REALITY OF AID 2018 REPORT

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

The Reality of Aid

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The Changing Faces of Development Aid and Cooperation
The Reality of Aid 2018 Report

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The Reality of Aid Network exists to promote national and international policies that contribute to new and effective strategies for poverty eradication built on solidarity and equity. Established in 1993, the Reality of Aid is a collaborative, non-profit initiative, involving non-governmental organisations from North and South. It is in special consultative status with the United Nations Economic and Social Council (ECOSOC).

The Reality of Aid publishes regular, reliable reports on international development cooperation and the extent to which governments, North and South, address the extreme inequalities of income and the structural, social and political injustices that entrench people in poverty.

The network has been publishing reports and Reality Checks on aid and development cooperation since 1993.

These reports provide a critical analysis of how governments address the issues of poverty and whether aid and development cooperation policies are put into practice.

The Reality of Aid International Coordinating Committee is made up of regional representatives of all participating agencies.

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Preface

Since its inception in 1993, the Reality of Aid (RoA), has been consistent in the annual production of a report monitoring performance of development aid and cooperation from the lens of poverty reduction and human rights. It remains the only southern-led global advocacy network on aid.

The 2018 Reality of Aid (RoA) Report has the theme "The Changing Faces of Development Aid and Cooperation: Will new directions and forms of aid benefit the poor?" Authors of the different chapters examine in closer detail current narratives and trends in Official Development Assistance (ODA), which risk undermining the unique contribution that it can make to the elimination of poverty and inequality in developing countries. It also answers the following questions: How are these debates manifested at the country level? To what extent are ODA initiatives contributing to the fulfillment of human rights-based sustainable development for people living in poverty in the global South? What do current trends and practices say about the future of aid?

Ending poverty and the achievement of the Sustainable Development Goals (SDGs) need dedicated resources to support economic, environmental, and social investments that benefit the poorest people and countries. The 2018 Reality of Aid Report takes stock of the current debates and narratives on the role of ODA and examines how these debates are translated at the national level. The report focused on maximizing contributions of ODA to poverty eradication, within a framework that is defined by human rights standards, including strengthening gender equality and women's empowerment, and ensuring that members of marginalized groups are not left behind. The Report draws lessons and conclusions from both positive and problematic practices, which in turn inform key messages on the role and future of ODA in financing for development. It addresses fully the role of ODA in meeting the financing needs of Agenda 2030.

The 2018 Report sets out a narrative in support for the integrity of ODA as a dedicated resource that contributes directly to the eradication of poverty and the reduction in all forms of inequality.

The Report examines 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 response 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

This Report has 29 contributions comprising 15 country chapters, 14 thematic articles and a Global Aid Trends chapter. The opening Political chapter brings together the various themes in the contributions of the different authors of the Report.

Remarkably, the Report sets out 10 areas for future direction and recommendations for transforming the aid regime towards one based on solidarity, human rights, feminist principles, reducing poverty and tackling inequalities.

Mr. Leo Atakpu
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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, The 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 leading and essential component 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 Partnership 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
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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 development 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, The 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 Reality of Aid – Asia Pacific 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°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 pays" 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 to 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.

ENDNOTES

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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.

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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.

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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/

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Part 1

Reports

Chapter 1

ODA, IFIs, and the Private Sector

Development Finance Institutions: The (in)coherence of their investments in private healthcare companies

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Introduction

Development finance institutions (DFI) are playing an increasingly prominent role in the spending of official development assistance (ODA). They are at the forefront of attempts to 'leverage' private investment for development, with a particular focus on supporting the expansion of businesses and hence economies in the Global South. Interest in accommodating 'private sector instruments' to finance the Sustainable Development Goals is likely to encourage further growth of DFIs.

Some development agencies and their DFIs claim, in the absence of publicly financed universal access to healthcare, the private healthcare sector should become a priority area for their investment. Private investors are encouraged by the potential for rapid growth in the size and value of healthcare markets - people are willing to pay substantial amounts to try to achieve good health for themselves and others. The rising burden of chronic, non-communicable diseases globally is intensifying this demand for healthcare services.

Several DFIs have provided technical assistance and made large direct and indirect (through a financial intermediary) commitments to healthcare companies in recent years. The World Bank's International Finance Corporation (IFC) has made direct commitments totalling more than US$1.1 billion to healthcare companies since 2013. Three European DFIs – Germany's DEG, France's PROPARCO and the UK's CDC[1] – have together committed another US$425 million. (See the list of commitments in appendix). The wholescale transformation of Turkey's healthcare system through large private finance initiatives has attracted particularly large loans. DFIs such as DEG, PROPARCO and Canada's Export Development Corporation have backed the Turkish Ministry of Health's private finance initiatives with loans, but these have been dwarfed by loans from the USA's Overseas Private Investment Corporation (OPIC) and the European Bank for Reconstruction and Development (EBRD), totalling US$750 million and US$630 million respectively.

DFI health investments are often channelled via intermediary funds. These are more challenging to track than direct investments, but for some DFIs they can be significantly larger than their direct investments. There is a range of investment funds taking on greater roles in the healthcare sector (World Economic Forum, 2016), including some funds focused entirely on making investments in health-related companies. These funds include the Africa Health Fund (US$105 million), Investment Fund for Health in Africa (US$66 million) and follow-up Investment Fund for Health in Africa II (US$137 million). The largest to date is

Abraaj Group's Growth Markets Health Fund, which aimed to attract US$1 billion for investment in health companies. It received investments from IFC, OPIC, PROPARCO, CDC, African Development Bank and the Bill and Melinda Gates Foundation, amongst others.

In some cases DFI investments have been accompanied by financing from private sources. Investment funds have attracted commitments from a range of commercial banks, pension funds and pharmaceutical companies. The Turkish Ministry of Health's private finance initiatives have received loans from commercial banks and technology companies. The Abraaj Group has been a key private investor alongside DFIs, for example in Narayana Health in India (with CDC) and in North Africa Hospital Holdings (with the EBRD, DEG and PROPARCO).

The scale of DFI investment in private healthcare companies remains relatively small compared to overall development aid for health committed annually – estimated at $36 billion in 2015 (Dieleman et al., 2016). But it is a rapidly growing area and the vision for future expansion is grand. The IFC aims to reach 1.2 billion users through its healthcare investments by 2030 (IFC, 2017). Not all DFI investments are classified as ODA, however there is a growing trend whereby governments are using ODA to leverage private finance via DFIs. DFIs also have stated aims to promote poverty reduction and development. The remainder of this chapter examines some of the key concerns related to development policy coherence of these investments, including an illustrative case study. The chapter concludes with policy recommendations.

Concerns with policy coherence

Commitments by development finance institutions in private healthcare companies have seen an expansion of infrastructure that can be broadly categorised into two groups: 1) corporate chains and 2) private finance initiatives. DFI technical assistance can also play a key role. A series of concerns with the sustainable development policy coherence for these projects are outlined below.

Corporate healthcare, user fees and poverty reduction

A recent report by the World Bank Group and World Health Organization (2017) estimated that almost 100 million people were pushed into extreme poverty (US$1.90 a day) by out-of-pocket healthcare expenditure in 2010. At the $3.10 poverty line, the figure was over 120 million people. Healthcare user fees are one of the key drivers of descents into poverty (Krishna, 2010), and are widely acknowledged to be a regressive form of financing healthcare. Affordability remains a key reason why half the world's population still does not have full coverage of essential services (World Bank Group and World Health Organization, 2017).

Nonetheless, corporate chains that are being expanded with DFI support invariably use fee-based payment systems. These fees can be extremely high. Fees may be waived with chains that provide 'free' services to low-income households, cross-subsidised by fees paid by the less poor, but such packages are often limited to particular services, with limited follow-up, and are made at the discretion of the

administering hospital. Health insurance to cover the costs of services at these private facilities is often either unavailable or unaffordable for much of the population. These user fee systems undermine the right to health and do little to assuage fears as to whether households are protected from both direct and indirect costs of care.

Segmented healthcare and inequality

There are important issues related to segmentation in healthcare systems. Corporate chains fit one of two models: 1) high-cost chains targeting wealthier groups and 2) high-throughput, 'affordable' chains targeting less wealthy groups – the so-called 'base of the pyramid'. In reality, the 'base of the pyramid' model is usually out of reach for the poorest groups, as noted in an IFC-commissioned report on 'inclusive' business models for healthcare (Deloitte, 2014). DFIs appear to be promoting a broadly three-tiered healthcare system whereby 1) the poorest rely on whatever informal, charitable or public healthcare services are available; 2) those who can are expected to purchase healthcare from high-throughput chains; and 3) the wealthiest groups access care in private tertiary and specialty hospitals, often using private health insurance (see Health in Africa case study below).

This segmentation is exacerbated by growing interest in creating destinations for international medical tourism. Examples of hospitals that have received IFC support and compete in global healthcare markets include: Bumrungrad Hospital in Thailand; Asian Hospital and Medical Center in the Philippines; Saudi-German Hospitals in Middle-Eastern and North African countries; and Apollo Hospitals, Max Healthcare and Fortis Healthcare in India. Turkey's private finance initiative healthcare campuses, which are supported by loans from DFIs and private investors, were promoted by President Recep Tayyip Erdoğan as part of an effort to make Turkey 'one of the top five countries in the world for medical tourism' (Rosca, 2016).

This international approach to health infrastructure development does little to address the health needs of low-income groups and risks exacerbating inequality of access, especially if such private health investments lead to further brain drain from already under-staffed public health services.

