 2012). Brazil, Mexico, Turkey and Chile represent more than 75% of this amount. ODA from the EU and France would be most affected, declining 19% and 9% respectively due to large loans to Brazil and Turkey. At the other end of the spectrum, there is a proposal that donors target LDCs better with an agreed portion of their total ODA – perhaps 50% – rather than the current measure in terms of a percentage of donor GNI.[66]

The issue of aid to middle-income countries and the resources sufficient to meet commitments to the post-2015 SDG has been discussed above in relation to the breadth of conditions of poverty in these countries. For the four countries most affected as noted by the DAC, 7.5% of their combined population still lives on less than $2 a day, highly vulnerable to extreme poverty. But more alarming is the broader level of poverty, a quarter of the combined population (24.6%) live on less than $4 a day. These governments must deal with this poverty through per capita government spending that ranges from $3,075 for Mexico to $4,574 for Turkey.[67] As noted earlier, CSOs have come to the defense of aid for middle-income countries where indeed the majority of people are still living in varying degrees of poverty. One cannot also assume governments in these countries are willing or able to meet human rights obligations to maximize the realization of social and economic rights for all their populations.[68]

Current Patterns in the Allocation of DAC ODA

Allocation of ODA to Country-Income Groups

> Aid to low-income countries has increased steadily since 2000 and in 2012 was 53% of country allocable aid.

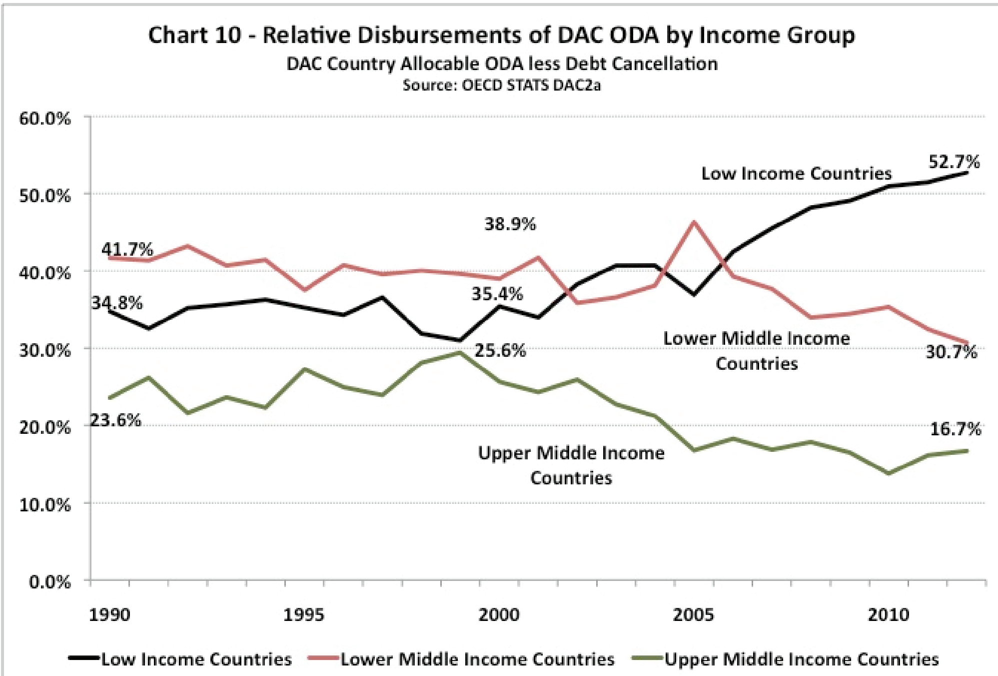
The value of aid to lower middle-income countries has also shrunk by 14% since 2005, while the value of aid to upper middle-income countries has increased 30%, just in the period 2010 to 2012.

Conversely, since 2010 the value of aid to Least Developed Countries (in 2012 dollars) has decreased for the first time in the decade.

How much aid is currently directed to middle-income countries? In fact, during the last decade there has been a major positive shift in the proportion of bilateral and multilateral DAC aid (net of debt cancellation) directed to the poorest low-income countries, from 36% of DAC country-allocable ODA in 2000 to 52% in 2010, mainly at the expense of middle-income countries. Since 2008, there has been little change in these proportions, with aid directed to low-income countries remaining at just over 50% (**Chart 10**). Within low-income countries, aid to the least developed countries has also remained constant at around 47% since 2008. Aid to least-developed countries makes up more than 70% of external flows of finance to these countries and represents half of government revenue.[69]

The proportion of DAC aid to lower middle-income countries declined slightly from 34% in 2010 to 31% in 2012. At the same time aid to upper middle-income countries increased from 13% in 2010 to 17% in 2012. DAC aid to upper middle-income countries grew in quantity from US$11.0 billion in 2010 to US$14.6 billion in 2012. These changing middle-income country priorities have mainly affected allocations to lower middle-income countries, which dropped from US$29.5 billion in 2010 to US$26.8 billion in 2012. While there are reasons as noted above to continue ODA for upper middle-income countries, the pervasiveness of poverty in lower middle-income countries makes this shift in emphasis troubling in the context of stalled or declining overall aid levels.

Since 2008, DAC aid to least developed countries (LDCs) has remained relatively constant as a share of total DAC country-allocable aid. However, since 2005, donor foreign/military policy priorities have had a major impact on the distribution of DAC bilateral



aid among LDCs. Aid to Afghanistan has commanded an increasingly significant share of this aid to LDCs. As a proportion of total bilateral DAC aid to LDCs, Afghanistan's share rose from 15% in 2005 to 21% in 2010, and has remained at this level up to 2012 (**Chart 11**). This priority has clearly affected the degree to which other LDCs have benefited from increased attention to low-income countries since 2005.

The relative share of poor countries in country-allocated ODA has been growing since 2000. But **Table Four** indicates that most of this growth in the value of ODA to these countries (in constant 2012 dollars) was pre-2005. Indeed, since 2010 the value of ODA for least developed countries has actually declined by 3% (**Table Four**).

For lower middle-income countries, a 14% decline in value started in 2005 and continued in the 2010 to 2012 period. On the other hand, upper middle income countries, while still a relatively small share of overall ODA, has increased in value significantly since 2005 by about 30%, and this trend has also continued since 2010.

The Allocation of ODA by Region

> Aid to Sub-Saharan Africa has increased steadily since 2005, but has levelled off since 2010. This growth has been largely at the expense of allocations to countries in Asia (excluding Afghanistan).

Since 2008 there has been a consistent allocation of more than 40% of ODA (not including debt cancellation) to Sub-Saharan Africa (**Chart 12**). This allocation is a marked improvement since 2000 when donors (bilateral and multilateral) disbursed only 30% of their ODA to Sub-Saharan Africa. Aid to this sub-region has grown largely at the expense of countries in Asia (not including Afghanistan), where proportion of disbursements to these Asian countries have declined from 39% to 25% between 2000 and 2012.

