The Changing Faces of Aid:
Encouraging Global Justice or Buttressing Inequalities?

The Reality of Aid International Coordinating Committee

Introduction: Setting the Context

On September 2015 the UN General Assembly adopted the *2030 Agenda for Sustainable Development.* Member states agreed to a unique *Agenda* for people, planet and prosperity, one that recognizes "eradicating poverty in all its forms and dimensions, including extreme poverty, is the greatest global challenge and an indispensable requirement for sustainable development."[1] The question is whether the international community has provided sufficient and quality resources to realize the Agenda's vision and promises.

This 2018 Reality of Aid Global Report examines recent changes in the direction and prospect for international aid in the context of *Agenda 2030,* as well as the persistence of poverty and growing inequalities within and between countries. What role can and should Official Development Assistance (ODA) play in meeting the financing needs of *Agenda 2030*? Is ODA fit for this purpose?

Agenda 2030's comprehensive and transformative vision aims for "a world of universal respect for human rights and human dignity." It is a universal *Agenda* for a world in which all forms of inequalities between and within nations are reduced. Gender equality and women's empowerment are given priority. New paradigms for the stewardship of the planet would," address decisively the [global] threat posed by climate change and environmental degradation."[2]

Achieving *Agenda 2030* requires a focused commitment by all the world's countries, including the transformation of development cooperation as a dedicated source of finance. While not the largest international resource, ODA is a unique and crucial public resource for the SDGs, as it can be deliberately programmed as a catalyst for reducing poverty and inequalities. Other resource flows may be important for the SDGs, but by their nature, they are often driven by other purposes. The credibility for increased ODA is not its ability to mobilize other flows, but its coherence with efforts to transform the living conditions of people affected by poverty, marginalization and discrimination.

What are the accomplishments to date? Are the current directions in ODA helping or hindering the realization of *Agenda 2030* and the SDGs*?* These questions are the reference point for the Report's thematic chapters and case studies contributed by civil society activists in the North and the South. Unfortunately, they provide overwhelming evidence that aid resources are woefully insufficient and often misdirected. They are increasingly being deployed in ways that exacerbate rather than eradicate poverty. Instead of following the dictate to 'leave no one behind,' aid may be contributing to the increase, rather than the reduction of inequalities.

Development cooperation must be transformed in support of *Agenda 2030*

We live in a world with unacceptable levels of poverty and inequalities. The Reality of Aid Network has strongly advocated for the retooling of ODA, to make it an essential resource to address and challenge these conditions. This goal requires answers to complex questions. What should be ODA's central purpose? Under whose direction should these objectives be implemented? What are the implications for people living in poverty or otherwise marginalized? Governments, civil society and the private sector often have widely different views on these issues; aid and development cooperation is a contested terrain.

"Beyond Aid" is an unhelpful discourse

Mainstream development advocates and many governments are increasingly promoting a discourse of moving "Beyond Aid" to progress from "billions to trillions" to fully finance the SDGs.[3] They focus on the deployment of a wide variety of resources, some concessional, but mostly non-concessional, in the implementation of the SDGs. In this scenario, ODA is viewed as a diminishing and somewhat irrelevant resource. While it is recognized that the poorest countries may still require ODA, its proposed role in many contexts is limited to that as a catalytic agent in the mobilization of private finance for development. At the OECD's Development Assistance Committee (DAC), providers are discussing terms for the "modernization of ODA," and the development of incentives whereby ODA will facilitate other forms of development finance.

In this "Beyond Aid" context, many providers now focus on opportunities presented by 1) a growing diversity of development actors, largely outside the traditional aid system, including middle-income country providers; 2) a diversity of financing modalities available to developing countries, including various forms of private financial flows; and 3) the broadening of public policy goals whereby ODA is positioned to meet the challenges of climate finance, security and migration or public/private partnerships for infrastructure development. The DAC affirms, at least on paper, that ODA will continue to play a key, but updated, role in development finance.

The Reality of Aid Network, and the authors of this Report, acknowledge and respond to the complexities inherent in current trends in development cooperation. However, civil society organizations (CSOs) are not so quick to dismiss aid. Rather, they strongly promote it as a fully concessional resource uniquely positioned to tackle poverty and inequality. It is highly relevant across a wide range of country contexts: Agenda 2030's directive "to leave no one behind" calls for actions in both poor and middle-income countries, although priorities and modalities may differ.

Poverty is not just concentrated in the poorest countries; it also is a reality for hundreds of millions of people in middle-income countries. As noted in the Report's aid trends chapter, almost 47% of the population in lower middle-income countries are living in poverty, as defined by World Bank poverty lines. An estimated 2.4 billion people, or 40% of developing countries' populations, are living inside serious conditions of poverty and suffer from various forms of exclusion.[4]

Marginalizing aid as a development resource raises questions about the commitment of aid providers to take action against poverty and inequality. Clearly aid must be substantially increased to effectively meet these challenges in both least developed and lower middle-income countries. To be consistent with *Agenda 2030's* vision, aid practices must also be vigorously examined and reformed in terms of its geographic priorities as well as its modes of delivery.

An expanded and reformed ODA is an essential resource for ending poverty

Rather than side-lining and instrumentalizing aid for broad foreign policy purposes, Reality of Aid authors seek a re-conceptualization of development cooperation, seeing it as fundamental to international solidarity, an approach that responds to the broad challenges of ending poverty and tackling inequalities.

This reconceptualization requires that development cooperation move away from the traditional aid paradigm defined by charitable and short-term donor-determined results. It recognizes that this latter approach can exacerbate the "us/them" global dichotomies between and within countries, and thus may perpetuate poverty and inequality. Civil society activists have long seen traditional notions of aid as "antiquated, if not outright neo-colonial."[5] They challenge the current reality whereby Northern governments impose their priorities and allocate relatively small amounts of aid to "fight against extreme poverty." No longer should Northern agencies be using their own experts to promote models of "good governance" and required "economic reforms," as a precondition for "partnerships" with developing country counterparts.[6]

The level of ODA provided is also a major issue of concern. Report authors, from both developed and developing countries, stress the moral, if not legal, obligation to allocate aid at the level of the long-standing ODA target of 0.7% of providers' Gross National Income. The reality is that ODA growth is very modest at best, with Real ODA increasing from $102.7 billion in 2013 to $125.5 billion in 2017. It grew by only 3% from 2016 to 2017.[7] If the 0.7% target had been met, $325 billion in aid, almost three times the actual 2017 level, would have been provided – a substantial contribution towards the realization of the SDGs.