Public funding and sustainability

Much of the healthcare infrastructure expansion that is taking place with DFI support is predicated on a future of public subsidies for private profit. Corporate healthcare chains are looking to secure revenue streams from the government insurance schemes being rolled out in the name of 'universal health coverage', but largely providing services for salaried workers, middle-classes and, in some cases, the informal sector. Commercial motivations within public healthcare are likely to provoke inflation, 'cream-skimming' and provider attrition. Public subsidies to commercial providers risk leaving governments rationing services and diverting funds from more progressive public health activities.

Private finance initiatives allow governments to transfer risk in hospital development to construction and management consortia. While the terms

of payment are often generous and long-term, they lock current and future governments into significant and inflexible interest payments. Lesotho's IFC-brokered Queen Mamohato Hospital provides a clear warning of how these private finance initiatives can considerably distort public finances (Marriott, 2014). Because of these impacts, there are growing calls for development banks to stop promoting these models (Eurodad, 2017).

Fund managers, transparency and tax avoidance

The use of intermediary funds makes it difficult to track certain DFI investments (Romero, 2014). Although DFIs publish details of investments with external fund managers, they do not necessarily report the companies receiving investment from those funds (sub-projects). For example, investment by IFC in the Ambit Pragma Fund was reported in the IFC project database, but the Ambit Pragma Fund's subsequent investments in Beams Hospitals and Vidal Healthcare were not. This practice obstructs effective monitoring of DFI activities by both civil society and governments and undermines country ownership.

The IFC's Compliance Advisor Ombudsman (2012) found that, due to the lack of transparency and paucity of information, the IFC was unable to claim its investments via intermediary funds resulted in development benefits, or to provide assurance that these same investments caused no harm to poor people or the environment. In a positive step, IFC (also OPIC and CDC) now aims to report sub-projects of private equity funds that are categorized as high risk, based on environmental and social risk. However, this reporting is patchy and does not appear to include supposedly lower risk sub-projects.

In addition to transparency concerns, some external managed funds are registered in 'tax havens', which undermines domestic tax and resource mobilisation efforts in countries where they have their core business operations, weakening the funding base needed to achieve universal health coverage. For example, the two iterations of the Investment Fund for Health in Africa attracted US$200 million from DFIs and private investors, including the Bill and Melinda Gates Foundation, and the fund used Mauritius as a base for its investments. The Abraaj-managed (and IFC-backed[2]) US$100 million Africa Health Fund did likewise. Abraaj's US$1 billion Growth Markets Health Fund is registered in the Cayman Islands. Both Mauritius and the Cayman Islands utilise harmful preferential tax measures (Chardonnet and Langerock, 2017), depriving other countries of access to tax revenue from investment profits.

There have been some positive, but so far insufficient, steps to ensure responsible tax practices to increase the availability of public resources for critical investments, including healthcare. Of note is the European Union's recently agreed list of counter-measures against tax havens, both those which appear on its blacklist of tax havens, and potentially those on its 'greylist' (including Cayman Islands and Mauritius). Countermeasures include prohibiting European Investment Bank investments being routed through

listed tax havens, and working with other development organisations to implement these measures more widely.

Health in Africa case study

In 2008, the IFC launched the Health in Africa initiative, a US$1 billion investment project whose objective was to 'catalyze sustained improvements in access to quality health-related goods and services in Africa [and] financial protection against the impoverishing effects of illness', with 'an emphasis on the underserved' (World Bank Group, 2013, p. 1). Health in Africa's strategy was to utilise three main investment mechanisms: 1) a US$300 million equity vehicle; 2) a US$500 million debt facility mobilising loans from local banks for private healthcare actors; and 3) US$200 million in technical assistance (IFC and World Bank, 2010). This initiative included the Africa Health Fund and Investment Fund for Health in Africa mentioned previously.

Health in Africa's official literature implied adherence to the World Bank Group's overarching goals to end extreme poverty and promote shared prosperity. There was repeated attention to Health in Africa's intended focus on benefiting 'underserved' populations in sub-Saharan Africa. The Health in Africa plan, presented to the World Bank board for approval in 2007, emphasised improving the 'availability of health care to Africa's poor and rural population' (Brad Herbert Associates, 2012, p. 11).

However, an independent mid-term review of Health in Africa, conducted by Brad Herbert Associates in 2012, found clear evidence of systematic failings to realise impacts for poor people across all Health in Africa's work streams (ibid.). The review documented failure to analyse how to reach poor people effectively via the private sector, failure to implement direct investments for the benefit of poor people and failure to measure whether poor people were being reached. Health in Africa's analytic work was found to have completely failed 'either by omission or design' to 'engage with the single most important global controversy with regard to the role of the private sector in health in Africa: the role – if any – that the private health sector can and should play in achieving development impacts' (p. 18). The mid-term review concluded that the failure of the IFC to define or assess its anticipated results meant that it was 'difficult to assess the extent to which Health in Africa has had any real impact' (p. 4).

In 2014 Oxfam conducted a desk-based portfolio review of Health in Africa's investments (Marriott and Hamer, 2014). It found that a large proportion of these investments were made in expensive, high-end, urban hospitals offering tertiary care to African countries' wealthiest citizens and expatriates. For example, Health in Africa's largest direct investment was a US$150 million equity investment in South Africa-based corporate chain Life Healthcare. Corporate healthcare in South Africa is unaffordable, even for many comparatively wealthy South Africans with health insurance, let alone the 85% who lack insurance (McIntyre, 2010).

Other examples of Health in Africa-linked investments that appear to disproportionately benefit elite groups

rather than providing healthcare for people living in poverty include:

- A US$1.5 million loan to Clinique La Providence in Chad to make available 'locally, health care services for which Chadians are currently travelling abroad' (IFC, 2014);
- A US$1.7 million investment in Clinique Biasa in Togo, which described itself as 'one of Lomé's top three private hospitals' (Private Equity Africa, 2012);
- A US$2.7 million investment in Nairobi Women's Hospital, which had an average reported in-patient cost of US$845 in 2011, equivalent to the entire annual income for two-thirds of Kenyans (World Bank Group, 2012);
- A US$5 million investment in West Africa's first IVF centre in Nigeria that aimed to 'provide world-class infertility treatments' (Abraaj, 2012), at a cost of over US$4,600 for one cycle of IVF (Bridge Clinic, 2014); and
- At least US$7.7 million in loans and investments for Hygeia's Lagoon Hospitals in Nigeria which offer 'luxury accommodation' and claim to perform operations 'using techniques that are only possible at very few specialised hospitals in the United Kingdom and USA' (Lagoon Hospitals, 2014).

Health in Africa has also contributed to the expansion of health insurance models that disproportionately benefit the non-poor, but which can provide users and revenue for the types of private hospitals and clinics being expanded with Health in Africa support. Investments made by the Investment Fund for Health in Africa in Tanzanian private health insurer, Strategis Insurance, or in Nigerian health maintenance organisation, Hygeia, are unlikely to contribute meaningfully to the achievement of equitable universal health coverage (Averill, 2013).

Private health insurance is a notoriously regressive form of healthcare financing as it excludes the poor through high premiums and co-payments. One Hygeia pilot scheme in Lagos, for example, explicitly set out to target low-income workers, but ended up excluding approximately 80% of the working population as it required enrolees to work in the formal sector (Marriott and Hamer, 2014). With a US$93 premium per person, an expansion of this scheme into the informal sector could be expected to exclude people living in poverty unless there was a very high level of government or donor subsidy.

The use of intermediary funds to manage Health in Africa investments complicates the task of examining development impact. The two Health in Africa equity funds that were operational in 2014 – Africa Health Fund and Investment Fund for Health in Africa – were assigned the job of 'investing in socially responsible private health companies serving underserved and low-income people' (IFC and World Bank Group, 2011). However, the Oxfam study found no evidence that either fund targeted low-income users in practice or measured their attempts to do so.

Managers for the Africa Health Fund reportedly claimed to have developed an innovative incentive framework to reward portfolio companies for reaching patients at the 'base of the pyramid' (Kholi and Wanjiro, 2013). However, the income threshold used as a ceiling for the 'base of

the pyramid' was set so high that it included up to 95% of earners in sub-Saharan Africa.

The Investment Fund for Health in Africa requested that its portfolio companies voluntarily complete a questionnaire on environmental, social and development impact. On the basis of this data, fund managers made a series of unsubstantiated claims, notably that extension of insurance, telemedicine and other products and services would automatically lead to increased, equitable access to healthcare.

Concerns with Health in Africa's impact on poverty have never been sufficiently addressed. Health in Africa's 2012 mid-term review noted that a results framework had 'finally been developed.' However, this framework has not been made publicly available and there is no evidence available in the public domain to confirm it has been put into practice (Marriott and Hamer, 2014; author communication with IFC, 2018).

The IFC recently developed a new Anticipated Impact Measurement and Monitoring system (AIMM) to define and measure the development impact of its direct investments, financial intermediary investments and advisory services. The IFC's efforts in this direction are a welcome development. But it remains to be seen if this new system will consider who ultimately benefits from IFC investments and who is left out. A second question is whether it will go far enough to monitor health and health care system outcomes to ensure the IFC is meeting its obligation to reduce poverty and promote shared prosperity. Furthermore, unless the IFC improves transparency and disclosure practices for intermediary fund investments it will be almost impossible to verify impact claims using publicly available information.