But similar to the changes in value of ODA to low income countries, the increase in the value of ODA (in 2012 dollars) for Sub-Saharan Africa also mainly occurred pre-2005 (see **Table Five**). In the seven-year

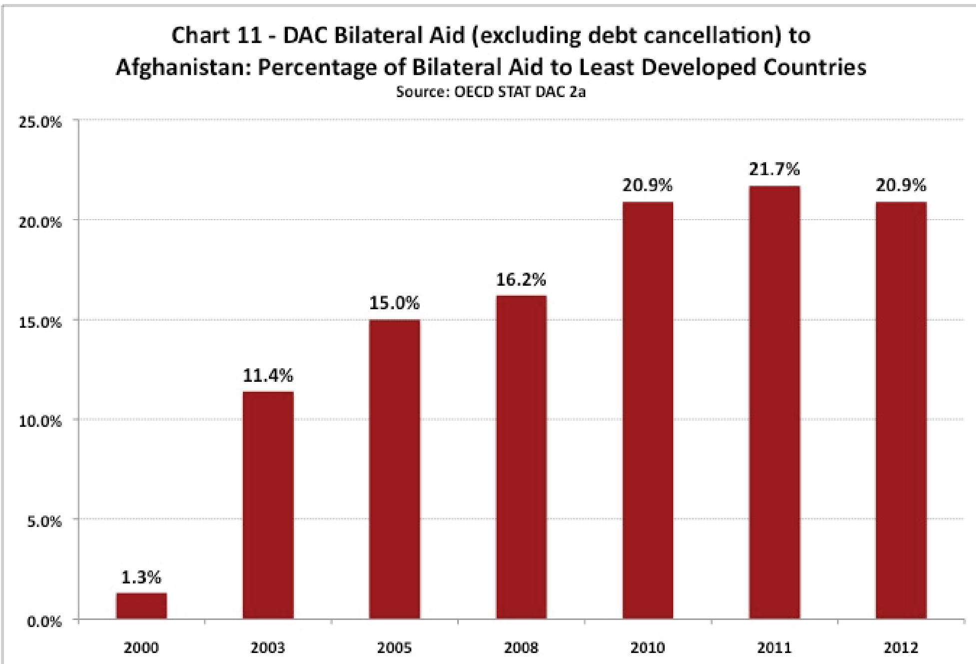


Table 4: Changes in the Value of ODA to Different Income Groups (in 2012 US dollars)

Income Groups **Percentage Change in Value**	**2000 to 2012**	**2005 to 2012**	**2010 to 2012**
49 Least Developed Countries	130%	45%	-3%
All Low Income Countries (less than $1,005 per capita income in 2010)	134%	51%	0.0%
Lower Middle Income Countries (between $1,006 and $3,975 per capital income in 2010)	40%	-14%	-13%
Upper Middle Income Countries (between $3,976 and $12,275 per capita income in 2010)	10%	28%	30%

Table 5: Changes in the Value of ODA to Different Regions (2012 dollars)

Region	**2000 to 2012**	**2005 to 2012**	**2010 to 2012**
Sub-Saharan Africa	127%	50%	2%
Asia	42%	-16%	-11%
Asia (not including Afghanistan)	13%	-27%	-14%
Americas	43%	32%	-12%
Oceania	39%	29%	-5%

period after 2005 (when donors made commitments to Africa at the Gleneagles G7 Summit), ODA to this sub-region increased in value by 50%, but since 2010 by less than 2%. Removing Afghanistan, countries in the Asia region experienced a significant decline in the value of their ODA since 2005 – by 27%, and by 14% since 2010! The value of ODA to the Americas increased modestly between 2005 and 2012, but has also declined by 12% since 2012.

Humanitarian Assistance

> Humanitarian assistance from DAC donors has remained steady at approximately 10% of Real ODA, and in light of the growing number of natural disasters is likely to continue to rise.
>
> Some domestic governments are playing an increasingly important role in responding to disasters within their borders.
>
> Improvements in humanitarian practice will form an important dimension of the post-2015 agenda (and the 2016 Humanitarian Summit), as those most affected by crisis and conflict are often people living in extreme and vulnerable poverty.

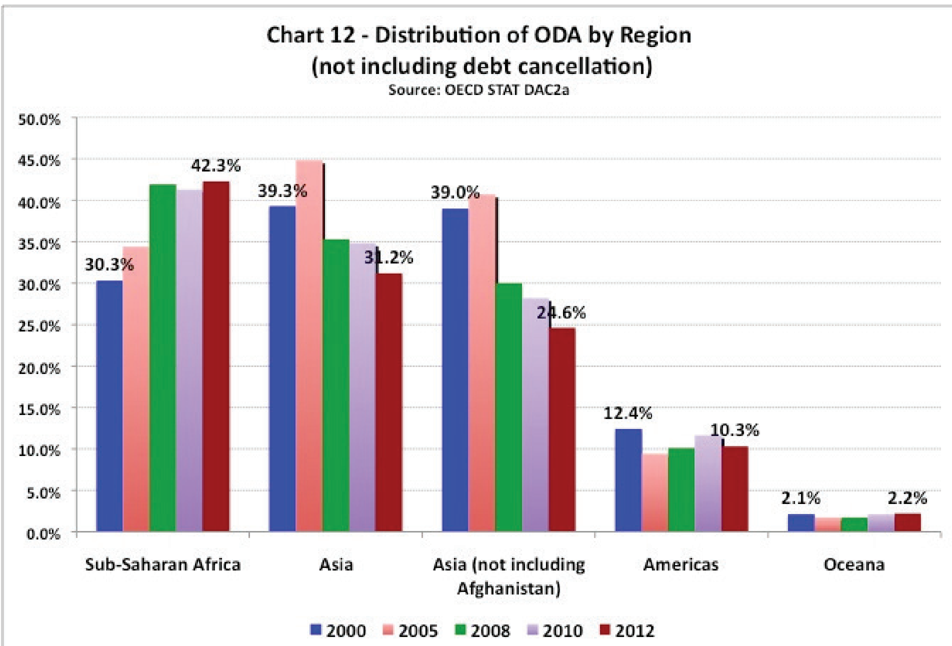
Humanitarian assistance from DAC donors has remained at approximately 10% of Real ODA (removing debt cancellation, students and refugees in donor countries) since 2008. Preliminary DAC figures (OECD STATS DAC1a) suggest a slight increase in the proportion of Real ODA in 2013 (10.1%) from 2012 (9.0%), likely due to the humanitarian needs in Syria, the responses to typhoon Haiyan in the Philippines and the needs of the Central African Republic. The annual UN appeal for humanitarian funds for 2014 at US$12.9 billion is the largest call for funds to date, an increase of $4.4 billion over 2013.[70] In June 2013 the UN also launched its largest ever country appeal for Syria at US$5.2 billion.

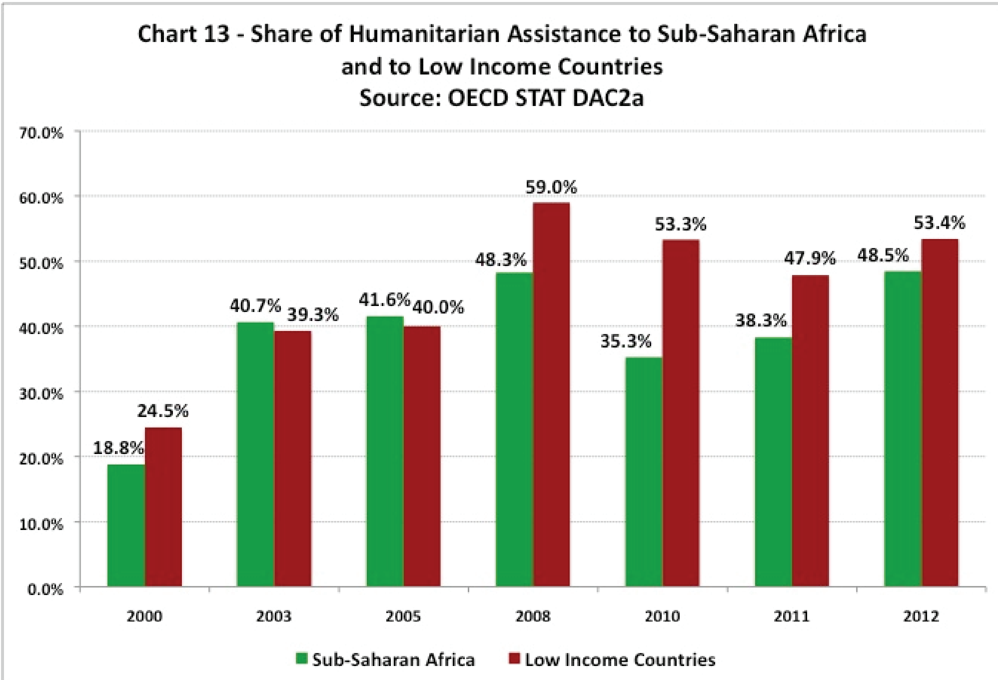
The latest *Humanitarian Assistance Report, 2014*[71] says that total humanitarian assistance from all sources in 2013 was a record US$22 billion, up from US$17.9 billion in 2012, of which DAC donors provided US$14.1 billion (64%). Other government donors provided US$2.3 billion, of which Turkey was responsible for US$1.6 billion, primarily for Syrian refugees along its border region. Private voluntary contributions in 2013 for humanitarian assistance rose significantly to US$5.6 billion from US$4.1 billion in 2012. Private humanitarian contributions made up 25% of total humanitarian aid in 2013. A previous *Humanitarian Assistance Report* makes the interesting observation that domestic governments continue to take a strong role in responding to crises: China and India were home to 78% of all people affected by disasters between 2002 and 2010, but received very little international humanitarian assistance. For example national budgets in India indicate that up to US$7 billion was set aside for disaster relief and risk reduction between 2009 and 2012 (compared to US$137 million in humanitarian assistance during that period). [72]