The expansion of a reformed ODA would deliver a significant resource for catalyzing action for more equitable and sustainable development. As a public policy choice, provider governments can, and should, choose to devote it exclusively to reducing poverty and inequalities. As noted above, this would make ODA invaluable, as it is a unique development finance resource. For the least developed, and most middle-income countries, ODA's concessionality and grant form is also crucial as it allows them to build, from low levels of revenue, their own capacities to finance sustainable development.

ODA is a critical resource for the United Nations as well as a range of other multilateral institutions and CSOs, the latter act as independent actors for development and accountability. Assuming rigorous levels of transparency, ODA is currently the only international development flow whose impact is traceable and accountable in the public realm.

As summarized in this Reality of Aid Report,

> "The importance of ODA is not determined by its ability to combine with other resources for development, however important they may be. Rather, its legitimacy is derived from its maximum coherence with efforts to transform the living conditions and enhance opportunities for people affected by poverty, marginalization and discrimination."[8]

ODA will be needed in vastly increased quantities, and with significantly improved effectiveness, over the next several decades. While it may never be the largest resource for development finance ODA can be, and must be, a <u>leading and essential component</u> of poverty eradication. This renewal is essential if the global community has any chance of turning around the triple crises of out-of-control inequalities, threats to planetary survival, and growing attacks on democracy.

The governments of developing countries must set the course for determining their own development priorities through processes that include the full participation of citizens and their organizations. If substantially reformed, ODA could be a resource to facilitate these processes, one that developing countries could apply to different elements in defining and implementing SDG strategies. The first principle for guiding effective development cooperation, as established in the 2005 *Paris Declaration* and the 2011 *Busan High Level Meeting,*[9] is national democratic ownership of development priorities in developing countries. A mountain of evidence, including prior global Reality of Aid Reports, backs the essential value of this principle.

Reforming Aid and the Global Partnerships for Effective Development Cooperation (GPEDC)

The 2005 *Paris Declaration was a* major, but largely unsuccessful, five-year effort to reform aid practices. Its current manifestation is the *Global Partnership for Effective Development Cooperation* (GPEDC). GPEDC brings together traditional providers, developing country partners, CSOs, parliamentarians, foundations and business associations around a broad agenda for effective development cooperation.[10] Southern providers of development cooperation, such as China and India, have largely excluded themselves as they claim that it continues to be dominated by a Northern aid paradigm.

At the 2011 Busan High Level Forum, the GPEDC adopted four key principles to guide the reform of their development cooperation practices. These were understood to be consistent with international commitments on human rights, decent work, gender equality, environmental sustainability and disability:

- Ownership of development priorities by developing countries;
- Focus on results, aligned with the priorities and policies set out by developing countries themselves;
- Inclusive development partnerships; and
- Transparency and accountability to each other.

Parties to the Busan Forum also agreed to "deepen, extend and operationalize the democratic ownership of development policies and processes" at the country level.[11] The GPEDC was charged with the responsibility to monitor progress in implementing these principles. To date the results have been disappointing, in ways similar to those following the *Paris Declaration*.[12]

Civil society actors in the Global Partnership have advocated for a human rights-based approach as the foundation for implementing the Busan principles[13] – something which has also largely gone ignored.

The Reality of Aid Network understands that the many challenges for development in the 21st Century require both a human rights -based and feminist approach to development cooperation.[14] Such an approach is one in which the priorities and practices in providing aid, as well as other forms of development finance, are thoroughly informed by human rights standards, inclusive policy dialogue that takes into account the interests of people living in poverty or otherwise marginalized populations,[15] and that puts in place comprehensive measures to ensure gender equality and women's empowerment.

Is the international community upholding its commitments?

This Reality of Aid Report questions whether the international community is truly upholding its commitments to aid and development effectiveness, as agreed in Busan and in various United Nations fora. It raises points about the current uses of aid, ones that have the potential to undermine its very essence as a concessional resource dedicated to human rights and the eradication of poverty.

These concerns revolve around an extensive increase in the use of ODA as an instrument to advance Northern providers' economic interests and foreign policy priorities. The authors document a major paradigm shift in not only the discourse about ODA (reflecting the 'Beyond Aid' paradigm), but also in its practices. These shifts are being strongly contested by civil society at both the country and global levels.

Many questions must be asked and answered. Do the new modalities for aid delivery meet the needs of populations living in poverty? How are these debates manifesting in developing countries? What do these new trends say about the future of aid?

Chapters in this Report examine these "changing faces of aid" in five major areas:

1. ODA and private sector resources to achieve the SDGs
2. ODA, security, migration and options for development
3. ODA and responding to the acute challenges of climate change
4. South-South Cooperation in development finance
5. Safeguarding ODA as a public resource for reducing poverty and inequalities: Recommendations for the future deployment of aid

ODA and private sector resources to achieve the SDGs

There is a general recognition that considerable financial resources are required to meet the financial requirements of the SDGs – although the best way to source these resources is highly contested. Many powerful actors have argued that this objective is best accomplished by instrumentalizing ODA as a resource to mobilize private sector finance for development through various Private Sector Instruments (PSIs), including those used by specialized Development Finance Institutions (DFIs).

Chapters from provider countries confirm the active efforts of all major providers in developing and implementing strategies to use ODA resources as a catalyst for private sector financing of development:

- According to the Netherlands' chapter, more than 10% of Dutch ODA in 2017 was allocated to the country's private sector oriented programming. This was up from 4% in 2010. Half of these funds were made available to Dutch businesses to promote Dutch commercial interests abroad.
- Canada has just launched its DFI as FinDev Canada, one of many across the donor world.
- The United States is expanding the role of the Overseas Private Investment Corporation in a range of development finance instruments, many of which will involve ODA. It is one of few aid initiatives that has support from the Trump Administration.

This support for the private sector's "engagement in development" includes direct public loans to the private sector, equity investment, investment and trade insurance and guarantees, and participation in mezzanine finance.