Conclusions and recommendations

While DFIs claim to be motivated by poverty reduction, their investments in healthcare projects suggest significant policy incoherence. User fee models have been widely acknowledged as inequitable and poverty-causing. Yet they continue to be rolled out with DFI support. Many healthcare corporates backed by DFI investment do not attempt to provide services to the poor, or do so only on an *ad hoc* basis. The lack of a clear framework in attempts to evaluate Health in Africa's developmental impact is symptomatic of a policy myopia in DFIs.

Comments emphasising the profitability of the healthcare sector do little to assuage these concerns. For example, in a recent article, an IFC principal equity specialist highlighted healthcare as a lucrative area for its investments. But there was just one mention of poverty, which suggested that health services would improve 'human capital' and thereby reduce poverty (Mirza, 2018).

DFIs operating in the commercial healthcare sector frequently fail to reach the poor or even measure poverty reduction impact. Moreover, their activities risk widening social segmentation and inequalities. Their investments allow the expansion of healthcare models that exclude the poorest and legitimise a separation of the 'base of the pyramid' from wealthier groups. Widespread use of 'tax havens' for DFI investments weakens the domestic resource mobilisation needed to support equitable models of universal access to healthcare. A lack of transparency and

accountability undermines development effectiveness principles. Urgent changes in the practices of DFIs are needed to address these concerns. Development organisations should certainly refrain from directing valuable ODA through this route until and unless DFIs:

- Undertake a full, transparent and accountable review of the pro-poor impact of current and historic health investments via DFIs. Such a review should include an analysis of the broader impact of increased private sector healthcare activity on health inequalities and the right to health;
- Introduce robust, transparent and accountable frameworks to ensure their healthcare investments benefit, rather than exclude, the poor and do no harm;[3]
- Enhance transparency and accountability in reporting healthcare investments and their impacts via intermediary funds;
- Demonstrate a strengthening rather than undermining of the public healthcare sector due to investments in private healthcare; and
- Support efforts to prevent tax avoidance and mobilise domestic resources for universal health coverage. This should be applied to existing as well as new investments.

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ENDNOTES

1 Deutsche Investitions-und Entwicklungsgesellschaft (DEG), Société de Promotion et de Participation pour la Coopération Economique (PROPARCO) and CDC Group (formerly the Colonial Development Corporation).

2 An Oxfam analysis revealed that 51 of the 68 companies in sub-Saharan Africa that the IFC invested in used tax havens (Jespersen, 2016). Together these companies, whose use of tax havens has no apparent link to their core business, received 84 percent of the IFC's investments in the region.

3 The UK's CDC recently commissioned impact assessment of private providers on health and health systems is a welcome first step in this regard. It is not yet clear however, whether CDC will conduct such impact assessments for investments ex ante and/or whether it will use assessment outcomes as a condition for investment.

4 Black Sea Trade and Development Bank.

5 Islamic Development Bank.

APPENDIX: A LIST OF DIRECT DFI COMMITMENTS FOR HEALTHCARE COMPANIES, 2013-2017, IN US$

Year	Company	Country	DFI	Amount ($ m)	Source
2013	Rainbow Hospitals	India	CDC	17.5	Annual report
2013	AAR Clinics	Kenya	Swedfund	3.0	Media
2013	Ivy Health and Life Sciences	India	DEG	13.0	Press release
2013	Medica Synergie	India	Swedfund	N/D	Media
2013	Medica Synergie	India	DEG	N/D	Media
2013	Concord Medical	China	IFC	50.0	DFI website
2013	Hospital Metropolitano de Santiago	Dominican Rep.	PROPARCO	10.0	DFI website
2013	Fortis Health	India	IFC	100.0	DFI website
2013	Bilkent Health Campus	Turkey	OPIC	250.0	DFI website
2013	STS Holdings Limited	Bangladesh	IFC	28.5	DFI website
2014	Intermed	Mongolia	IFC	10.0	DFI website
2014	AAR Holdings	East Africa	IFC	4.0	DFI website
2014	SalaUno	Mexico	IFC	2.2	DFI website
2014	Nephroplus	India	IFC	7.0	DFI website
2014	AIDS Healthcare Foundation	Sub-Saharan Africa	OPIC	7.5	DFI website
2014	Hospital Metropolitano	Nicaragua	IFC	4.4	DFI website
2014	Adana Health	Turkey	IFC	48.7	DFI website
2014	Adana Health	Turkey	EBRD	121	DFI website
2014	Adana Health	Turkey	DEG	36.3	Media
2014	Adana Health	Turkey	PROPARCO	36.3	Press release
2014	Kayseri Health (YDA Group)	Turkey	IFC	45.7	DFI website
2014	Centro Hospitalario Serena del Mar	Colombia	IFC	20.0	DFI website
2014	Rede D'Or	Brazil	IFC	50.0	DFI website
2014	Rede D'Or	Brazil	PROPARCO	62.2	DFI website
2014	Asia Heart	China	IFC	35.0	DFI website
2015	ESIP EyeQ	India	IFC	5.4	DFI website
2015	Conclina SA	Ecuador	IFC	15.0	DFI website
2015	Clinique La Providence	Chad	IFC	1.4	DFI website
2015	Etlik Health (Astaldi)	Turkey	IFC	88.0	DFI website
2015	Etlik Health (Astaldi)	Turkey	BSTDB4	67.2	DFI website
2015	Etlik Health (Astaldi)	Turkey	EBRD	140.0	Media
2015	Etlik Health (Astaldi)	Turkey	DEG	33.6	DFI website
2015	Konya Hospital PPP	Turkey	EBRD	72.7	Press release
2015	Konya Hospital PPP	Turkey	BSTDB	53.8	Press release
2015	Konya Hospital PPP	Turkey	IDB5	72.7	Press release
2015	North Africa Hospital Holdings	North Africa	PROPARCO	15.0	Media
2015	North Africa Hospital Holdings	North Africa	EBRD	25.0	DFI website

Year	Company	Country	DFI	Amount ($m)	Source
2015	North Africa Hospital Holdings	North Africa	DEG	15.0	Media
2015	Narayana	India	CDC	48.0	Media
2015	Eagle Eye Echo-Scan	Nigeria	IFC	11.6	DFI website
2015	Hygeia Nigeria	Nigeria	IFC	12.4	DFI website
2015	Ciel Healthcare	SSA	IFC	6.8	DFI website
2015	Portea Medical	India	IFC	7.0	DFI website
2015	UFH Guangzhou Loan	China	IFC	60.0	DFI website
2015	ADK Hospital	Maldives	DEG	12.0	DFI website
2016	Apollo Speciality	India	IFC	33.3	DFI website
2016	Kocaeli Hospital	Turkey	OPIC	250.0	DFI website
2016	Kocaeli Hospital	Turkey	EBRD	22.4	Press release
2016	Kocaeli Hospital	Turkey	EDC	58.0	Media
2016	Izmir Bayrakli Hospital	Turkey	EDC	69.0	Media
2016	Izmir Bayrakli Hosptial	Turkey	EBRD	96.3	DFI website
2016	Izmir Bayrakli Hospital	Turkey	OPIC	250.0	DFI website
2016	Elazig Hospital	Turkey	PROPARCO	42.9	DFI website
2016	Elazig Hospital	Turkey	IFC	87.6	DFI website
2016	Gaziantep Hospital	Turkey	EBRD	90.0	DFI website
2016	Gaziantep Hospital	Turkey	EIB	134.8	Press release
2016	Medlife	Romania	IFC	11.1	DFI website
2016	Iso Health Ltd	Kenya	IFC	5.7	DFI website
2016	STS Hospital Chittagong Limited	Bangladesh	DEG	17.5	DFI website
2016	Evex	Georgia	PROPARCO	25.0	DFI website
2016	Evex	Georgia	IFC	25.0	DFI website
2016	HCG	India	IFC	19.9	DFI website
2016	Care	India	CDC	N/D	DFI website
2016	Regency Hospital	India	IFC	9.1	DFI website
2017	Max Healthcare	India	IFC	75.0	DFI website
2017	Rede D'Or	Brazil	IFC	130.0	DFI website
2017	Intermedica	Brazil	IFC	75.0	DFI website
2017	AHG Bulgaria	Bulgaria	IFC	16.1	DFI website
2017	Cameroon Cataract Loan	Cameroon	OPIC	2.0	DFI website
2017	Axa Hospital	Nigeria	IFC	8.5	DFI website
2017	Bursa	Turkey	DEG	23.3	Press release
2017	Bursa	Turkey	PROPARCO	17.5	Press release
2017	Bursa	Turkey	EBRD	64.2	Press release
2017	Bursa	Turkey	EIB	174.8	Press release

Note. Non-US$ values have been converted into US$ using historical conversion rate on xe.com for date of investment. N/D – not disclosed

ODA and private sector resources to achieve the SDGs: The Ugandan case

Juliet Akello, Uganda Debt Network[1]

Donor respect for aid and development effectiveness principles when funding private actors in Uganda

Aid effectiveness to ensure the realization of sustainable development outcomes is highly dependent on three main factors: i) donor and recipient motives; ii) alignment of the aid objective/s; and iii) policy effectiveness in a recipient country. Effectiveness principles should be interdependent and mutually supportive, and breaching any of them affects the success of development assistance. Several issues on adherence to aid effectiveness principles are still outstanding.