As indicated in **Chart 13**, low-income countries and Sub-Saharan Africa in particular receive a high proportion of humanitarian assistance at 53.4% and 48.5% respectively in 2012. Among the top recipients of humanitarian assistance through DAC ODA in 2012 were Afghanistan (US$480 million), Syria (US$452 million), Ethiopia (US$435 million), DRC (US$413 million) and Sudan (US$404 million). Humanitarian assistance for Haiti was US$253 million in 2012, down by more than half from US$514 million in 2011.

Humanitarian assistance will always be a significant component of both ODA and other aid providers' assistance programs. In the absence of robust initiatives to adapt to climate change, it is expected that major weather events will become more common, with rising impacts on those most vulnerable in the low-income countries. The United Nations in 2014 is launching a consultation process towards the first World Humanitarian Summit to be held in Istanbul in 2016.[73] This Summit is intended to address current issues facing humanitarian action and set "a new agenda for humanitarian action." Among the issues being discussed is the "political squeeze" on non-partisan humanitarian action, where donor priorities are often linked to their foreign policy and military concerns.[74]

The *2012 Global Reality of Aid Report* noted the alarming increase in humanitarian assistance delivered through





defence agencies, predominantly by the United States.[75] Humanitarian space has become dangerous space, with 152 aid workers killed in 2013.

The 2013 *Global Humanitarian Assistance Report* documented a number of areas where humanitarian actors are working to strengthen their response to people in crisis.[76] Among these initiatives are improvements in access to information, transparency and accountability, principles and standards as a benchmark to measure progress, and a focus on resilience as a longer-term foundation to improve humanitarian outcomes. These and other initiatives will contribute towards a new humanitarian agenda. Improvements in humanitarianism will form an important dimension of the post-2015 agenda, as those most affected by crisis and conflict are often people living in extreme and vulnerable poverty.

Climate Finance and Aid

While developed countries honoured their 2009 Copenhagen commitment to invest US$30 billion in Fast-Start Finance for climate change mitigation and adaptation, donor reporting made it impossible to determine if this financing was additional to ODA commitments. Donors have reported more than 80% of climate financing to the DAC as part of their ODA. Only 30% of this financing was for adaptation, affecting the impacts of climate change on poor and vulnerable populations.

Climate change is resulting in a noticeable increase in extreme weather, which in poor countries can be devastating for vulnerable and poor people for years after the climate event. Super Typhoon Haiyan in the Philippines in November 2013 brought unimaginable destruction in a 100 mile-wide path, killing more than 6,000 people. Public financing for climate change adaptation and mitigation is urgent.

To 'kick-start' these investments, developed countries in 2009 agreed to a global commitment of US$30 billion in Fast-Start Financing at the conclusion of the Conference of the Parties to the UN Framework Convention on Climate Change (COP 15) in Copenhagen. Fast-Start Finance (FSF) is intended to lay the foundation for a significant ramping up of finance from developed countries by 2020, which will lead to sustained and longer-term support for adaptation and mitigation action in developing countries.

In Copenhagen, developed countries also committed to mobilizing US$100 billion in climate financing annually by 2020 for these purposes, with the funding to come from both public and private sources. This 'long term' finance goal was reiterated at COP-16 in Cancun in 2010 and again in 2011 at COP-17 in Durban. While the 2012 Doha COP encouraged the same level of financing for 2013 and 2014 as FSF, there is no comprehensive information about donor post-FSF commitments.

The political commitment for both FSF and longer-term climate financing is that it was to be both new money and public funding *additional* to existing ODA commitments. According to a comprehensive study of FSF, developed countries reported to the UNFCCC that together they contributed US$35 billion in FSF between 2010 and 2012, thus exceeding the target. However, the study warns that, "contributing countries have taken different approaches to defining what qualifies as FSF and have included a wide range of instruments and sources of finance in their FSF reporting. For the most part, they have not used strict thresholds for assessing what is additional."[77]

The Copenhagen Agreement did not specify an appropriate proportion in its call for a "balanced allocation" between adaptation (dealing with the immediate impacts of climate change on poor and vulnerable populations) and mitigation (preventing future increases in greenhouse gases). It has been assumed by developing countries and many CSOs to mean roughly a 50/50 split, acknowledging that there is sometimes an overlap, as some activities have both adaptation and mitigation characteristics. In fact there has been a wide variation in levels of support for adaptation, ranging from close to 70% for Australia and Sweden, around 50% for France, Denmark and Switzerland, about 40% for the United Kingdom, Norway and Germany, 25% for the United States and less than 20% for Canada. As a result, it is estimated that about 30% of FSF was directed to adaptation activities.[78]

Some countries (e.g. Australia, Denmark, the Netherlands, Norway, Sweden, and Switzerland) provided FSF exclusively as grants. However, several others (Japan, France, Spain and Canada) provided FSF substantially through loans. The study referenced above found that repayable loans from all donors made up the largest share of FSF, at 48%, with 40% provided through grants. This is primarily the consequence of a very large loan portfolio in Japan's FSF, which is the largest overall donor to FSF.[79]

All donors have reported FSF as part of their ODA commitments and disbursements to the OECD DAC, making it impossible to determine whether FSF was indeed additional to existing ODA commitments. It is estimated that at least 80% of FSF has been reported as ODA.[80]

The OECD DAC has published a series of backgrounders on donor financing for climate adaptation and mitigation. Donor reporting to the DAC is based on a marker system in which donors identify climate finance activities where adaptation/mitigation is either the principal objective or where it is a significant objective among others (in this latter case the full value of the activity is included, thus distorting the total). DAC statistics for 2012 records a total of US$15.6 billion for mitigation and US$10.1 billion for adaptation from sector-allocated donor bilateral aid. Of these amounts, US$10.5 billion was spent on activities where mitigation was the principal objective and US$2.7 billion spent on activities where adaptation was the principal objective.[81]

Chart 14 highlights the relative share of climate finance for mitigation and adaptation in donor bilateral aid (where it is the principal objective), with adaptation making up only 2.3%. A large proportion of adaptation finance is recorded as a significant, but not the main, objective of activities valued in total at US$7.4 billion. According to the DAC, just three donors – Japan, Germany and the EU institutions – provided half of the recorded adaptation finance between 2010 and 2012. Donor finance for adaptation is concentrated in a few sectors – environment related capacity building, water, agriculture, forestry, and disaster risk reduction and response. Only 25% of this financing is directed to least developed and low-income countries.[82]

Almost 70% of mitigation aid finance, by contrast, targets mitigation activities as a principal objective. The energy, transport and water sectors account for more than half of mitigation aid. About 65% of mitigation aid goes to middle-income countries, with a large proportion of activities in Asia. Five donors – Japan, Germany, France, EU Institutions and Norway – account for 80% of mitigation aid activities. Also, concessional loans make up 58% of mitigation financing, compared to an ODA average of 18%.[83]

There remains only five years to fully mobilize the US$100 billion UNFCCC commitment for climate finance. In 2013 the operational terms were finally agreed to initiate the Green Development Fund (GDF) as mandated by the UNFCCC process. There is a call by the Executive Secretary of the UNFCCC to capitalize between US$10 billion and US$15 billion by November 2014. Working through the GDF will ensure that 50% of the resources are directed to adaptation activities. A quick start for this Fund will help rebuild trust in the process launched in Copenhagen and enable leadership on the part of developing countries.[84]

Sector Allocation of DAC ODA

Since 2010 there have been noticeable declines in the value of aid to several social sectors critical to addressing conditions of poverty – basic education, basic health and government and civil society. On the other hand financial services, productive services, including agriculture have shown marked increases.