Recently the World Bank's Development Committee adopted a new and aggressive private sector approach. Titled "Maximizing Finance for Development," it directs staff to implement a cascade approach, prioritizing "private solutions" in project finance, with public funding deemed to be the choice of last resort. According to recent reports, the UN Secretary General, Antonio Guterres, is convening a high level UN meeting in September 2018 to set out a new private investment strategy to finance the SDGs. This strategy will aim to mobilize public, private and domestic resources, but with an emphasis on the private sector.[16] In the words of CSOs closely monitoring the UN and the private sector, "the United Nations is embarking on a new era of selective multilateralism, shaped by intergovernmental policy impasses and a growing reliance on corporate-led solutions to global problems."[17]

As the United Kingdom contemplates its aid programs post-Brexit, the Minister for Development postulates that:

> "as we leave the European Union, we will scope new instruments and institutions to sit alongside CDC [Commonwealth Development Corporation], our private sector investment

arm, to provide loans or guarantees to ensure a better offer to developing countries as they transition out of extreme poverty but before they're fully reliant on international capital markets."

The not-so-implicit assumption in the Minister's statement is that most developing countries, once having "transitioned out of extreme poverty" (based on national averages), will have no further need for concessional aid resources, irrespective of often large and persistent pockets of extreme poverty and continued inequalities that they may still exist.

The global allocation of ODA reflects these trends. Using a "private sector proxy," the aid trends chapter estimates that 26% of ODA in 2016 was allocated to sectors oriented to the private sector, up from 21% in 2010. Some of the largest donors, for instance Germany (35%), France (35%) and Japan (55%), show a heavy concentration in these sectors, alongside major regional development banks such as the Asian Development Bank.

What do we know about the country level outcomes and impact of private sector finance through PSIs? The short answer is "not enough." A recent report by the OECD recognises that the evidence base on the impact of blended finance is not yet persuasive: "Little reliable evidence has been produced linking initial blending efforts with proven development results."[18] This report points to the gap in systematic evaluations and assessments of this finance in relation to development.

The Reality of Aid Report highlights several case studies that point to some clear directions. The Dibamba Thermal Power Project in Cameroon, which was partly financed through ODA/blended finance mechanisms, is one of them. The author reports limited local development impact on rural poverty.

In contravention of requirements under Cameroon law, the project implementers largely ignored the need to address local community services. At the broader economic level, the project has heavily relied on foreign technicians, technology and spare parts, making it difficult for Cameroon to "own" and sustain the project. It collaborates concerns raised elsewhere by civil society, that private sector instruments and blended finance will be associated with an increase in informally tied aid.

A second case study examines the role of Development Finance Institutions (DFIs), in bringing together ODA and private finance in the health sector. While currently a small segment of health finance, this approach is expected to grow substantially in coming years. The study identifies a number of issues, beginning with the lack of transparency due to complex corporate structures. These investment funds have provided few, if any benefits to poor and marginalized populations. The combination of user fees and profit motives has driven such investments towards expensive, high-end urban hospitals that cater to African countries' wealthier citizens and expatriates.

In another case study, an author analyzes a range of blended finance initiatives in the natural resource and agricultural sectors of North-East India, which have been financed by DFIs and multilateral banks. Albeit with much controversy, these initiatives have played a leadership role in the privatization of development in the region. Government has facilitated these investments by modifying policy to create an enabling environment for the private sector. The chapter documents the significant negative impact these projects have had on the environment. Water resources to support small-scale agriculture of the rural poor have been greatly compromised. Project implementers have also failed to take into account Indigenous Peoples' patterns of land ownership and have been carried forward without free, prior and informed consent from these communities.

The Uganda chapter urges providers to give priority to micro, small and medium -sized enterprises (MSME) in their private sector policies rather than large-scale projects financed through blended finance mechanisms. According to the author, MSMEs employ 2.5 million people in Uganda and contribute 75% of its GNP. There is a strong female presence in informal sector employment, set against a backdrop of continued abuse of women's rights in Uganda. The author suggests that providers' private sector support, "be blended with gender attitude change tools for communities to appreciate the benefits of women's economic power."

The aid trends chapter points to the growth of more than 167 provider mechanisms for the pooling of public finance with private capital. The OECD estimates that these mechanisms mobilized $81.1 billion in private finance between 2012 and 2015, but provides no estimate of public resources invested for this result.

While providers in the DAC have agreed to a set of principles to guide blended finance, the principles do not do justice to some of the concerns associated with the stress on blended finance. A key risk is that ODA will be diverted from other modalities and purposes, which could achieve more for the reduction of poverty and inequalities. Furthermore, providers in the DAC have failed to reach a consensus on how to operationalize these principles or the ground rules for reporting this finance as ODA.

The aid trends chapter also describes a range of issues relating to blended finance institutions that have been raised by both the OECD DAC Secretariat and CSOs including:

- Weak transparency and accountability for the use of aid resources and private finance as a <u>development</u> resource and its corresponding impact on poverty, with the added observation that gender issues were rarely targeted;
- Scant evidence on whether private finance is truly financially additional (i.e. would not have happened in the absence of public resources or guarantees). The OECD observed that there was a tendency for this finance to go towards sectors where the business case is clear and commercial gains apparent, which are often not high-risk poverty-oriented sectors; and,
- The potential for non-concessional blended finance to exacerbate growing debt issues for some poor and middle-income countries, along with the potential for increasing formal and informal tied aid through the engagement of providers' private sector companies.

There is a strong case for increasing the poverty focus of ODA through engagement with the private sector in development, but in ways that:

1) Strengthen a wide range of small and medium -sized enterprises in many poor and middle-income countries, including women-led enterprises;
2) Improve social dialogue, overall labour standards, working conditions and environmental standards in different sectors;
3) Create resilience, sustainable practices and reliable markets for small scale agricultural producers;
4) Deploy untied aid to increase local developing country private sector capacities; and
5) Reduce, and above all never exacerbate, existing inequalities prevalent in the local context.

Unfortunately, these are rarely priorities for providers' Private Sector Instruments in their efforts to mobilize private finance for development. The likely consequence of further investment by ODA in these mechanisms will be to move it away from its core goal of reducing poverty and inequalities.

There are major concerns that PSIs will contribute to increased economic inequalities and social marginalization in targeted countries. Finally, as the DAC changes its rules relating to PSIs, the opportunities expand for providers to artificially inflate levels of aid reported to the DAC - for example, counting investment guarantees as ODA, even though most guarantees will never be paid out and these "aid resources" never leave the provider's country.