Ownership of development priorities: Aid conditionalities may be tightened if development cooperation best practices and principles are not implemented. The National Development Plan (NDP) I 2010/11 - 2015/16 was reportedly initiated by USAID with the objective of guiding the Ugandan government in its economic development.[2] In practice its performance was unsatisfactory, partly because of lack of ownership by many stakeholders and their readiness/agreement to implement the plan.[3]

While the participation of development partners (DPs) in the formulation of the NDP I (2010/2011 – 2014/15) was rated inadequate,[4] and it improved with NDP II (2015/16 – 2020/21), challenges remain. DPs have continued to remit aid resources, but their limited participation is hardly coordinated or aligned to NDP priorities. This has affected its performance, which in turn, has undermined the effectiveness of development cooperation through ownership. DPs have been actively involved in providing technical assistance, which can be useful but this also creates possibilities for externally designed conditions to be attached to aid releases and how these funds should be spent. It is therefore important to establish the degree of ownership by government, and also to identify the level of intervention by donors on project policy design, implementation and coordination.

Harmonization: DPs have committed to ensuring that there is an increased harmonization between their policies and procedures with those of recipient governments in managing aid resources. However, they often create individual instruments, tools and guidelines for the execution of development assistance. This is a major constraint for governments as they are forced to manage several aid delivery mechanisms. Development assistance managers have to spend significant time producing multiple reports or attending several meetings to respond to DP governments' and agencies set priorities. Inconsistences in the remittance of aid resources can distort public financial management and the execution of funds, which significantly reduces aid effectiveness.[5]

Aid alignment with government systems: The need to increase the coherence between foreign aid spending and a recipient country's priorities is well recognized.[6] Use of government systems is strongly linked to issues in aid alignment. In the past DPs have raised concerns regarding the capacities of government procurement and accounting systems. This has resulted in many individual donor support units to administer their aid projects. It is ideal for donations to be remitted through general budget support. But because of reduced donor confidence in government systems, in 2013, for example, about 50% of total ODA to Uganda was channeled through off-budget modalities, and funding to Non-Governmental Organizations (NGOs), Community Based Organisations (CBOs) was directly implemented by DPs. Remittance of external resources outside government structures exposes it to donor determination of implementation modalities, and defeats the certainty of total inflows to the country.

Predictability: Timely aid disbursements are essential for effective planning and budgeting by a recipient government.[7] Reports by the Ministry of Finance Planning and Economic Development (2011)[8] and Economic Policy Research Centre (2017) confirm that unpredictable aid flows undermine effectiveness since this constraints the forecasting of inflows, compounds the management of liquidity, activity planning and project implementation of development priorities. Aid resources are more volatile than government revenues.

Mutual accountability and transparency: There has been very little progress on mutual accountability by all stakeholders in the utilization of aid resources.[9] While DPs constantly demand that governments account for expenditures of aid resources, there is no clear mechanism and guidelines for holding donors accountable for their non-adherence to aid effectiveness principles. The result is that accountability between DPs and Government is out of balance. On the other hand, weak governance practices in government institutions, including the poor enforcement of regulations, have constrained DPs' adherence to transparency principles.[10] A close examination of adherence to aid effectiveness principles by both donors and recipient countries is crucial.

ODA support to private entities

The Accra Agenda for Action (2008) identified the private sector as an important channel for achieving the SDGs. ODA remains a crucial part of development co-operation, especially for low income countries.[11] In Uganda, the majority of private sector enterprises are not registered and few receive ODA. In addition, there is limited access to the Aid Management Platform (AMP)[12] to help track those that do receive ODA. At the same time Uganda implements a Public-Private Partnerships (PPPs) Policy,[13] which guides some private sector operations.[14]

The Private Sector Foundation Uganda (PSFU), founded in 1995, is an umbrella body for advancing private sector activities. Government and other DPs have implemented several projects through PSFU to strengthen the private sector. Most of these projects have been financed through loans and grants. But, according to the World Bank (Report, 2018),[15] private

sector funding through foreign direct investment for Uganda declined from US$1.1 billion to US$0.8 billion between FY 2014/15 and FY 2015/16.

Increase in debt burden: The Ugandan government is contracting loans to develop its private sector and channeling them through the PSFU. There is a high probability that the tight conditionalities on grant aid will force the government to borrow more funds. By 2015, Uganda's debt portfolio was already underperforming with loan absorption levels below 50%.[16] Public sector debt rose from 34.6% of GDP in FY 2015/16[17] to the current level of 38%,[18] accounting for only disbursed debt stock. The cost of servicing this debt is increasingly straining Uganda's national budget - it took 3rd priority in FY2017/18 (12.2%) compared to 4th priority in FY2015/16. In FY 2018/2019, debt servicing is the 2nd priority and makes the 1st call on domestic revenue. This is reducing budget allocations to public service delivery.

Ensuring that aid is used to support local economies and build the capacities of Ugandan Micro, Small and Medium Enterprises (MSMEs)

Uganda's private sector is largely defined by Micro, Small and Medium Enterprises. In fact, they account for 90% of private sector production[19] and contribute approximately 75% of the GDP.[20]

The informal sector is dominated by MSMEs.[21] The majority are less than 5 years old. MSMEs typically have a high mortality rate with 90% operating for less than 20 years. Many informal small enterprises are family owned and often do not have a fixed address. This makes it difficult for them to access information and financial services to help their business grow and survive in competitive markets. The small number of SMEs that are registered can receive aid through the PSFU's programs.

Government, DPs and the private sector have come up with several initiatives to promote and develop the sector. However, these efforts have been generally scattered, uncoordinated, conflicting and isolated.[22] A range of factors have further stifled MSME growth, including the high level of informality, over protection of foreign investors, long procedures for starting a business, low innovation and productivity, and credit access challenges.[23] Government support has been minimal despite the sector's size.[24] In fact, the government's domestic borrowing has actually undermined MSMEs as it has contributed to crowding out the sector from access to funds as well as fueling competition within the sector.[25] Consequently, private sector credit has declined for the last 3 years because of rising interest rates. Commercial banks have attached stringent conditions on the sectors' access to credit,[26] a practice that will continue to suppress innovation, capacity, productivity and competitiveness of MSMEs.

Shaping the use of ODA in supporting the private sector

Mutual accountability for expenditures of aid resources: As noted above, all stakeholders must develop mutual accountability mechanisms with clear guidelines. Just as important is reference documentation that determines the type and quantity

of aid required in support of the private sector and in which areas. Improvements in planning could help reduce aid inflow fluctuations, late or varied disbursements against commitments and conditionalities.

Donors need to publish information on projects they fund in order to improve transparency, monitoring and accountability. Currently, few citizens are able to access and use aid information. A better functioning Aid Management Platform (AMP) would help in information dissemination on aid resources.

The Office of the Prime Minister (OPM) is responsible for tracking and evaluating results pertaining to aid flows and implementation of Government programs. The office oversees the implementation of the "Baraza strategy," a presidential initiative adopted in January 2009 to create space for citizens' participation in the development cycle through effective monitoring of the public service providers and demanding public accountability to enhance transparency. To this effect, DPs should liaise with OPM to share aid information relating to the private sector through the *"Baraza strategy"* in order to enhance openness. This information will empower citizens to engage in monitoring aid resource utilization within the sector, but also provide feedback to enable evaluation on resource effectiveness.

Mechanisms to ensure private sector support is coherent with policies and approaches for poverty reduction

The Ugandan government has spent considerable resources in fighting poverty through program development and implementation. However, evaluations show that poverty has persisted partly due to poor governance and policy implementation.[27] The deep roots of poverty are clearly evident at household and community levels and Government has the responsibility to eradicate poverty. However, some other stakeholders such as the private sector may only be interested in playing supplementary roles to achieve this common goal. Interventions should focus on poverty reducing sectors at the macro level, with effective programming and suggested solutions for the household level. The result should be programs accountable for their action plans on fighting poverty.

Projects/enterprises that focus on Uganda's niche and competitiveness are viable. One example would be a development/overhaul of the agriculture sector, which concentrated on the re-designing of agro-industry. It might include an examination of possible economic returns from investments in food processing enterprises that target ready markets such as South Sudan. The Uganda government's concentration on infrastructural development, especially roads, can be enhanced by supporting the growth of private construction companies. The result would have long-term benefits, as roads would enhance possibilities for delivering business to neighboring nations.

The private sector can help generate more jobs. MSMEs currently employ approximately 2.5 million people, contributing 75% of the GDP[28]. The "Buy Uganda, Build Uganda Policy", which was first established in 2014,[29] could have the potential to boost growth and improve incomes of MSMEs if it's well blended with programs to support the private sector and

implemented effectively. It is also important that it is consistent with the East African community customs protocols. As well, its effect on other member states should be closely examined. DPs and the Ugandan Government need to partner in localizing interventions that affect private sector productivity growth if the poverty reduction multiplier effect is to be realized.[30]

Orientation of private sector support to benefit stronger roles for women and girls in creating sustainable family livelihoods

Gender should be a crucial consideration in all trade issues as well as any strategies to promote socio-economic growth and sustainable development with the private sector. A strong female presence is evident in informal sector employment, with women represent 84% of this work force in Sub-Saharan Africa (World Bank, 2014).[31] Despite these roles and the existence of a good legal and policy framework,[32] the abuse of women's rights is still widespread due to persistent norms and stereotypes. As noted by Unilever:

> *"We believe that women's empowerment is the single greatest enabler of human development and economic growth – and that changing the norms and stereotypes that hold women back will enable society and our business to transform for the better."*[33]

Recognizing these challenges, initiatives to enhance the role of women in the private sector should be integrated into all sectoral policies and strategies and oriented along the following lines.