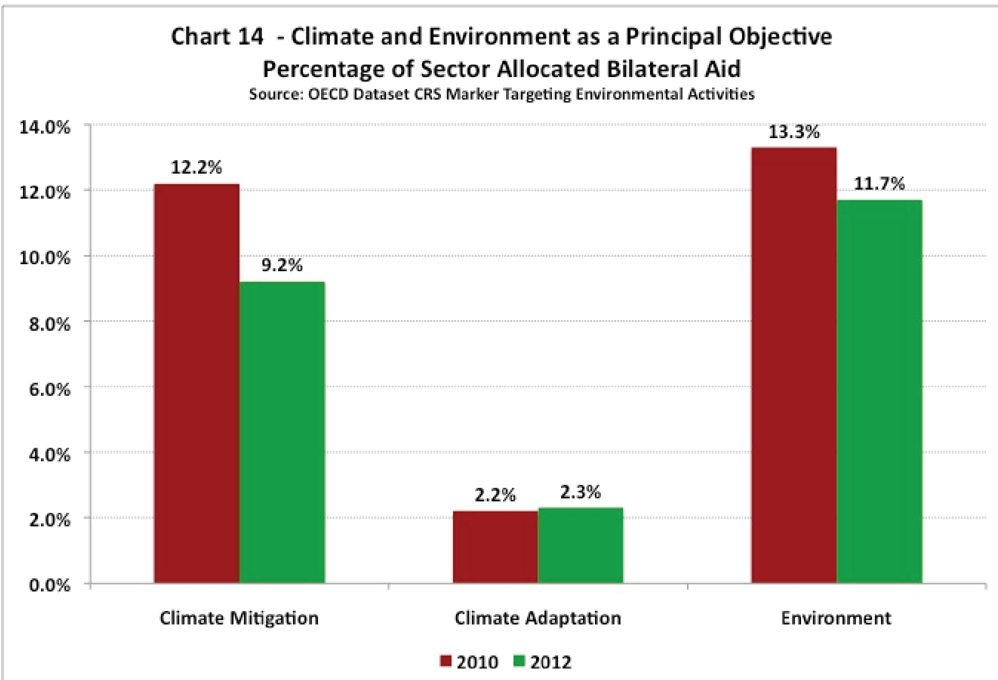


Chart 15 demonstrates changes in the allocation of both bilateral and multilateral aid to the various sectors recorded by the DAC in its Creditor Reporting System. While still almost half of ODA in 2012 (48.3%), allocations to social infrastructure and services have dropped since 2000. Within these services, commitments to basic education fell from 3.6% of ODA commitments in 2000 to 2.7% in 2012. Basic health and reproductive services' share of sector allocable ODA almost doubled from 6.6% to 12.5% in the same period. Support for economic infrastructure and services increased slightly over the 12 years, while the productive sectors and agriculture, forestry and fisheries remained at the same level.

The share of sector allocable ODA masks some important recent changes in donor priorities between 2010 and 2012. **Table Six** demonstrates the percentage change in the value (in 2012 dollars) of aid commitments devoted to key sectors.

It is notable that since 2010 the value of ODA to social and infrastructural services in general has declined slightly. But more significant declines are noted for basic education and government/civil society, with a smaller decline for basic health and reproductive services. These are key sectoral areas that address social conditions for poor and vulnerable people and will be strongly represented in the post-2015 development agenda.

On the other hand, the value of support for economic services and production, production sectors and agriculture has increased by more than 18%, 33% and 19% respectively. Agriculture is a key sector for people living in poverty, with an important increase in the value of allocations.[85] But also within the production sectors, allocations to industry and mining production was $4.4 billion in 2012, up more than 50% from 2010.

ODA directed to Gender Equality

As a share of screened ODA, gender equality as a principal objective of development activities remains at 2.4% in 2012.

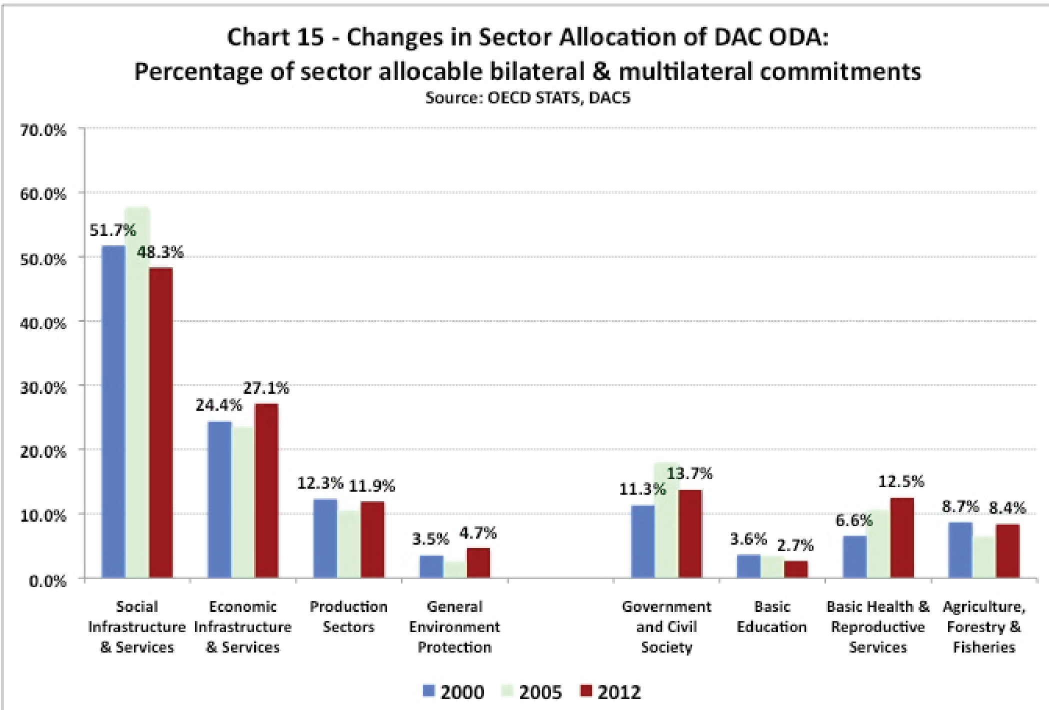


Table 6 Changes in Value of ODA to Key Sectors

Sector (Millions of 2012 dollars)	Value of ODA in 2010	Value of ODA in 2012	Change in Value of Allocation
Social Infrastructure & Services	$66.1	$65.7	-0.5%
Basic Education	$4.0	$3.6	-9.9%
Basic Health & Reproductive Services	$17.2	$17.1	-0.9%
Government & Civil Society Sector	$19.4	$18.6	-4.1%
Economic Services and Production (less Agriculture)	$31.1	$36.8	18.3%
Production Sectors	$3.6	$4.8	33.3%
Agriculture, Fisheries and Forestry	$9.5	$11.4	19.7%
Environmental Services	$6.9	$6.4	-8.2%

Source: OECD STATS, DAC5

Official donor support for women's rights organizations has shrunk in value since 2008.