ODA, security, migration and options for development

The militarization of ODA

The Reality of Aid Network is increasingly concerned that current trends in the allocation of ODA will deepen the "militarization of aid" and its diversion to countries and purposes linked to the strategic security interests of major provider countries. For example, since 2002, a movement towards security priorities has been apparent in bilateral aid allocations to Afghanistan, Pakistan and Iraq, countries of major geo-strategic interest to northern providers.

At its peak, in 2005, bilateral aid to Afghanistan, Pakistan and Iraq comprised 23% of total Real Bilateral Aid. For three providers (the United States, the United Kingdom and Japan) aid to these countries represented 35% of their Real Bilateral Aid. While the overall share has declined in recent years, as late as 2013 the share of Real Bilateral Aid to Afghanistan, Pakistan and Iraq stood at 10%. (It declined to 8% in 2016.)

More recently, wars in the Middle East have required a high level of humanitarian assistance, sometimes at the expense of other, long standing humanitarian crises. The Middle East's share of DAC provider humanitarian assistance increased from 14% in 2012 to 33% in 2016, driven mainly by the conflicts in Syria and surrounding countries. These important humanitarian priorities have affected not only the aid allocations of traditional, Northern providers but also South-South Cooperation flows. The aid trends chapter confirms that almost 75% of South-South Cooperation flows are from Middle East providers and that they are primarily directed to humanitarian crises in the region, including the war in Yemen. Turkey alone has provided over $6.4 billion in aid to refugees camped along its borders.

Despite long-standing DAC principles that ODA should not support financing of military equipment or services, Reality of Aid authors describe the diversion of aid to military and security spending. The Korean chapter documents support to Provincial Reconstruction Teams in Afghanistan. This assistance combined aid purposes with military objectives in the country's rural pacification schemes. This chapter also describes a five-fold increase in the use of Korean ODA to support police training by the Korean National Police Agency in several Asian countries. The authors suggest that "South Korea's protest-management skills training and Korean-made equipment [may be used] to quash dissent and quell democratization rallies, as has been increasingly true in South Korea itself." Training police forces with ODA resources has been a growing area of provider activities in implementing international security policies.

A chapter by the Asia Pacific Research Network examines providers' strategies to deploy aid to shore up their geo-political and security interests, using several case studies. For example, Japanese aid has supported coastal patrol vessels and operations in Vietnam and the Philippines, in the context of a growing territorial dispute with China in the South China Sea (see also the Japan chapter). This chapter also scrutinizes a recent DAC casebook on ODA eligible activities in conflict, peace and security. The authors raise concerns about the vague limitations on the use of ODA in support of "routine police functions" and the use of "non-lethal equipment and training." In another example, the casebook fails to define key terms such as "investigatory" and "countering transnational crimes" in ODA-supported police activities. In their view, "there is a risk that ODA could be used for intelligence work that is more aligned to donor national security priorities than to a development or poverty-reduction agenda."

In 2016 the DAC members reached an agreement to expand the definitions of ODA activities relating to police and military training, counter-terrorism and the prevention of extreme violence, as well as support for military forces in UN mandated peace operations.[19] To date, however, there is no clear assessment of the degree to which ODA is being used for these purposes. According to DAC data, in 2016 providers spent $2.9 billion in the conflict, peace and security sector, or about 4% of sector allocated bilateral ODA. This share is largely unchanged since 2010. However, coding for this sector likely only captures a fraction of spending for these purposes, as it may often be coded to other development purposes.

ODA, refugees and migration control

All the European provider chapters discuss the impact that the recent influx of so-called "irregular migrants" and refugees to Europe has had on their country's aid priorities. In the first instance, there has been an artificial expansion of European aid as providers can include the first year of refugee support in the provider country as part of their ODA, and most do so. In several countries, such as Denmark, these funds have been taken directly from their ODA budgets. European providers have also been looking to ODA for quick fixes to limit the flow of migrants.

There is a push to enter into “re-admission agreements” with migrants’ countries of origin. These agreements include “migration management” and “migration control” mechanisms in countries of origin as well as measures to support the reintegration of returned migrants. The EU established the Emergency Trust Fund for Africa for the explicit purpose of managing migration, with members investing more than €3 billion of ODA in this Fund (see the EU chapter). CSOs worry that the restructuring of the EU development budget framework into one instrument, the Neighborhood, Development and International Cooperation Instrument, is in part intended as a way to direct additional funds to European neighbours to address “irregular migration.” Expansion of French aid is also linked to resources to fund border control management and the return of migrants to their countries of origin. The election of “populist” governments in Italy and Hungary, along with the potential for a changing balance in the EU parliamentary elections, will accentuate these trends to use aid to buttress restrictive political reactions that undermine the rights of migrants and refugees.

The Reality of Aid Network will be closely monitoring the increased prioritization of ODA for foreign policy, security and counter terrorism interests. An essential question is whose interests are being served in this use of aid. How do these programs affect the prospects of marginalized and excluded peoples and promote human security and the sustainable development of their communities?

ODA and responding to the acute challenges of climate change

Against a backdrop of often-fraught climate diplomacy in on-going negotiations within the UN Framework Convention for Climate Change (UNFCCC), the World Bank estimates that $4 trillion in incremental investment across the globe is required to keep the average temperature increase below 2^{o}C. Agreements on a concerted response quickly evaporate when negotiations focus on who should pay the bills for change in developing countries (but also in developed countries such as the United States and Australia). From a developing country perspective, the answer is clear: the obligation lies on those who caused the problem over the past century. This “polluter pay principle” requires that the North make major contributions to the solutions.

At the 2009 Conference of the Parties (COP) to the UNFCCC, developed countries agreed to a target of $100 billion in annual finance by 2020 for both climate change adaptation and mitigation directed to developing countries. Of this target, $37.3 billion is to be sourced from bilateral developed countries, with the balance coming from multilateral banks (from their own resources) and from the private sector. The explicit commitment (COP 13 [2007] in Bali and COP 15 [2009] in Copenhagen) was that this provider finance would be “new and additional” to what is being provided as ODA.