Initiatives must deal with cultural constructs to ensure gender attitude change: The growth of enterprises owned by women is constrained because of cultural constructs and stereotypes that limit their economic empowerment. In many rural communities discrimination against women leads to a loss of self-esteem, which jeopardizes their capacity to realize their economic potential. The use of mechanisms to support the private sector should be blended with gender attitude change tools for communities to appreciate the benefits of women's economic power. Gender attitude change can take a considerable amount of time, especially in communities that have long-standing traditions that are prejudiced against women. The involvement of several stakeholders, such as private sector agencies, women, girls, boys, men, local, clan, elders, opinion and cultural/traditional leaders, is instrumental in facilitating the transformation process of unlearning these discriminatory practices.

Economic empowerment of women is crucial. Because the majority of Ugandan women are centered inside a home care economy, they do not have access to business knowledge or the use of updated ICT. The relatively low female literacy level is also a factor. For the last 10 years, the female literacy level has averaged 65.4% compared to the male level of 77.1%.[34] These conditions have undermined women's ability to effectively participate in the market economy. There are also other practical obstacles: many women have inadequate start-up capital; limited access to information and credit, and lack property or commensurate collateral, all of which are important foundations for business growth.

To promote women's economic empowerment, women cooperatives need to be established and existing ones strengthened. These organizations would be in a position to understand and address gender-specific risks and challenges,[35] including confidence building. Mentoring through activities such as guest speaking by successful business women or commercial trainings are other useful strategies. Both would empower entrepreneurs, through the knowledge and skills provided by experienced business women. Enhancing market linkages using ICT in order to make connections with high-tech e-commerce/ business should also be encouraged in order to move towards gender equality in the business environment.

Denial of property inheritance for women and girls, which can be understood as a form of economic violence. In many rural communities in Uganda, women's contribution to property accumulation is not considered and widows are disentitled to property. Women lack access to, and ownership of productive resources. This limits their economic contributions to development of both themselves and their communities.

Implications of poor safeguards and regulatory frameworks for communities in developing countries

The volatility and limited predictability of aid financial flows makes it difficult to maintain its quality and benefits for communities. Programs to strengthen the capacity and competitiveness of MSMEs at the community level so that they can transition to bigger businesses can be frustrated by poor safeguards and regulatory frameworks for private sector support. The fragmentation of aid projects makes them considerably less valuable because of the costs and piece-meal benefits. Instead, joint collaborative efforts based on a division of labour amongst DPs should be pursued as this approach can consolidate aid outcomes for beneficiary communities. Project funding that is not harmonized amongst donors can lead to overlapping efforts, making development cooperation management costly and inefficient.

Adequate consultation and prioritization by beneficiaries in designing aid funded projects, which are aligned to national development policies, is likely to reap the best results.[36] When there is good transparency, aid benefits earmarked for either the productive or social sectors can be easily traceable. These approaches should be integrated into development strategies, plans and monitoring frameworks of local government, NGOs, CSOs, and DPs. A project needs effective implementation, monitoring and evaluation processes to achieve the desired results.

The practices that propel Illicit Financial Flows (IFFs) deprive Uganda from mobilizing enough revenue for public service provision. The NDP II notes that by 2030, IFFs should be significantly reduced to promote economic justice for all and inclusiveness for sustainable development.[37] Records of losses to other countries are uncertain. If DPs indulge in IFFs practices, income inequality and the unequal distribution of power will increase. Any sustainable development approach for Uganda must curtail mechanisms that facilitate illicit financial flows. This will mobilize domestic resources for long-term development.

ENDNOTES

1 The *Uganda Debt Network* is a policy advocacy organization that was formed in 1996 to campaign for debt relief for Uganda under HIPC Initiative of the WB/IMF. The organization promotes and advocates for poor and marginalized people to participate in influencing poverty-focused policies, demand for their rights and monitor service delivery to ensure prudent, accountable and transparent resource generation and utilization. UDN engages with various Government MDAs at national level, and through partnerships with Local Governments and nurturing Community Based Organizations at Sub national Levels.

2 https://paanluelwel.com/2016/03/30/the-role-of-usaid-private-sector-in-uganda-how-the-private-sector-supports-ugandas-economic-growth/

3 EPRC (2017), Linking Budgets to Plans in a Constrained Resource and Institutional Environment: *The Case of Uganda,* Pg 23

4 Aid effectiveness (2011). Progress in Implementing the Paris Declaration. Volume II Country Chapters, pg 3

5 EPRC (2017), Linking Budgets to Plans in a Constrained Resource and Institutional Environment: *The Case of Uganda, Pg 23*

6 Ellmers B. (2010), Tapping the Potential? Procurement, ti*ed aid and the use of country systems in Uganda*, pg. 12

7 Article 26, section (b) of the AAA (2008) emphasized that, *"…donors will provide full and timely information on annual commitments and actual disbursements so that developing countries are in position to accurately record all aid flows in their budget estimates and their accounting systems. Also* available at: http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/AAA-4-SEPTEMBER-FINAL-16h00.pdf

8 MoFPED (2011), Report on External Assistance to Uganda

9 DPs, recipient Governments, International Organizations, Civil Society, Parliamentarians, Local Governments and citizens.

10 MoFED (2012), Summary of Project Support Managed Outside Government Systems, FY 2012/13, Pg 5

11 DAC High Level Meeting, 15-16 December 2014, OECD Conference Centre, Paris, Paragraph 6

12 The AMP was launched in 2014 and is hosted in the Ministry of Finance and is expected to manage and monitor aid resources.

13 Expected to take advantage of private sector efficiency in the delivery of public goods and services

14 MoFPED, A competitive Economy for National Development, Strategic Plan 2016 – 2021, Pg 5

15 World Bank (2018), Uganda Economic Update; From Small Budgets to Smart Returns: Unleashing the Power of Public Investment Management, 7th Edition

16 Auditor General's Report, 2015.

17 MoFPED (2017), Debt Sustainability Analysis Report

18 MoFPED, Budget Speech, FY 2018/19

19 MoFED (2017), National Strategy for Private Sector Development: Boosting Investor Confidence for Enterprise Development and Industrialization, 2017/18-2021/22, Pg 3

20 Ministry of Trade, Industry and Cooperatives. "Buy Uganda, Build Uganda Policy" 2014

21 Financial Sector Deepening Uganda (2015), National Small Business Survey of Uganda, pg 1

22 Ministry of Trade, Industry and Cooperatives (2015), Uganda Micro, Small and Medium Enterprise (MSME) Policy, pg 1

23 i) World Bank (2015), Doing Business Survey, pg 2 ii) MoFPED (2017). National Strategy for Private Sector Development, 2017/18-2021/22, Pg 11

24 PSFU (2014), An Analysis of Private Sector Growth Challenges and Proposals for Policy Reform, pg11

25 i)MoFPED (2017), Debt Sustainability Analysis ii) Bank of Uganda (2018), State of the Economy Report, March 2018

26 MoFPED (2017). National Strategy for Private Sector Development, 2017/18-2021/22, Pg 14

27 The Rural Farmer's Scheme (1987), Entandikwa scheme (1996), the Poverty Eradication Action Plan (PEAP) with lots of programmes for the poor, the current Prosperity for All Programme (2008), Plan for Modernization

of Agriculture –(NAADs/Operation Wealth Creation which has no legal basis)

28 Ministry of Trade, Industry and Cooperatives (2014), "Buy Uganda Build Uganda Policy

29 The policy is expected to spur domestic consumption of local products while Government is responsible for creating an enabling business environment for private sector growth

30 Poverty level declined from 56% in 1992/93 to 24.5% 2009/10. By 2014, it reached 19.7 % but increased to 27% by 2016, according to respective Uganda National Household Surveys (UNHS).

31 World Bank (2014), Informal Economy and the World Bank, Policy Research Working Paper no. 6888, Pg 7 http://documents.worldbank.org/curated/en/416741468332060156/pdf/WPS6888.pdf

32 Articles 32 provides for Affirmative Action and 33 on the rights of women.

33 https://www.unilever.com/sustainable-living/enhancing-livelihoods/opportunities-for-women/

34 Uganda Bureau Of Statistics, Statistical Abstracts – 2015, pg 24 & 2017, pg 29

35 Eg verbal violence, harassment, gender based and sexual abuse etc

36 Like Private Sector governing policies, trade and investment

37 National Planning Authority, NDP II 2015/16 – 2019/20, Pg 278

The Shortcoming of Blended Financing in Development Cooperation within the Energy Sector in Cameroon: Show-casing the Dibamba Thermal Power Project

Charles Linjap, Executive Director-Investment Watch

Summary

The Dibamba Thermal Power Project (DTPP) of Yassa, Douala, Cameroon was funded through a Blended Financing (BF) mechanism, which supported both the construction and operational phases since 2008 to the present. The following case study of DTPP examines the development outcomes as well as the limitations using BF resources in a large project.

This €240 million project was funded through a debt-financing package from two Development Finance Institutions (DFIs) -- the German Investment and Development Corporation (DEG) and the French PROPARCO – as well as from four Multilateral Development Banks (MDBs)--the African Development Bank (AfDB), the Central African Development Bank (BDEAC), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The IFC and MIGA have had special roles as Private Sector Instruments (PSIs) of the World Bank Group to develop 86MW of electricity to prevent load shedding during Cameroon's dry season.