The OECD/UNDP monitoring report on progress on the Busan commitment to gender equality comments,

"[G]ender equality and women's rights have long been recognized as essential components of sustainable development and are likely to be central to the post-2015 development agenda. Advancing gender equality and women's empowerment requires not only political leadership, policies and funding but also institutions, systems and data."[86]

Women's empowerment is about realizing gender equality rights as well as approaches to achieving development outcomes that are fully inclusive of women. The DAC tracks gender-oriented programming through a gender marker that identifies activities where gender is either a principal objective (gender equality is a primary goal of the activity) or a significant objective (gender equality is one among several goals of the activity). As with the climate finance marker, the DAC marker system has major weaknesses in that it records the full value of the activity for those where gender is deemed a significant objective, even where it may be one among several objectives. In addition, the significant objective indicator is subject to differing interpretations among donors and is less reliable in comparing donor commitments to gender equality.

The DAC tracking marker for "gender as a significant objective" is intended to demonstrate a commitment to mainstreaming gender equality. However, its unreliability compels Reality of Aid to look more closely at trends for activities where gender equality is the principal objective. It is reasonable to assume that such activities are essential as a catalyst for broader inclusion and mainstreaming women's rights in project activities. Similarly, donor support for women's rights organizations is an important marker for the priority given to strengthening women's voices in advocating for their rights in developing countries.

Table Seven demonstrates the very low level of DAC project activities in which gender equality is the principal objective, increasing in value by only US$600 million between 2008 and 2012. Interestingly, even programs that designate gender as a significant objective (i.e. where gender equality objectives are "mainstreamed") have declined in value by US$1.4 billion over these same years.[87]

Donors reported to the DAC that they invested on average in 2009/10 a mere US$477 million (2012 dollars) to support women's equality organizations and institutions. This represents less than 2% of all activities with a gender marker in that year. The amount in 2012 is actually $100 million less in value than donor resources invested for these purposes in 2008 (calculated in 2012 dollars).[88]

Table 7 DAC Gender Marker*
Percentage of Total Screened and Unscreened ODA

Gender Marker (Value in 2011 $)	2008	2009	2012
Principal Objective	1.8% (US$2.4 billion)	2.5% (US$3.2 billion)	2.4% (US$3.0 billion)
Significant Objective	17.5% (US$23.2 b)	20.9% (US$26.2 b)	17.4% (US$21.8 b)

Source: OECD STATS DAC Aid projects targeting gender equality and women's empowerment
** Total does not include Canada due to methodology used for gender as principal objective. 2010 and 2011 are not included due to incomplete data from the United States.*

Commenting on this decrease in official donor support for women's rights organizations, the Association for Women's Rights in Development (AWID) notes a concomitant shift to funding by private sector donors for programs focusing on the needs of individual women and girls, rather than women's rights organizations. In their words, the focus is on the "leaves" – women and girls – rather than on sustained collective action by women's rights activists and organizations – the "roots."[89]

Other Aid providers: Trends and Opportunities for the Post-2015 Agenda

Civil Society as Aid Providers in Development Cooperation

> When combined with donor resources channelled through CSOs, CSOs mainly from DAC countries are managing approximately US$65 billion in development assistance annually. This is an amount equal to about 60% of DAC Real ODA in 2012 (net of the amount transferred through CSOs).
>
> The call for inclusive partnerships to implement the post-2015 agenda requires not only the inclusion of CSO resources for development, but also the inclusion of CSOs themselves as independent development actors in their own right. This means addressing the deteriorating enabling environment for CSOs as development actors in many developing, and some developed, countries.

Civil society organizations (CSOs) are major and growing actors in development cooperation in their own right. As aid providers, CSOs channel donor resources to partners, through institutional funding of CSOs and through various donor-sponsored calls-for-proposals for CSOs to implement donor-initiated programs or projects. A considerable literature has grown around the roles of CSOs in development cooperation and the implications of various funding modalities from donors for the growth of an independent civil society in developing countries.[90]

DAC donors channelled US$15.4 billion in ODA through CSOs in 2012, down from a peak of US$18.5 billion in 2010. ODA through CSOs in 2012 was 13% of total Real ODA for that year (**Chart 16**). DAC bilateral donors are responsible for most of the ODA channelled through CSOs. Aid channelled to CSOs through bilateral ODA amounted to more than 17% of bilateral aid in 2012. These are significant amounts of funds where CSOs are delivering development outcomes for donors (and for several donors such as Ireland, Sweden, Switzerland, and the Netherlands, aid delivery through CSOs is more than 30% of their bilateral aid).

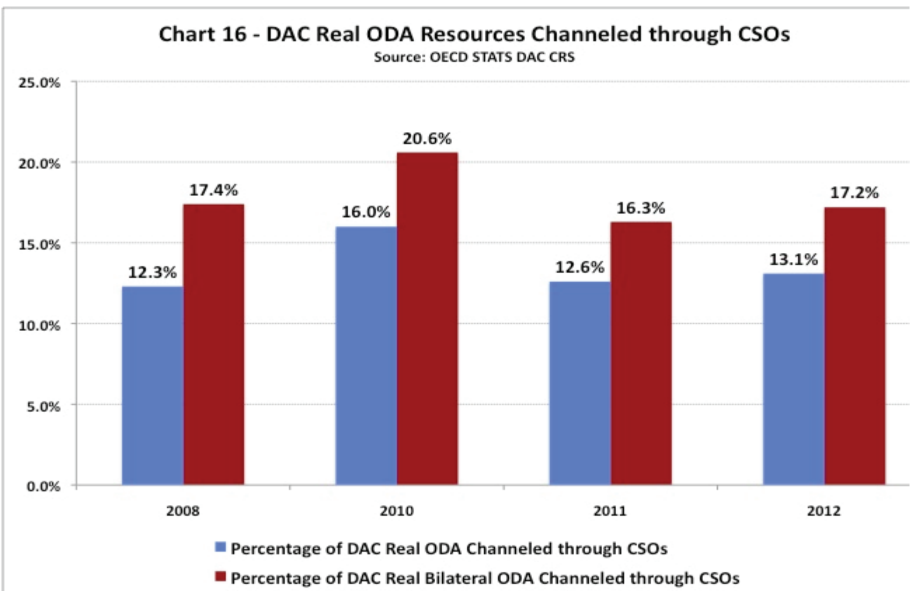
The DAC also provides an estimate of private grants made by CSOs in the donor country. In 2012 this estimate was US$29.8 billion, almost double the amount that donors channel through CSOs. There are few reliable statistics on total flows through CSOs to developing countries, including private fundraising by CSOs. This is particularly true of aid-providing countries outside the United States. In the US, the Center for Global Prosperity estimates US privately raised funds for international assistance in 2011 at US$28 billion in the US alone, almost equal to the DAC estimate of US$29.8 billion for all donors.

Globally, the Center for Global Prosperity's estimate for total privately-raised CSO flows is US$48 billion, including US$366 million from philanthropists in Brazil, China, India and South Africa.[91] A report from TIKA, the Turkish aid agency, showed US$200 million in aid provided through Turkish CSOs, mainly to Africa.[92] When combined with donor resources channelled through CSOs by donors, CSOs mainly from DAC countries are managing approximately US$65 billion in development assistance annually. This is an amount equal to about 60% of DAC Real ODA in 2012 (net of the amount transferred through CSOs).

Financial flows from the largest International NGO families (INGOs) make up a significant and growing amount of aid from CSOs. Eight global INGOs had combined global revenue from all their affiliates of over US$11.7 billion in 2011, up more than 40% since 2005. These eight INGO families would make up almost a fifth (18%) of the estimated total CSO development assistance noted above.[93] Beyond these INGO families raising money predominantly in developed countries, is a growing body of Southern NGOs raising funds domestically and regionally. For example, 20 of the largest Muslim NGOs, many of them based in the South, collectively have revenue of $560 million.