Under DAC rules for ODA, public concessional climate finance for developing countries are eligible aid resource transfers, and can be reported to the DAC as such by all providers. Using this DAC data, the aid trends chapter estimates that only $18.7 billion was allocated by developed countries in 2016, just half of what is needed to meet their share of the $100 billion commitment. This amount has not increased substantially since 2013.[20]

Developing countries and CSOs insist that climate finance should be measured as a distinct and additional resource flow to ODA, primarily because of the urgent need to address climate change impacts on poor and vulnerable people. Existing ODA levels for purposes beyond climate change are stagnant and vastly insufficient even for those purposes.

If bilateral climate finance were recognized as a distinct flow (i.e. additional to ODA commitments), provider ODA would have been 14% less in 2016, going from $132.3 billion to $113.8 billion when climate finance projects are taken account. When climate finance commitments are removed from ODA, Real ODA commitments have actually declined since 2014.

These amounts are only for projects totally dedicated to climate finance. They do not include projects where adaptation or mitigation is mainstreamed as one among several project objectives. The latter goal is not included in the directive for new and additional finance for climate change initiatives.

Going forward, the impact of increased climate finance on ODA is likely to be substantial. Providers must double their bilateral climate finance commitments in order to meet the $100 billion target by 2020. These are likely to take place in the absence of real and substantial overall growth in ODA. In this scenario, it is likely that climate finance will reduce developing countries' access to ODA for other purposes, as developing countries and CSOs fear would happen in Bali and Copenhagen.

These impacts do not take into account the imperative to scale up climate finance beyond $100 billion in future climate negotiations where such finance will be a crucial part of reaching agreements with developing countries. The Bretton Woods Project chapter on climate finance notes that the finance need will be much greater than the Copenhagen commitment of $100 billion by 2020:

> "According to the UN Environment Program for adaptation alone, "the costs could range from US$140 billion to US$300 billion by 2030, and between US$280 billion and US$500 billion by 2050"."

After years of political disagreements, a consensus on the importance of covering developing country "Loss and Damage" (L & D) from climate change was reached, but parties to the UNFCCC are no closer to agreeing on crucial additional finance for L & D beyond the $100 billion. L & D requires approximately $50 billion in annual additional finance by 2022 (Bretton Woods Project chapter).

Contributions from Bangladesh and Denmark on the climate finance / ODA nexus identify several unresolved issues in the unequal balance between adaptation and mitigation. There is a definite bias towards the latter, which has had, and will continue to have, an adverse effect on the lives of millions of vulnerable people in the South.

These chapters analyze the extreme fragmentation of funding windows in the existing climate finance architecture, where most funding windows pay almost no attention to impacts on women, girls and gender equality. This gap is particularly evident in climate mitigation infrastructure sectors such as energy and transport. The quality of climate finance is also an issue. Loans form a considerable portion of current climate finance (particularly for France and Japan), something that is highly problematic for developing countries. As noted, in practice loan mechanisms will mean that developing countries will be paying themselves for the climate impacts on their countries.

With the imperative to scale up climate finance after 2020, all countries and stakeholders must make new and concerted efforts to agree on new targets beyond the $100 billion and to consider new and innovative sources for climate finance. Examples of the latter include carbon pricing for aviation, a financial transaction tax or an equitable fossil fuel extraction levy. Developed countries must honour their previous commitments to new and additional public resources for international climate finance, while also increasing their ODA for other purposes.

South-South Development Cooperation in development finance

In both the United Nations Development Cooperation Forum (DCF) and the Global Partnership (GPEDC), South-South Development Co-operation (SSDC) is promoted as a growing development resource for *Agenda 2030*. At its May 2018 Biennial Forum, the DCF affirmed "the importance of South-South cooperation in adapting the *2030 Agenda* and internationally agreed development goals to local circumstances."[21]

For over four decades emerging developing countries have been engaging in SSDC, primarily through technical exchanges and the sharing of knowledge in addressing development challenges. But SSDC can also take many other forms – direct project support, the engagement of partner countries through UN agencies, technical cooperation, or contributions to peacekeeping efforts. As such, it is difficult to be precise on the full extent of its value as a financial resource for development.

The global aid trends chapter estimates that in 2015/2016, SSDC contributed $27.6 billion, down from $32.2 billion in 2014/2015. These numbers come with a caveat as current sources may miss important non-financial contributions. SSDC is about 40% of DAC providers' combined country programmable aid and humanitarian assistance (see global aid trends chapter). It is also important to note that almost 75% of this SSDC originates from Middle East providers and is directed to humanitarian crises in this region.

Brazil has been recognized to be at the forefront of SSDC. Its involvement in development cooperation as a provider has been innovative, as is documented in a chapter by ASUL (South-South Cooperation Research and Policy Center). While affirming its importance to Brazil's changing global roles, another contribution from Brazil (Ana Cernov) points out that SSDC can have a fragile economic foundation in several emerging countries. She suggests that the country's current economic and political crisis may have yet to be determined impacts on SSDC initiatives.

Another contribution from Kenya analyzes China's SSDC in Kenya and Angola, which responds to African countries' need for infrastructure, but is largely driven by China's economic interests, companies and technologies. The author observes:

> "Issues relating to human rights [such as labour rights] or people's empowerment remain aspirations that are alluded to, but are not tackled directly by either side of the cooperation."

He also maintains that a detailed and accurate analysis of the impact of SSDC is frequently hindered by a lack of transparency.

Given the long and varied development experience of developing countries, SSDC has a major role to play in supporting national development strategies. This can occur through equitable partnerships, knowledge sharing, capacity building, and an affirmation of respect for the sovereign rights of developing countries. SSDC often does not require rigid frameworks, but rather encourages innovative forms of cooperation.

But to fulfil this promise, CSO activists in the South emphasize that SSDC must be held to standards that are embedded in SSDC principles. It is essential to strengthen capacities to support inclusive partnerships, greater transparency, and people's rights. While recognizing SSDC as an invaluable resource, it must also be emphasized that it is not an alternative to fully transformed and substantially increased North-South development cooperation.

Safeguarding ODA as a public resource for reducing poverty and inequalities

The convergence of different trends in the deployment of ODA suggests that many Northern providers have already moved "Beyond Aid." Recognizing this, the Report documents ways in which this move is seriously jeopardizing the integrity of ODA devoted to the reduction of poverty and inequalities. As has been stated above, it is a distinct resource that can focus on "leaving no one behind" and strengthening the rights of billions of people who live in poverty or are otherwise marginalized.