Based on well-researched evidence this case study evaluates issues affecting the use of Official Development Assistance (ODA) to crowd in additional private capital through BF mechanisms. It analyzes development outcomes and shortcomings of a project as a means to leverage ODA policy formulation. It provides an appraisal of blended financing inside the context of issues in Cameroon's energy policy.

The study provides an assessment of the DTPP with respect to development effectiveness principles. Its focus is development results; an appraisal of compliance with social, environmental, labour and human rights standards; and the development of objective criteria to engage with the private sector through the use of ODA funds.

It concludes with strong actionable recommendations to roll back core issues affecting the use of BF in the future. The study maintains that there must be a paradigm shift in the use of ODA funds when engaging with private actors. It asks civil society to strategically promote the implementation of effective development cooperation policies when ODA funds are blended to support private actors. They can do so through multi-stakeholder dialogue in multilateral and bilateral policy arenas in their countries as well as at regional, continental and global levels.

1. Context:

Development cooperation partners have made many attempts to define Blended Financing (BF) within the landscape of the Sustainable Development Goals (SDGs). Thus far, the Organization of Economic Cooperation and Development (OECD)

has defined Blended Financing as the strategic use of development finance for the mobilisation of additional finance towards the SDGs in developing countries, with 'additional finance' usually referring to commercial finance.[1] This is a growing practice with 17 of the 30 DAC members carrying out blended finance activities as of January 2018 and more donors are looking to enter this field. Official development finance plays an important role in unlocking an additional US$81 billion in private finance for development over four years (2012 to 2015) based on recent OECD analysis.

In January 2018, the OECD DAC published five elaborate principles to guide the implementation of BF by its member countries in the Global South:

The use of Private Sector Instruments (PSIs) and the increasing use of BF in the Global South has prompted the OECD DAC to encourage the implementation of projects using the BF model to adhere to the aforementioned principles. To date, no best practices examples exist but there are documented case studies from the Global South that clearly outline the shortcomings of BF in development cooperation, particularly in the energy sector.

This case study relies on key informant interviews and focus group discussions as well as a desk review of DTTP literature. Prior to analyzing the outcome of case study proper, it is vital to present Cameroon's energy policy and context.

Since 1998, Cameroon has witnessed 20 years of transformational energy policy reforms that have focused on the building of a pro-private sector, investment-friendly energy climate. In practice, that has meant that Cameroon's energy management has transitioned from a state electricity monopoly corporation (SONEL) into a mixed public-private energy policy investment model. The government of Cameroon participates at multiple levels in the energy value chain as a regulator, equity investor, energy producer and transmitter in partnership with private corporations.

After 2006, the government accelerated its energy policy reforms towards this mixed public-private energy policy investment model. The energy value chain has been overhauled into five main operators:

- **Energy production operator:** The Cameroon's government drive to harness untapped hydropower (second

Table 01 OECD DAC Principles on Blended Finance[2]

PRINCIPLE 1 : ANCHOR BLENDED FINANCE USE TO A DEVELOPMENT RATIONALE
PRINCIPLE 2 : DESIGN BLENDED FINANCE TO INCREASE THE MOBILISATION OF COMMERCIAL FINANCE
PRINCIPLE 3 : TAILOR BLENDED FINANCE TO LOCAL CONTEXT
PRINCIPLE 4 : FOCUS ON EFFECTIVE PARTNERING FOR BLENDED FINANCE
PRINCIPLE 5 : MONITOR BLENDED FINANCE FOR TRANSPARENCY AND RESULTS

in Africa after the Democratic Republic of Congo) prompted the creation of the Electricity Development Cooperation (EDC) in 2006. The intention has been to sell energy within Cameroon and to neighbouring countries;

- **Energy transmission operator:** In an attempt to resolve the unequal urban-rural electricity access divide, the government was obliged to create a National Energy Transmission Corporation (dubbed SONATREL) in 2013 to modernize its electricity grid and to accelerate rural access;
- **Energy distribution operator:** The British owned electricity distributor corporation Energy of Cameroon (ENEO Cameroon) is responsible for selling finished energy products and services in Cameroon;
- **Independent Power Producers (IPPs) were accepted in 2001 to pull in additional private capital for energy:** Cameroon is currently witnessing a surge in IPP investments. including the Dibamba Thermal Power Project (DTPP), Kribi Power Development Cooperation (KPDC), and other natural gas-fired IPPs; and
- **The Rural Electricity Development Agency created in 2002:** This Agency has as a mandate to accelerate rural access to electricity by ensuring an additional 20% rural access in Cameroon by 2030.

In a bid to accelerate energy access in Cameroon, a subsidiary to AES SONEL was awarded to the Dibamba Power Development Corporation (DPDC) in 2008. They were given the right to develop 86 MW of energy dubbed the Dibamba Thermal Power Project (DTPP) as an IPP. The DTPP was designed to meet the growing public and industrial demand for electricity and to avoid load shedding during the dry season. As noted in the introduction, this case study assesses the development outcomes and shortcomings of the DTPP, a project that has been funded through a Blended Finance (BF) mechanism.

Funders for DTPP have included concessional ODA loans from two Development Finance Corporations (DFIs) – the German Investment and Development Corporation (DEG) and the French PROPARCO. It was also financed by four Multilateral Development Banks (MDBs)-the African Development Bank (AfDB), the Central African Development Bank (BDEAC), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The DTPP project was approved for funding by the above-mentioned DFIs and MDBs in alignment with Cameroon's development priorities within the energy sector.

As a private partner AES SONEL received a €240 million debt-financing package from the DEG, PROPARCO, AfDB, BDEAC, IFC and MIGA.[3] The table below shows the amounts each contributed. Not all the figures are available due to the limited disclosure policies on the part of some donors.

On 16 June 2014, Globeleq, a British Owned company took over the assets of the DTPP with the Republic of Cameroon retaining its minority shares of 44%. Globeleq is wholly owned by Actis, the British owned emerging markets fund manager, which has also acquired a majority stake in ENEO Cameroon[4].

The DTPP was consolidated in 2014 with the receipt of a €23.3 million guarantee from MIGA to cover the investment by Globeleq Energy Holdings and guarantee its future

earnings for a period of up to 20 years against the risk of breach of contract.[5]

It is important to recognize that there are serious reporting challenges in a project like this one, where multiple donors are involved. For instance, the DTPP still lacks a published, harmonized report that has been endorsed by all the donors. As well, there is little harmonized reporting on the DTPP's key project outcomes, making it difficult to access vital data. The practice of financial secrecy and limited sharing amongst donors has greatly reduced the availability of information related to the real impact of projects like DTPP, which are funded through BF mechanisms, both at the micro and macro levels of the economy.

2. The Case Study Outcomes

2.1 Analyzing the DTPP project outcomes according to development effectiveness principles:

Development cooperation should promote national self-reliance

During the construction phase, the DTPP plant and equipment were imported via the port at Douala, and then transported to the site by the Douala-Edea road. Most of the electricity equipment and spare parts were produced outside Cameroon during the construction and operational phase. Also, specialized staffs, primarily engineers and technicians, were contracted externally. Both factors reduced technological transfer and made it difficult for Cameroon to replicate and sustain the project without dependence on foreign expatriates, technology and spare parts. Only non-specialized staff, such as security personnel and cleaners and were employed locally.

Development cooperation should help empower people to claim their rights and promote social inclusion

The DTPP focused on stimulating and sustaining industrial growth during Cameroon's dry seasons rather than increasing rural access to energy. Therefore, its capacity to reduce rural poverty was limited. Community social

Table 2 Lists of donors regarding amounts blended and kind support towards the DTPP

NO	DONORS	TYPE OF DONOR	AMOUNTS BLENDED	KIND OF SUPPORT
A	The African Development Bank (AfDB)	MDB	€ 26 million6	Infrastructural development
B	The Central African Development Bank (BDEAC)	MDB	Not available	Infrastructural development
C	The German Development and Investment Corporation (DEG)	DFI	Not available	Infrastructural development
D	The International Finance Corporation (IFC),	MDB	€22 million7	Technical support and Infrastructural development
E	PROPARCO	DFI	Not available	Infrastructural development
F	The Multilateral Investment Guarantee Agency (MIGA)	MDB	€23.3 million	Guarantee against risks-breach of contract and future earnings.

services, such as health facilities, schools, football fields, potable water, markets and paved roads were not included in the Environmental and Social Impact Assessment (ESIA). They were completely left out as a social development package for the Dibamba neighboring communities.

The list of those affected by land expropriation, resettlement and crop compensation were not published. Lack of transparency on these aspects could open the door to bad practices by state civil administrations that can negatively affect the local communities.[8]

During the operational phase of the DTPP approximately 34 jobs were created to ensure the power station operates 24 hours/day.[9]

Development cooperation should promote policy dialogues on development strategies, policies and programs

While this project was able to consolidate a Public-Private Partnership (PPP) in Cameroon's energy sector, it failed to integrate the voices of civil society and social partners, such as trade unions. There was limited involvement of civil society or grassroots communities during the process of undertaking the ESIA, as is required by Cameroon's ESIA Law.

According to the operational procedures established by the Ministry of Environment (MINEF), civil society and affected grassroots communities must actively participate in validating the launching of the ESIA report through a public hearing meeting. Due to the limited information disclosure policies by DTPP partners, it is not possible to confirm whether a public hearing had taken place. The process for a public hearing is a vigorous process that requires the involvement of civil society actors with strong background in the area and issues, and the consultation must be documented with a public report validating it. To date, none of such report exists.