Private sources of finance are also a growing source of funding for humanitarian assistance. The NGO, Development Initiatives, estimates private funding through CSOs for these purposes at US$5.6billion in 2013 (up from US$4.1 billion in 2012), with over a quarter of humanitarian assistance between 2008 and 2012 from private donors.[94] Private funding for humanitarian emergencies are more volatile than government sources, with private funds in 2012 dropping 26% since 2010, compared to 7% for institutional funding.[95] According to the Global Humanitarian Report 2014, among private donors, NGOs raise the majority of the funds – US$3.8 billion in 2012. The NGO Médecins Sans Frontières (MSF) raises about 26% of all private funds raised by the NGOs monitored by this Report.[96]

Clearly CSOs are evolving quickly as sophisticated aid providers involved in all sectors of development



cooperation. At the same time, there is growing documentation in many countries of significant deterioration in enabling conditions for CSOs to operate as full development actors (legal restraints on registration, changing funding modalities, restrictions on receipt of foreign funds, attacks on human rights defenders, limited access to policy dialogue at the country level, etc.).[97] CSOs are critical actors involved in coalescing the voices of those most affected by poverty and exclusion and these voices often confront the priorities of ruling elites.

The UN Secretary General has called for an inclusive partnership involving all stakeholders in implementation of the SDGs.[98] But inclusive partnerships, involving CSOs, will not only require allocation of substantial CSO financial resources in partnership with other stakeholders. Such allocations will have limited impact in the absence of deliberate action by governments to improve the enabling conditions for CSOs to realize their full potential as development actors, which has been a commitment of governments since the Accra and Busan High Level Forums.

Aid and the Private Sector

> Donors are now pro-actively engaging the corporate private sector, not only as economic actors, but also as development partners in their own right. However, to date there is little assessment of the private sector as a development actor contributing positively to development impacts and outcomes.
>
> Donors are primarily preoccupied in establishing an open enabling environment for business, with the implication that increased dialogue with this sector to establish this enabling environment brings with it development roles and outcomes from private sector activities. The evidence to date suggests that the benefits still accrue to large companies, while the risks to populations living in these countries
>
> This bias towards the private sector as development actors will likely become more pronounced post-2015. Inclusive dialogue on the normative foundation of the private sector's contributions to development must inform, and be explicit, for any private sector role in the post-2015 agenda and SDGs.

The private sector in all its different manifestations is an essential contributor to sustainable livelihoods, with the potential to mobilize domestic resources and investment for development. As such, donors have long promoted private sector development in different country contexts. However, in recent years, donors have been pro-actively engaging the corporate private sector, not only as influential economic actors, but also as development partners in their own right. This engagement includes collaboration on approaches that focus on strengthening economic growth, as well as the design and implementation of private sector oriented projects to address development challenges across many sectors. The 2011 Busan Partnership recognized the central role of the private sector in contributing to poverty reduction. Following the Busan HLF, the OECD/UNDP monitoring team committed to the development an indicator on private sector engagement in monitoring the Busan commitments.

The 2012 Reality of Aid Report brought thematic attention to the different dimension of private sector partnerships and their implications for donor efforts to tackle poverty reduction and marginalization on the ground in developing countries. This earlier Report described civil society critiques and recommendations on aid policies and modalities for engaging and strengthening the private sector – looking more closely at the roles of Development Finance Institutions (DFIs), Public Private Partnerships, Aid for Trade, etc. This 2012 analysis is still very relevant and should be considered background for understanding the role of the private sector in strategies to finance the post-2015 SDGs.[99]

Despite recent preoccupations with the private sector as a development actor on the part of donors, multilateral organizations and think tanks around the world, the OECD/UNDP monitoring of the Busan commitment to engage the private sector does not try to assess the private sector as an effective development actor. Rather, the indicator measures the quality of public-private sector dialogue in developing an enabling environment for business, with the untested assumption that this enabling environment will lead to development outcomes on the part of the private sector.[100]

Measurement of the extent of private sector contributions to development cooperation is also not captured in DAC databases, with the exception of public private partnerships (PPPs). According to DAC statistics, allocations to PPPs peaked in 2010 at US$886 million, but since then PPPs have declined sharply to US$361 million in 2012 (DAC CRS Database). No explanation for this decline is given.

At the donor level, despite rhetoric, the extent of direct engagement with the private sector as an implementer for ODA projects is also largely unknown, but is likely relatively modest.[101] For example, in Canada — a donor country that has emphasized the private sector as a partner in development for the past five years — only a small amount of ODA is implemented directly by the private sector. In 2012/13 the private sector implemented less than 4% of Cdn$3.6 billion in ODA managed by the Department of Foreign Affairs, Trade and Development, including disbursements through the World Bank's International Finance Corporation.[102] At the same time, the Canadian mining sector has been involved in high profile partnerships with government, universities and CSOs, which implement mining projects in countries where Canadian mining companies have a large presence.

This bias towards the private sector as development actors will likely become more pronounced post-2015. Major donors such as the UK and the United States are committed to expanding partnerships with the private sector.[103] Under the US initiated New Alliance for Food Security, a number of large "mega-PPPs" are being encouraged to attract technology and investment in African agriculture. A recent review of several of these PPPs in terms of reducing poverty demonstrate that the benefits are most likely to accrue to the powerful companies and the risks to the rural livelihoods of the poorest and most vulnerable.[104]

Without similar comprehensive data, particularly on partnerships with the private sector at the country level, the reality and nature of private sector partnerships remain elusive. Much of the growing roles of the private sector in development cooperation are indirect, via support for these roles by multilateral development banks and other development finance institutions (DFIs). The latter enable the private sector to collaborate and invest in development through public financed subsidies, investment guarantees and innovative risk mitigation products.[105]

Enhancing the private sector's contribution to development through aid-for-trade

Ever since the failure of the WTO Doha "development round" of comprehensive trade negotiations, donors have increased their investment in "aid for trade" to improve trade-related development outcomes in which the private sector is a main actor. The 2012 Reality of Aid Report noted that many donors have enhanced their aid-for-trade strategies as a result of placing greater emphasis on the private sector and economic growth in their aid policies. However, an accurate assessment of "aid-for-trade" is difficult, both in terms of the amounts of ODA invested, but also in relation to the impact of trade on development outcomes for poor and marginalized populations.[106]

There is a need to disaggregate DAC reporting on aid-for-trade to have a more accurate picture of these investments. In reporting aid-for-trade, the DAC includes total support to economic infrastructure (including banking and services for micro-finance) and to production (including all agriculture investments). There is no attempt to distinguish actual trade related support. The DAC figure of US$41.8 billion in 2011 is consequently a gross exaggeration.[107] While not inclusive of all aspects of aid for trade, a more accurate indicator in the DAC Creditor Reporting System is aid to "trade policy and regulation." The value of these commitments to trade policy and regulation (in 2012 dollars) peaked at US$904 million in 2010, but was only $628 million in 2012.

Strengthening private sector accountability and the post-2015 agenda

At the High Level Meeting of the Global Partnership in Mexico in April 2014, there was an important commitment by the Partnership, including representatives of the private sector, to "recognize the importance of private sector accountability." The final Communiqué welcomed "hubs for inclusive multi-stakeholder dialogue on a broad range of public-private partnerships, including trade unions and civil society organizations, with the aim of improving the alignment of business and development core objectives through the enhancement of … corporate social and environmental responsibility."[108] Inclusive dialogue on the normative foundation of the private sector's contributions to development must also inform the UN's post-2015 agenda.