Providing $325 billion (0.7% of providers' GNI) in concessional finance would go a long way in addressing the SDG financing gap relating to poverty and inequalities and to catalyzing national development efforts. But with only $125 billion in Real ODA in 2017, (and even this amount is not all available for poverty reduction) this resource is alarmingly inadequate. Aid is expected to respond to increasing numbers of acute challenges, such as the growing humanitarian crises in areas of endemic conflict and severe climatic impacts, with fewer resources. In recent years the increase in aid devoted to long-term development efforts (i.e. Real Aid less humanitarian assistance) has been growing at a slower rate than overall Real ODA.

In reading the chapters in this Report, one can be overwhelmed by the accumulation of trends that are driving the international community away from the agreed upon principles of aid and development effectiveness.

ODA has become a deeply compromised resource.

In providers discourse and policies, in recent years, there are few initiatives for new aid strategies or programs that focus on strengthening democratic national ownership, expanding inclusive enabling partnerships with civil society, or respecting developing country policy space to carry out their own development strategies and plans.

There is little doubt that providers are moving to tie aid initiatives to their foreign policy priorities as well as their commercial and business interests. Of course, there are positive exceptions to these developments. The Report highlights some of these, such as Canada's feminist international assistance policy, the US Congress resistance to Trump's plans to cut US aid, or parliamentary support in Norway for the integrity of ODA focused on poverty reduction. But these seem to be 'the exceptions that prove the rule'.

In the context of *Agenda 2030*, aid providers must live up to their promise that aid is a resource devoted to reducing poverty and inequalities. They must transform their allocations and aid practices in ways that support collaborative initiatives as well as equal and inclusive partnerships for these purposes. They must work within the framework of development effectiveness principles, human rights and feminist approaches. National democratic ownership of development strategies, plans and action in developing countries should be confirmed in practice as the foundation for effective development cooperation.

A Reality of Aid Action Agenda: Transforming Development Cooperation

The Reality of Aid Network is putting forward an alternative perspective and vision for aid as a resource that is relevant to global trends in the 21st Century.

A Ten-Point Action Agenda for retooling ODA for this transformation of development cooperation includes the following ten action areas. They are complemented by more specific recommendations in the "Trends in the Reality of Aid 2018" chapter and in the various thematic and country chapters in the Report.

1. **Achieving the 0.7% Target – DAC providers that have not achieved the 0.7% of GNI UN target for ODA must set out a plan to do so without further delay.** These are the minimal resources required for effective efforts to eradicate extreme poverty and reduce other forms of poverty and inequalities. This ODA target should be separate from in-donor support for refugees and students, debt cancellation and principal purpose projects for climate finance. New resources for ODA alone will not transform development cooperation; they must be accompanied by actions to "do development differently" along the lines set out below.

Increased allocations for ODA do not preclude the necessity for additional development finance beyond ODA, concessional or otherwise, whose main purpose lies outside the scope of directly tackling poverty and inequalities. ODA is vital and distinctive complement to other public sources of finance such as domestic revenue and South-South co-operation.

In this regard, the aid trends chapter notes DAC's work to develop a new metric, **Total Official Support for Sustainable Development (TOSSD)** which aims to capture all relevant flows for sustainable development. Given the serious methodological issues in a metric such as TOSSD and the risks of over-estimating official support for sustainable development, the DAC and all providers should continue to reference ODA as the headline metric to measure provider support for developing country SDG priorities.

2. **Addressing the needs of the least developed, low income, fragile and conflict-affected countries – As DAC donors move towards the 0.7% target, they must also meet the long-standing commitment to allocate up to 0.2% of their GNI to Least Developed Countries (LDCs).** LDCs, as well as countries experiencing chronic conflict and fragility in governance, face acute development challenges. The DAC estimates that by 2030, 80% of the world's extreme poor will live in fragile contexts. These settings demand a higher level of adaptability in provider initiatives with a diversity of partnerships that may challenge more rigid provider policies.

3. **Establishing a rights -based framework – The allocation of all forms of development finance, but particularly ODA and other concessional sources, must be designed and measured against four development effectiveness principles, human rights standards.** The four development effectiveness principles are 1) Ownership of development priorities by developing countries and their people; 2) A focus on results, aligned measures to reduce poverty and inequalities, and with the priorities and policies set out by developing countries themselves; 3) Inclusive development partnerships; and 4) Transparency and accountability to each other.

   A human-rights-based approach to development cooperation takes into account core human rights principles and standards. It recognizes accountability of governments, IFIs/DFIs, and private sector and other actors as duty-bearers to people as rights-holders. It acknowledges peoples' rights as development actors, not as "affected populations" or beneficiaries of charity. Central to this approach is an understanding of the unique human rights challenges of poor and vulnerable populations in each country. Programming approaches work with local partners to assess the changing power dynamics faced by these marginalized population. Women's / girl's empowerment and gender equality as well as the means for achieving these goals through support to women's rights activists, organizations and movements is central to a human rights based approach.[22]

4. **Mainstreaming gender equality and women's empowerment – Providers of ODA and other forms of concessional development finance (e.g. SSDC) must <u>demonstrably</u> mainstream**

gender equality and women's empowerment in all dimensions of development cooperation projects, programs and policies. Mainstreaming entails explicit objectives designed to analyze and address gender-related inequalities in all development initiatives; decision-making based on consultation with affected people and on gender disaggregated data; and explicit terms of reference to monitor impacts on gender-related issues in all development cooperation projects, programs and policies. Massive increases in support for developing country women's rights organizations and women's human rights defenders as agents of change is the critical *sine qua non* for achieving real mainstreaming of gender equality in development cooperation. Transformative gender relations requires attention to the structural barriers to gender equality, multiple forms of identity, and the myriad of ways in which different women are marginalized and discriminated against based on these identities.

5. **Addressing other identity-based inequalities – Providers of ODA must develop strategies to guide increased efforts to tackle all forms of inequalities, such as those based on economic marginalization, disabilities, sexual orientation, race, ethnicity or age**. Such strategies are consistent with the *Agenda 2030's* promise "to leave no one behind" and its goals for social and economic inclusion. They must respond to irrefutable evidence of the "vicious circle" that perpetuates growing disparities in wealth and marginalization in almost all countries. Providers should make every effort to ensure that development cooperation never exacerbates such inequalities.