Development cooperation should adhere to and implement the highest standards of openness and transparency

Vital data on the DTPP's key project outputs and development results was highly protected with some data being classified as confidential. The World Bank as of December 2015 had declassified very little information about the DTPP. Also, the reporting process for donors involved in the DTPP was never harmonized and put in the public realm. Monitoring and reporting were based on self-reporting as per the contractual arrangements of each partner. There is no independent monitoring and reporting of the DTPP.

Another difficult aspect is the financial secrecy and the opaque nature of project management. For example, the lump sum for the entire project was publicly shared, but there is no breakdown of specific financial operations or the investment vehicles used. Strong levels of transparency and accountability are critical to control and avoid illicit financial flows.

In June 2016 the Cameroonian government jump-started a tax reform capacity building program with the Organization for Economic Cooperation and Development (OECD). This is a positive move as its objective is to mitigate illicit financial flows in Cameroon by Multinational Corporations.[10] There is still much to be done in order to achieve the desired results of transparency and accountability.

2.2 Private sector compliance with social, environmental, labour and human rights standards

To date, there has been no independent monitoring of the DTPP or an evaluation to verify the effectiveness of the ESIA mitigating measures that were predefined in the ESIA. Among these ESIA mitigating measures, from construction to the operational phase, it is worth noting that a good number of issues have not been addressed, namely:

- The entry and exit road to the project site was not completely paved to the ESIA benchmark of 800 meters beyond the second gate from the main road. Integrating public fire safety protection measures into the DTPP project requires that the entire project site is constructed with entry and exit paved roads. There is a lack of gutters and green belts, which can limit the impact of soil erosion and potential oil spillages from the DTPP facility.
- The legal occupants and property owners of land designated for the high-tension grid were resettled and compensated in an opaque manner prior to the launching of the DTTP. But regrettably, a few years later, there was gradual encroachment by former settlers and illegal occupants into the high-tension grid area beyond the 15 meters space limit required by law. The building of houses and businesses under high-tension grid lines without respecting this 15 meters security border can be partly attributed to the non-involvement of the civil society in the implementation of the ESIA. Building directly under the high-tension grid line is not only in violation of the 1974 land resettlement and expropriation law, but also happened without due consideration of the long term damaging to health by electromagnetic waves as well as the risk of electrocution, as noted in the ESIA study. The government civil administrator of the Yassa district area, and particularly the board chair of the land tenure committee is aware of these illegal occupations and has done virtually nothing to prevent the ongoing encroachment as required by 1974 land law.
- According to the ESIA of the DTPP, green belts must be developed in order to shield communities from encroaching closely into the DTPP facility. Today, community members and industrial complexes are building very close to the project site without a due consideration for fire safety and sewage disposal mitigation measures.
- It was first predicted that the facility would transition from an oil-powered system to a natural gas powered system. This came with the discovery of commercial quantities of natural gas 10 kilometers southwest of the project site at Logbaba and was seen as one measure to mitigate global warming effects. This measure is still pending.
- The complaint redress mechanism implemented by the donors was too complex and inaccessible for the barely literate project site workers and the affected grassroots communities. The IFC Compliance Advisor Ombudsman (CAO) allows for a civil society entity to submit a report on behalf of an individual or communities through a confidential procedure. The complaint redress mechanism for the DTPP was not well known by the affected communities and workers,




making it an ineffective mechanism for addressing development results. Proper compensation for workers who are fired is difficult to address because of the complexity of the Mechanism. This has been further affected by corrupt malpractices in filing legal complaints in Cameroon.[11]

2.2.1 Limited Reporting of the Environmental and Social Impact Assessment (ESIA) Aspects of the DTPP

The DTPP is classed as a Category B Project under the IFC Project Categories and Category 1 under the AfDB.

According to the IFC, **Category B** projects entail business activities with potentially limited adverse environmental or social risks. The impacts from Category B project are expected to be few in number, and be generally site-specific, largely reversible, and readily addressed through mitigation measures.[12] For the AfDB, a Category 1 project shall be disclosed to stakeholders for 120 days for public sector projects and at least for 60 days for private sector operations[13]. Unlike the IFC for the same project, according to the AfDB, Category 1 Projects have significant impacts, which require detailed field reviews and an Environmental and Social Impact Assessment (ESIA)[14].

The ESIA study[15] of the DTPP was done in compliance with the domestic 2005 Cameroon-ESIA law. It also adhered to the international best practices from the IFC Performance Standards, IFC Environmental, Health and Safety Guidelines and the World Bank Operational Policy (OP) 4.01. This law requires that AES SONEL make the ESIA's report publicly available in a place that is accessible to the affected groups and local CSOs.[16] To date

it is not possible to confirm whether such an event has taken place. There are no documented reports to attest to a public consultation, and it is difficult to find a reliable informant who can corroborate on behalf of the affected community.

Significant long-term ESIA impacts have been identified from an analysis of the proposed DTPP construction and operational phases. However, no independent third party has been assigned to report on the core ESIA outputs. The result is that there is primarily a voluntary engagement on social and environmental impacts, rather than a mandatory reporting for greater transparency, as is required by development effectiveness principles.

In terms of other limitations, key issues regarding Illicit Financial Flows (IFFs) were not highlighted as major long-term impact for the DTPP and no mitigating measures were recommended to fight against illicit flows.

2.3 Develop objective criteria for private sector engagement with ODA funds as derived from the DTPP

Engaging ODA funds to catalyze commercial capital from the private sector requires the development of guidelines to ensure that the desired development results are achieved. Equally important is need to make certain that these results are sustained over time by all relevant development actors without abusing the rights of individuals and affected communities. In this regard, it is necessary to consider the following criteria upon awarding BF contracts to private actors:

- As recommended by the World Bank Group,[17] a thorough consultation with civil society and affected communities should be undertaken to ensure that the concerns of grassroots communities are integrated into a BF project;
- Donors should adopt a public disclosure policy for all aspects affecting grassroots communities, including key project outputs, development results and compensation packages;
- Civil society should be involved as an independent third party evaluator regarding ESIA mitigating measures in the short and long term;
- A holistic social development model should be created for all projects funded through BF as a means to mitigate inequality and extreme poverty. Social services such as potable water, schools, markets, access to energy and sporting facilities should be included;
- Decent jobs for youth and women should be protected by ensuring that it is a key performance dimension of the ESIA;
- An enabling workplace policy with transparent complaint redress mechanisms should be created. This will guarantee the protection of trade unions and the designation of labour representatives to defend worker rights;
- Vital information on private sector contributions in projects funded through BF should be disclosed. This will ensure that private actors are held accountable in case of breach of commitments; and
- A robust and transparent financial/tax declaration system for private corporations benefiting from blended finance funding resources should be developed and implemented.

3. Recommendations

Recommendations to the recipient government:

- Recipient countries should develop a mandatory ESIA compliance regulatory framework for all private corporations funded through BF. A specific ESIA regulatory agency should be established for this purpose.
- Mandatory disclosure policies and open data practices should be developed that require both donors and private actors to publish development results and ESIA mitigating measures.
- To prevent corruption, bad practices and exclusion, the names of final beneficiaries earmarked for land expropriation, resettlement and crop compensation must be published and made publicly available. The law that guaranteed fair compensation must be respected, but the issue is implicit corrupt practices of adding of ghost names for private gains by government civil administrators.
- The recipient country should create the necessary enabling environment to ensure the participation of civil society actors, including trade unions, in the independent monitoring and evaluation of ESIA mitigating measures.
- To ease sustainable technology transfer and decent jobs for local workers, the recipient countries should provide reasonable tax incentives to private actors.

Recommendations to donors:

- Strengthen transparency and accountability policy frameworks by developing an elaborate disclosure policy for projects funded through BF to ease the process of holding actors accountable;
- Integrate a Human Rights Based Approach in the implementation of ESIA by "obtaining the prior and informed consent of affected communities" through consultations with affected grassroots communities and the civil society;
- Ensure that every donor is required to have an independent complaint redress mechanism. Civil society and trade unions should be included as an independent entity to carry out systematic monitoring and evaluation of BF projects;
- Publish the financial contributions of private sector actors as well as the developmental added-value before a project begins;
- Establish a transparency model to fight against illicit financial flows by ensuring that this concern is incorporated into the ESIA as a likely long-term impact that requires special monitoring; and
- In situations where multiple donors are funding one project through BF, ensure a harmonized reporting system is set up to report on key project outputs and development results.

Recommendations to private corporations:

- Develop internal complaint redress mechanisms for workers so that conflicts are promptly resolved; and
- Mobilize additional resources to build technological training facilities and spare parts production units in the recipient country to ease technology transfer.

Recommendations to the civil society

- Accompany and support affected communities by ensuring that the compliant redress mechanisms as well as ESIA outcome and mitigating

measures for projects funded through BF are in the public realm.

- Develop the capacities of beneficiaries so they can file admissible complaints in case of abuse and breach of commitments;
- Provide monitoring and evaluation on the ESIA mitigation measures as a way to fight against poor reporting standards; and
- Develop a detailed scorecard to measure the development effectiveness of BF projects and to appraise private sector added-value in their construction and operational phases.

4. Conclusion

Civil society must seize this opportunity to undertake strategic advocacy with key stakeholders across ODA policy-making arenas ranging from bilateral to multilateral donor agencies, including effective development cooperation platforms. It is absolutely vital for civil society to develop an elaborate blueprint on how to effectively implement the key recommendations that resulted from this study in both the short and medium term.