Discussions within the UN post-2015 process all point to a greater role for the private sector as a partner in realizing the SDGs. UN Secretary General Ban Ki-moon recently proposed a new UN partnership facility to capture the full potential of partnerships, most particularly with the private sector, to "help us deliver at scale — globally and at country level — across the range of UN mandates, goals and values."[109] Civil society activists at the UN are deeply concerned about the potential "privatization" of the post-2015 agenda, often with privileged access for large corporate players to influence this agenda outside established regular intergovernmental and accessible consultative processes.[110]

The corporate private sector may have important roles to play in implementing the post-2015 agenda, but only if they are substantially guided by the normative framework of the UN. A commitment to accountability also requires the private sector to acknowledge and address the corporate sector's responsibilities, collectively and individually, for exacerbating some of the development challenges that the post-2015 agenda is intended to address. The Member States of the UN could establish system-wide guidelines for inclusion of private actors that explicitly prevent partnerships with such actors that have violated internationally agreed environmental, social and human rights conventions and UN principles on corruption, sanctions, tax evasion, etc.[111]

South-South Aid Providers

South-South aid providers will be playing a crucial role in financing and knowledge exchange for the post-2015 SDGs. The 2014 Global Partnership's HLM in Mexico noted that SSC was not a substitute for, but a complement to, North-South co-operation.

Middle-income aid providers for SSC are estimated to contribute $23.6 billion to development cooperation, an amount that has been growing significantly in the past five years, during a period when many North-South donors have flat-lined or reduced their aid. These flows are now about one-third of DAC donors' Country Programmable Aid.

UN Secretary-General Ban Ki-moon underscored the importance of South-South Co-operation (SSC) in advancing the MDGs and playing a crucial role in financing and knowledge exchange for the post-2015 SDGs.[112] As the 2011 Busan Partnership for Effective Development Co-operation highlighted, "South-South and Triangular co-operation have the potential to transform developing countries' policies and approaches to service delivery by bringing effective, locally owned solutions that are appropriate to country contexts." [§30] The April 2014 High Level Meeting (HLM) of the Global Partnership in Mexico focused major attention on South-South and Triangular co-operation, welcoming "the initiatives undertaken by Southern partners to deepen the understanding of the nature and modalities of South-South co-operation and the ways and means to enhance its developmental impact as well as its potential synergies with the efforts of other development cooperation partners and modalities." [§27]

While an essential and growing part of the financial architecture for development, the 2014 HLM noted that SSC was not a substitute for, but a complement to North-South co-operation [§27]. Middle-income aid providers for SSC are estimated to contribute US$23.6 billion to development cooperation (**Table Eight**), an amount that has been growing significantly in the past five years, during a period when many North-South donors have largely flat-lined or reduced their aid.

Several major South-South aid providers do not publish statistics on concessional aid flows comparable to DAC's ODA. It is consequently difficult to measure recent trends in South-South assistance. The seven donors in **Table Eight** reporting their aid flows to the OECD DAC could serve as a proxy indicator. Flows from these seven donors more than doubled between 2010 and 2013, increasing by 170%, mainly due to very large growth in assistance by Turkey and the UAE. A recent study put the growth in Chinese assistance at 58% between 2011 and 2013.[114] More than half of Chinese aid between 2010 and 2012 is reported by the Chinese government to be directed to Africa, with 30%

Table 8: Current Estimates of South-South Assistance for Development Cooperation (ODA-equivalent aid)

Aid provider	Concessional Assistance	Data Year
SSC Aid providers reporting to the DAC		
Saudi Arabia	$5,683	2013
United Arab Emirates (UAE)	$5,091	2013
Turkey	$3,276	2013
Taiwan, China	$273	2013
Kuwait	$149	2013
Cypress	$25	2013
Thailand	$17	2013
SSC Aid providers, not reporting to the DAC (estimates)113		
China	$7,100	2013
India	$850	2012
Brazil	$900	2010
South Africa	$217	2012
Indonesia	$10	2011
Mexico	N/A	
Venezuela	N/A	
Total South-South Providers (estimate)	$23,591	
Percentage of DAC Real ODA (2013)	19%	
Percentage of Programmable ODA (2012) (Including humanitarian assistance)	36%	

Millions of US$

to Asian countries and 8% to Latin America. Almost two-thirds (63.8%) of this assistance was provided in the form of concessional or interest-free loans, and 36.2% in grants.[115]

At US$23.6 billion, South-South aid flows are now more than one-third of the DAC donors' country programmable aid (see §5, Chart 8 above), including humanitarian assistance with programmable aid. However, South-South assistance is also highly concentrated, with four SSC aid providers (Turkey, Saudi Arabia, the UAE, and China) accounting for 90% of these flows.

Large knowledge gaps continue to affect understanding of SSC, not only in terms of volumes of flows and their concessionality, but also in terms of the details on the management of these flows, their impact on development outcomes, and the quality of the aid relationships. Several middle-income developing countries have been engaging in SSC for many decades. It has taken many forms – bundling investment opportunities, technical assistance, provision of appropriate technology, training and education exchange – and used different modalities, through grants, concessional and non-concessional loan finance. Loan finance supports financial investments and trade relations on the part of China or Brazil around the world. Some 43% of outward foreign direct investment by the BRICS is in the respective neighbouring countries in Latin America, East Asia, South Asia and the transition countries.[116] The US$23.6 billion identified above focuses on a smaller set of SSC development assistance activities that are supported through grants and concessional loans on terms approximately comparable to the DAC requisites for ODA.

SSC aid providers are also having an impact on development co-operation discourse in both the Global Partnership and the post-2015 development finance debates. SSC aid providers stress a number of principles and characteristics that they insist distinguish their co-operation from traditional DAC aid. Among these factors are approaches based on 1) solidarity and sensitivity to country contexts resulting from a shared experience of colonial domination, 2) respect for sovereignty and national independence, with non-interference in what are considered domestic matters, 3) sharing appropriate expertise based on common development challenges, and 4) greater flexibility, simplicity and speed of execution.[117] At the same time countries involved in South-South co-operation are often explicit about their strategic objectives, linking SSC directly with political and commercial "enlightened self-interest".[118]

SSC has grown in scale in line with rapid growth in several SSC aid-providing countries. But what should be the framework for understanding the relevance of SSC to the post-2015 agenda? While seen to be a more equitable form of cooperation based on a shared experience in development, there is in fact little analysis of evidence regarding SSC effectiveness on development outcomes for addressing poverty and inequality. And yet reducing poverty and inequality are crucial goals for the post-2015 agenda.

Challenges in SSC

At a more political level, should SSC be assessed just as another channel for financing the MDGs or SDGs, either directly or through triangular co-operation with DAC donors? Or should SSC be considered less an aid relationship, and more a part of a deepening of South-South political and diplomatic relations? Is SSC primarily a way of advancing the interests of key middle-income countries in global debates, where the latter stress the importance of differential responsibilities for sustainable development? These questions are beyond the scope of this chapter, but will ultimately shape the contribution of SSC in advancing SDGs.

As a modality for advancing the SDGs, SSC may face a number of challenges. There is some evidence that current practices in SSC, resulting from diplomatic engagements, are leading to scattered and fragmented initiatives.[119] A lack of transparency for SSC limits the scope for partner countries, civil society, and the international community to understand the current dynamics in SSC. Improved transparency and accountability in SSC will be essential for peer learning and building on SSC contributions among all stakeholders at the country level. At the April HLM in Mexico, SSC aid providers committed to share more information about their activities in other developing countries, but unfortunately did not commit to sharing this information in a format consistent with the International Aid Transparency Initiative (IATI) common standard.[120]

SSC aid providers do not wish to be subject to peer reviews and traditional donor standards that they have had no role in devising. The GPEDC has initiated a global discussion on norms in development co-operation and some SSC aid providers have been active within this forum to advance their perspectives. Following the HLM in Mexico, the Government of Mexico has agreed to be a co-chair of the GPEDC. Nevertheless, at the same meeting, China, Brazil and India were notable in their absence. Clearly, an effective and inclusive forum for discussing the changing architecture in development finance, both outside but also within the United Nations, will be critical to advancing a truly inclusive development cooperation reform agenda alongside the SDGs.