6. **Reversing the shrinking and closing space for CSOs as development actors – All actors for development – governments, provider agencies, parliamentarians, INGOs – must proactively challenge the increasing regulatory, policy and physical attacks on civil society organizations, human rights defenders, indigenous groups and environmental activists.** The transformation of development cooperation will be highly contested. Civil society can directly engage people living in poverty or otherwise marginalized. In their work (international, national and local) CSOs can help strengthen accountability at all levels of society. As such they are critical allies for those seeking the transformation of aid practices consistent with democratic ownership, inclusive partnerships, and human rights standards.[23]

7. **Implementing clear policies for ODA to improve its quality as a development resource - Development and aid effectiveness principles require practical reforms to strengthen partner ownership to achieve the priorities of ODA.[24]** These areas include:
   - Reversing the declining levels of country programmable aid that is directly accessible to developing country partners;
   - Strengthening mechanisms for inclusive dialogue and accountability relating to development cooperation in developing countries;
   - Reversing the trend of the increased use of loans as an aid modality, with grants as the default option;
   - Reforming technical cooperation practices to respect the principle of demand-led technical cooperation (see Reality of Aid 2016 Global Report);

- Reversing the trend towards increasing informal and formal tied aid by eliminating formal tied aid for all countries and sectors, while reducing the major barriers facing developing country partners in receiving contracts to implement aid programs and technical assistance;
- Increasing support for domestic resource mobilization efforts by developing country governments through the promotion of progressive taxation and the reduction of illicit flows and transnational modalities for externalizing profits; and
- Strengthening the responsiveness of the multilateral system through reducing donor-led special funds and increasing core resources for key UN development agencies such as UNDP, UNICEF, UN Women and the UN Human Rights Council.

8. **Deploying ODA to support private sector initiatives and catalyze private sector funding – ODA should only be deployed for provider Private Sector Instruments (PSIs) in projects/activities that can be directly related to building capacities of developing country private sector actors to demonstrably improve the situations of people living in poverty.**[25] In developing countries, the majority of people that make up the working poor are employed in micro, small and medium enterprises. According to World Bank statistics on income-poverty levels, close to half the population of both Least Developed (LDCs), Low-Income and Lower Middle-Income Countries (LMICs) live in conditions of poverty. ILO statistics document that close to 70% of working people in developing countries live precarious lives on daily incomes of less than $3.10 (World Bank poverty level for LMICs). Given this context, ODA should be deployed to country private sector initiatives that support the livelihoods of people who are working in small-scale enterprises in both rural and urban settings, the majority of which are likely to be women.

   Non-concessional PSI operations and investments should complement ODA, but should avoid using ODA resources to capitalize their Development Finance Institutions (DFI). The private sector can make important contributions to poverty reduction and sustainable development. As a growing source of finance for development, the efforts of DFIs to engage private finance for the SDGs should

   - Be guided by development effectiveness principles;
   - Target appropriate initiatives in LDCs and LMICs;
   - Produce evidence on the financial and development additionality of private sector resources in blended mechanisms;
   - Have clear environmental, social, governance, regulatory and transparency policies, which affirm the human rights principle of "free, prior and informed consent" for private sector projects financed with public resources through these Instruments;
   - Boost the human rights obligations of government to ensure key social services such as health care, water or education, which should remain a central responsibility of government; and
   - Be informed by systematic evaluations and assessments of private sector instruments, including DFIs, in relation to development purposes and development effectiveness.

9. **Rejecting the militarization and securitization of aid – In responding to humanitarian situations and the development needs of countries with high levels of poverty, conflict and fragility, providers should avoid shaping their strategies and aid initiatives according to their own foreign policy, geo-political and security (migration and counter-terrorism) interests.[26]** Trust and local ownership, which is essential to development initiatives, are often undermined in fragile situations by approaches that combine aid with military objectives in zones of conflict. Aid should not be an instrument for responding to geo-political threats perceived by the provider country. Other foreign policy and defense resources are available for these purposes. While often challenging to do, peace-building processes should be informed by democratic participation, with the involvement of local communities affected by conflict as well as civil society actors, and aimed at addressing the root causes of poverty, conflict, and fragility. The DAC should set clear guidance for any use of ODA in programs to counter extremism, military and police training or intelligence gathering. Appropriate monitoring and safeguards are essential, to ensure that the rules are not being stretched and that effective development co-operation and human rights principles are paramount. Providers should not use the promise of aid to create conditionalities for migration control and resettlement in countries of origin of migrants.

10. **Responding to the acute and growing challenges from climate change – All Parties should reach agreement on a post-2020 climate-financing framework for developing countries that meets the growing challenges they face in adaptation, mitigation as well as Loss and Damage. While concessional climate finance meets the criteria for ODA, the DAC should account for principal purpose climate finance separate from its reporting of ODA, acknowledging the UNFCCC principle of "new and additional." The UNFCCC should develop clear guidance for all Parties on defining finance for adaptation, mitigation and Loss and Damage.** Authors of this Report have documented the scale of finance needed beyond the current commitment of $100 billion annually, post-2020. Developing countries, particularly the LDCs and LMICs, should not be forced to pay themselves for adapting or mitigating climate change impacts through diminished ODA and/or the provision of loans for these purposes.

End Notes

1 "Transforming our world: the 2030 Agenda for Sustainable Development," Resolution of the UN General Assembly, September 25. 2015, A/RES70/1, accessed August 2018 at https://sustainabledevelopment.un.org/content/documents/7945ageing.pdf.

2 Ibid.

3 See for example, German Development Institute, "'Beyond Aid' and the Future of Development Cooperation," Briefing Paper 6/2014, accessed August 2018 at https://www.die-gdi.de/uploads/media/BP_6.2014_.pdf, Richard Cary, "The 'Beyond Aid' agenda – what, who and for whom?" August 9, 2018, African Center for Economic Transformation, accessed August 2018 at http://acetforafrica.org/media/the-beyond-aid-agenda-what-who-and-for-whom/, and Prizzon, A, Greenhill, R., and Mustapha, Shakira, "An age of choice for development finance: Evidence from country case studies," ODA, April 2016, accessed August 2018 at https://www.odi.org/publications/10390-age-choice-development-finance-evidence-country-case-studies.

4 See Brian Tomlinson, "Trends in the Reality of Aid 2018: Growing diversions of ODA and a diminished resource for the SDGs," in this Report.

5 See Dhananjayan Sriskandarajah, "'The Donors' Dilemma' – From charity to social justice," Global Policy Journal, February 24, 2014, accessed August 2018 at https://www.globalpolicyjournal.com/blog/24/02/2014/donors%E2%80%99-dilemma-charity-social-justice.

6 See The Reality of Aid 2016, Technical cooperation as an aid modality: Demand-led or donor driven?, IBON, 2016, accessed at http://www.realityofaid.org/roa_report/technical-cooperation-as-an-aid-modality-demand-led-or-donor-driven/.

7 Real Aid is reported ODA less in-donor refugee and student costs, debt cancellation which is counted at full value in the year it is cancelled, and interest paid on ODA loans, which is not deducted from net ODA.

8 Brian Tomlinson, "Trends in the Reality of Aid 2018," in this Report.

9 See OECD DAC page on aid reform at http://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm.

10 See the framework for the Global Partnership at http://effectivecooperation.org/.

11 Global Partnership for Effective Development Cooperation, Paragraph 11 and 12, accessed August 2018 at http://effectivecooperation.org/wp-content/uploads/2016/03/OUTCOME_DOCUMENT_-_FINAL_EN2.pdf. Commitments were further elaborated at a High Level Meeting of the GPEDC in Nairobi in 2016 (http://effectivecooperation.org/wp-content/uploads/2016/12/OutcomeDocumentEnglish.pdf).

12 A GPEDC monitoring of the implementation of these four principles in 2016 concluded that there has been only very modest progress. The Civil Society Platform for Effective Development (CPDE), the representation of CSOs in the GPEDC, highlighted the many challenges yet to be overcome, which were apparent in the outcomes of the monitoring. A third monitoring round is underway in 2018. See CPDE, Highlight the Progress, Face the Challenges: CPDE Reaction to the Result of the GPEDC 2cd Progress Report, November 2016, not available on the web, Brian Tomlinson, "Reflections on the Global Partnership's Second Progress

Report," November 2016, accessible at http://aidwatchcanada.ca/wp-content/uploads/2017/02/Reflections-on-the-Second-GPEDC-Progress-Report.pdf.

[13]See the CSO Partnership for Effective Development (CPDE), *Building a CSO Partnership for Effective Development*, 2012, accessed August 2018 at http://csopartnership.org/cpdecoredocuments.

[14]See *Reality of Aid 2010: Aid and Development Effectiveness – Towards human rights, social justice and democracy*, 2010, accessible at http://www.realityofaid.org/roa_report/aid-and-development-effectiveness-towards-human-rights-social-justice-and-democracy/

[15]For an overview of human rights based approaches in aid delivery see Brian Tomlinson, "Implementing a Human Rights Based Approach: Lessons from the experience of providers of international assistance," August 2017, accessed August 2018 at http://aidwatchcanada.ca/wp-content/uploads/2017/11/Final-Implementing-a-HRBA-by-Providers.pdf, published by CSO Partnership for Development Effectiveness (CPDE),*Policy Research on the Implementation of a Human Rights Based Approach in Development Partnerships*, IBON Institute, January 2018 accessed at http://www.csopartnership.org/edc-resources-hrba.

[16] Global Policy Watch,"How to finance SDGs to be discussed at UN next September 24", July 30, 2018, accessed August 2018 at https://www.globalpolicywatch.org/blog/2018/07/29/how-to-finance-sdgs-to-be-discussed-at-un-next-september-24/.

[17]Barbara Adams and Jens Martens, Fit for Whose Purpose? Private Funding and corporate influence in the UN," Global Policy Watch, September 2015, accessed August 2018 at https://www.globalpolicywatch.org/blog/2015/09/22/is-the-un-fit-for-the-ambitious-new-sustainable-development-agenda/.

[18] See http://www.oecd.org/dac/making-blended-finance-work-for-the-sustainable-development-goals-9789264288768-en.htm.

[19] See Sarah Dalrymple, *Investments in Peace and Security*, A Report for Development Initiatives, March 2016, accessed August 2018 at http://devinit.org/post/investments-in-peace-and-security/#.

[20]Unfortunately there are no agreed rules, similar to the rules governing ODA, for what providers report as climate finance. Many observers argue that providers present inflated amounts to the UNFCCC in their biannual reports. See Tomlinson," Trends in the Reality of Aid 2018," in this Report for more details and the methodology used to determine the $18.7 billion.

[21] Sixth Biennial High Level Meeting of the Development Cooperation Forum, United Nations, 21-22 May 2018, accessed August 2018 at https://www.un.org/ecosoc/en/node/996604.

[22] For more on a human rights based approach and development cooperation see the chapters and Reality of Aid recommendations in the 2010 Global Report, Aid and Development Effectiveness: Towards Human Rights, Social Justice and Democracy, accessible at http://www.realityofaid.org/roa_report/aid-and-development-effectiveness-towards-human-rights-social-justice-and-democracy/

[23] See the section on civil society and the recommendations in "Trends in the Reality of Aid 2018" for more specific details. The Brazilian chapter (Ana Cernov) for an interesting discussion of the changing dynamics in development cooperation for Brazil and it impact of Brazilian civil society as social actor for accountability.

[24] For more recommendations and case studies see the 2008 Global Reality of Aid Report, Aid Effectiveness: Democratic Ownership And Human Rights world poverty, accessible at http://www.realityofaid.org/roa_report/aid-effectiveness-democratic-ownership-and-human-rights-world-poverty/

[25] For more recommendations and case studies relating to the private sector and development cooperation, see the 2012 Global Reality of Aid Report, Aid and the Private Sector: Catalysing Poverty Reduction and Development?, accessible at http://www.realityofaid.org/roa_report/aid-and-the-private-sector-catalysing-poverty-reduction-and-development-2/

[26] See the 2006 Global Reality of Aid Report, Focus on Conflict, Security and Development world poverty, accessible at http://www.realityofaid.org/roa_report/focus-on-conflict-security-and-development-world-poverty/