Accountability to populations affected by development projects is a crucial element of post-2015 partnerships involving SSC. Inclusive processes for accountability have not been evident in SSC (and they are also largely absent in DAC aid relationships). A number of SSC aid providers, such as Turkey, have been working to include CSOs in their aid relationships, while others such as India and South Africa have already or are initiating dialogue.[121]

In Brazil, however, to date there has been limited dialogue between CSOs and the government on its policies and programs for SSC. Nevertheless, strong direct linkages between Brazilian and partner country CSOs have been developing parallel to Brazilian SSC. In the case of Mozambique, Brazilian and Mozambican CSOs have coordinated the sharing of information and reactions to a major Brazil / Japan / Mozambique program for Triangular Co-operation for the agricultural development of the Tropical Savannah in Mozambique. Mozambican small farmers' organizations are deeply concerned that this project is reproducing issues that have plagued Brazilian agriculture, such as agribusiness, monoculture and land grabbing, leading to the concentration of land ownership. This is a model that has been challenged by CSOs in Brazil over the past 15 years. A recent letter signed by 23 Mozambican CSOs, and supported by 43 international organizations, has called for a suspension of the program, in order to launch an inclusive social dialogue in Mozambique for the prioritization of family farming, agro-ecology and a policy based on food sovereignty.[122]

Conclusion

The UNDP 's 2013 *Human Development Report* focuses global attention on "the rise of the South." While the South is developing at "unprecedented speed and scale," it will also be expected to contribute effectively to the post-2015 SDGs, acknowledging and respecting its differential responsibilities.[123] In order to do so, the global community will need to overcome current blocks to reach a consensus not only on the SDGs, but also on the underlying values and approaches to development co-operation that will shape the engagement of all development actors in realizing these goals. The July 2015 UN Conference on Financing for Development will be an important venue for bringing the norms and commitments of the GPEDC, the experience of SSC, and the contribution of non-state development actors, into an inclusive and legitimate UN process.

Annex One

Government Spending Per Capita, Conditions of Poverty, and Developing Country Income Groups

Table One: Extreme Poverty (Living on $1.25 per day or less)

Government Spending Per Capita Percentage of Total Population (Number of Countries)	Least Developed & Low-Income Countries	Lower Middle-Income Countries	Upper Middle-Income Countries
Less than $200	53.7% (6)	--	--
$200 to $500	42.7% (24)	19.8% (4)	--
$500 to $1,000	16.3% (7)	30.0% (12)	--
$1,000 to $1,500	--	8.6% (5)	2.2% (1)
$1,500 to $2,000	3.8% (2)	3.1% (6)	10.9% (6)
$1,500 to $2000 (No China)	--	--	1.7% (5)
More than $2,000	--	0.0% (1)	4.1% (24)

Source: Development Initiatives, Investments to End Poverty & World Bank Database

Table Three: Poor and Near Poor (Living on $4.00 per day or less)

Government Spending Per Capita Percentage of Total Population (Number of Countries)	Least Developed & Low-Income Countries	Lower Middle-Income Countries	Upper Middle-Income Countries
Less than $200	91.4% (6)	--	--
$200 to $500	88.5% (24)	83.5% (4)	--
$500 to $1,000	74.3% (7)	87.5% (12)	--
$1,000 to $1,500	--	53.0% (5)	35.0% (1)
$1,500 to $2,000	86.3% (2)	60.7% (6)	55.3% (6)
$1,500 to $2000 (No China)	--	--	31.6% (5)
More than $2,000	--	1.9% (1)	26.8% (24)

Source: Development Initiatives, Investments to End Poverty & World Bank Database

Table Two: Vulnerable Poor (Living on $2.00 per day or less)

Government Spending Per Capita Percentage of Total Population (Number of Countries)	Least Developed & Low-Income Countries	Lower Middle-Income Countries	Upper Middle-Income Countries
Less than $200	75.2% (6)	--	--
$200 to $500	68.5% (24)	52.2% (4)	--
$500 to $1,000	39.6% (7)	61.4% (12)	--
$1,000 to $1,500	--	20.0% (5)	9.8% (1)
$1,500 to $2,000	63.3% (2)	15.9% (6)	25.2% (6)
$1,500 to $2000 (No China)	--	--	6.4% (5)
More than $2,000	--	0.1% (1)	9.1% (24)

Source: Development Initiatives, Investments to End Poverty & World Bank Database

Annex Two

Future Trends in Donor ODA

Donor	Expect Trends	2012 to 2013 Performance
Australia	Decrease: ODA pegged at AUS$5 billion, which CSOs estimate cuts AUS$7.6 billion from ODA over five years (based on previous commitments). More than 20% of savings in recent budget came from foreign aid.	Decreased
Canada	Decrease: CSOs expect cuts initiated in 2011 to continue in 2014, with no indication when the government will commit to sustained increases in ODA.	Decreased
Finland	Decrease: CSOs expect cuts of €50 million to €100 million between 2015 and 2017	Increased
France	Decrease: CSOs expect cuts experienced in 2013 to continue in 2014 and 2015, plus France will increase the level of loans in its ODA. "We have information indicating that development aid will be cut disproportionately in the next three-year budget, 2015-2017. Cuts could amount to 10%, when the global budget will only be cut by 4%," said Friederike Röder (ONE France).	Decreased
Germany	Increase: Small increase expected in 2015 over 2014 for BMZ: Funds will only increase by a sum of €1.6 million compared to 2014 (EurActiv, 28/03/14).	Increased
Ireland	Decrease: Budget for 2014 cut the aid budget by €19.4 million. ODA has been cut six years in a row, falling by 34.6% since 2008.	Decreased
Japan	Increase: ODA for 2014 up 5% to US$16.5 billion, mainly due to US$880 million in new loans	Increased
Korea	Increase: Korean ODA is expected to increase by 11% in 2014 to US$1.2 billion	Increased
Netherlands	Decrease: Under the coalition agreement, €1 billion in cuts to the Netherlands' development cooperation program will be effective as of 2017. Dutch aid is expected to drop from 0.71 percent in 2012 to 0.60 percent of its gross national income by 2015.	Decreased
Norway	Increase: The Government proposes an allocation of NOK 31 522 million for international development cooperation in 2014. This is NOK 1 314 million more than the final budget for 2013. The proposed allocation brings the aid budget to 1 % of the estimated gross national income for 2014. (Norway Ministry of Foreign Affairs, Program Area 03 for 2014)	Increased
Spain	Decrease: Secretary of state for International Cooperation and Ibero-America: "Spanish foreign aid will now be based more on the exchange of knowledge, know-how and experience than on providing funds."	Increased
Sweden	Increase	Increased
United Kingdom	Increase: Modest increases in line with increases in UK GNI to maintain 0.7% performance.	Increased
United States	Decrease: Overall proposed foreign aid budget for 2015 comes to US$30.3 billion, a 6% decrease.	Increased

Endnotes

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6 MDG One on reducing poverty is solely linked to changes in the proportion of people living on US$1.25 per day. But the World Bank's Voices of the Poor in 2000 demonstrated that people experience poverty in many dimensions. There are also major issues in measuring per capita income in many developing countries and comparing levels in different countries. The Oxford Poverty and Human Development Initiative (http://www.ophi.org.uk/) takes a different approach – examining ten indicators of poverty, and if a person/household scores on more than a third, this person is considered poor. On this measure 1.6 billion people are living in multi-dimensional poverty, of which 85% live in rural areas and most (71%) live in middle-income countries.

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capita. This section is based on original and excellent research by DI, particularly chapter 2, "Mapping resources to end poverty," in Investments to End Poverty, 2013. The DI publication focuses on extreme poverty. This chapter for Reality of Aid extends the analysis to poverty defined as $2.00 a day and $4.00 a day, for which the author is solely responsible.

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21 Quoted in Development Initiatives, 2013. op. cit., p. 36.

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29 Ibid., p. 14. Alonso, Glennie and Summer, 2014, op.cit., page 21 point out other factors that affect tax collection, including the extent of the informal economy, large number of very small companies, weakness of institutions and tax administrations, a shortage of tax statistics and illicit capital flows in middle income countries.

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