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International Finance Institutions: A focus on the private sector in North East India's development challenges

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Introduction: DFIs and development financing in India's North East

The increased role of Development Financial Institutions (DFIs) and other International Financial Institutions (IFIs) in shaping the development discourse in Manipur and across India's North East states has become a dominant factor. It is consistent with India's adoption of a neoliberal model of development and the aggressive push for the "Act East Policy," geared to the consolidation of India's trade and commerce with South East Asian countries. Privatization is a major thrust for all these financing programs.

Bilateral DFIs such as Agence Francais De Development (AFD) of France, German Development Bank (DEG) / KFW of Germany, and the Japan International Cooperation Agency (JICA) are extensively involved in India's North East (NE) supporting the private sector mainly through equity investments, long-term loans and guarantees. The Asian Development Bank (ADB), European Investment Bank (EIB), International Finance Corporation (IFC) and the Islamic Development Bank (IDB)[1] are some of the multilateral DFIs financing across India's NE.

Globally, IFI investments with the private sector exceeded US$40 billion in 2010 and were expected to surpass US$100 billion in 2015. In Belgium, donor investment in private sector development grew from US$44.6 million in 2008 to US$123.6 million in 2011, almost exclusively through BIO-Invest, the Belgian DFI.[2] Since 2001, USAID has supported over 1,000 private sector partnerships with more than 3,000 partners. IFIs are directly promoting private sector led growth in their policy prescriptions and specific sectoral lending in sub regional economic groups and at country levels.

The framework for financing by DFIs and IFIs has focused on development processes oriented toward a completely liberalized environment and trade rules imposed by the World Trade Organization (WTO). This includes the removal of all barriers to trade and business and an emphasis on private sector oriented development, reasoning that the private sector has superior efficiency and experience.

Privatization in India: The context

In India, privatization received a tremendous boost with the introduction of a new economic policy (NEP) in 1991 that allowed relicensing, relaxing entry restrictions and equity funding. In June 1991, India launched a comprehensive economic policy reform program, with World Bank support of US$500 million under its structural adjustment operations. After becoming a member of the WTO in 1995, India initiated rapid privatization of almost all sectors. Privatization and private sector participation was vigorously pursued through structural adjustment programs of

the World Bank and other IFIs. Deregulation in India has also been facilitated by previous laws, such as the Industries (Development & Regulation) Act, 1951 (IDRA), Monopolies & Restrictive Trade Practices Act, 1969, (MRTPA) and the Foreign Exchange Regulation Act, 1973 (FERA).

Over the years NEP has morphed into a compendium of economic liberalization strategies, privatization and the opening up of international trade. The National Water Policy of 2002 proclaims, "private sector participation should be encouraged in planning, development and management of water resources projects."[3]

NEP has come to be viewed as strategy to combine India's entry into a globalizing world with its adoption of a neoliberal model of economic development—a brainchild of the International Monetary Fund (IMF) and the World Bank.[4]

India is the largest recipient of loans from the World Bank, amounting to $102.1 billion, between 1945 and 2015 (as of 21 July 2015). The International Bank for Reconstruction and Development (IBRD), a part of the World Bank group, has lent $52.7 billion and the International Development Association (IDA), a multilateral concessional lender of World Bank, has loaned $49.4 billion to India over the last 70 years. As of 31 December 2015, India's loans from the World Bank stood at $104 billion (IBRD—$54 billion and IDA—$50 billion).[5]

The ADB's Country Partnership Strategy (CPS) 2018–2022 for India aims to support the government's goal of faster, inclusive and sustainable growth accompanied by rapid economic transformation and job creation. The new CPS articulates ADB assistance through boosting economic competitiveness to create more and better jobs, providing inclusive access to infrastructure networks and services and addressing climate change and resilience. ADB's annual lending to India is projected to be raised to a maximum of $4 billion. ADB's country operations business plan (COBP) 2018–2020 for India also aims to support the government's endeavor to achieve faster, inclusive and sustainable growth with the private sector role.[6]

Both bilateral and multilateral DFIs have increasingly entered into collaborations to promote private sector roles and financing in development processes in developing countries. JICA entered into an agreement with ADB on partnership for quality infrastructure on 15 December 2017 to establish a trust fund for supporting public-private and other private sector infrastructure projects as well as a co-financing framework for supporting the governments of developing countries to promote public infrastructure[7]. The ADB entered into an agreement with JICA on 30 March 2016 to establish a new fund, the Leading Asia's Private Infrastructure, to support private infrastructure investments across Asia and the Pacific with JICA capitalizing 1.5 billion in equity, but to be managed by ADB's Private Sector Operations Department.[8] On 8 May 2017, JICA also signed an agreement with the IFC for promoting co-financing by both agencies to the private sector in developing countries.[9] These agreements will intensify the DFIs' roles in leveraging the private sector financing and financing development projects in India and across its NE region, especially in infrastructure, energy and climate change related projects.

Across India's North East, the Asian Development Bank and the World Bank have assumed a leadership role in the

privatization of development. Privatization can be defined as the transfer of ownership and control of public sector units to private individuals or companies. With the structural adjustment programs imposed by IMF, it becomes almost inevitable. India's North East region has already recorded the establishment of several private sector led development processes, albeit with much controversy. These processes have included a range of service provisions, direct consultancy services, direct supply and procurement works, the privatization of essential services and the direct role of the private sector in pursuing extractive industries.

Role of IFIs in pursuing the privatization agenda in India's NE

Multilateral and bilateral IFIs are aggressively promoting a privatization agenda in India. The Asia Development Bank's private sector development strategy in India's North East promotes the private sector and mitigates risks for this sector. The ADB rationalizes its aggressive private sector promotion by maintaining that private sector involvement will reduce financial pressure and demands on a poorly resourced and inefficient public sector. The government's spending on social sectors has declined, at both the national level and in Manipur. India's 2015 budget reduced the Ministry of Agriculture's allocation from Indian Rupees (Rs) 19,852 crore in the year 2014 to just Rs 17,004 crore. Similarly, funds for the Women and Child Development Ministry have been slashed to Rs 10,382.40 crore from Rs 18,588.39 crore.[10] The ADB insists that its trade and investment initiatives in the North East are necessary to improve the region's market environment. The implementation of these measures, the ADB claims, will result in a favorable setting for private sector investment and thus an increased participation in global and regional markets.[11] Unfortunately, this has not proven to be the case.

The ADB's technical assistance (TA) for the northeast power development project, prepared in 2004, outlined the development of locally available resources, including hydropower, natural gas and renewable energy sources.[12] The aim was to provide critical transmission and distribution facilities and to assist in institutional strengthening in the power sector by prioritizing private sector participation. It argued for a favorable environment for private sector investments[13] and for the need to increase the capacity and productivity of NE India's private sector in order to meet the ADB-defined challenges and issues facing the sub region in international markets.[14]

The ADB maintained that North East Region had unexploited natural resources and stressed that the creation of its action plan would enhance the conditions for private sector led growth. The plan also envisaged the need for a policy framework that enabled competition, an institutional setup with an open, competitive level playing field among sectors and the establishment of a support mechanism for private sector development. The implementation of this TA advice in the trade sector has resulted in the integration of private sector-led growth in all policy priorities and initiatives for development.

The technical assistance programs of IFIs uniformly uphold the approach promoted by the WTO and other global financial institutions. This framework includes privatization and free trade as the essential parameters for development in the NE region.

On June 24, 2016 the World Bank Board approved a US$ 470 million loan to support six states in the North Eastern region of India to augment their transmission and distribution (T&D) networks. The loan, from the International Bank for Reconstruction and Development (IBRD), has a 5-year grace period and a final maturity of 24.5 years. The project's objective is to improve the power supply in the North Eastern region and to reverse commercial losses by corporate bodies[15].

Manipur is one of the states targeted for a US$300 million loan agreement that was signed between the Government of India and the ADB on March 2015. The two new roads in Manipur planned for construction under the project are Imphal-Kanchup-Tamenglong Road and Imphal Ring Road. The loan is the first under a US$425-million multi-tranche SASEC Road Connectivity Investment Programme approved by the ADB in 2014, due to be completed by December 2021[16].

Bilateral donors are also strongly pushing for the privatization of water, electricity, education, health and all essential social services through their development aid agencies. France, Britain, Australia, Japan and United States are aggressively involved in fostering the privatization of water and sanitation across Manipur and India's North East states.

Japan is a leading country that is providing extensive financial support in NE, which is supported by a close relationship between India and Japan. Setting up the India-Japan Act East Forum was one of the major agreements signed during Japanese Prime Minister Shinzo Abe's visit to India for the 12th Indo-Japan annual summit on 3rd August 2017. The India-Japan Coordination Forum for Development of North East was also established in 2017 to execute infrastructure building projects such as connectivity and road network development as well as electricity generation. An agreement was also signed at the bilateral summit to combine the aims of Japan's Free and Open Asia-Pacific strategy and India's Act East Policy.[17]

From 2007 till 2017, JICA has provided India with soft loans worth US$23.36 billion for infrastructure projects such as transport (55 percent or US$11.37 billion), water (16 percent or US$4.67 billion), energy (13 percent or US$12.07 billion) and agriculture and forestry (seven percent or US$3.63 billion).

In April 2017 the JICA signed an agreement with the Union government in New Delhi to provide over 67 billion yen (US$610 million) for Phase I of the North East Road Network Connectivity Improvement Project. Phase 1 will see the enhancement of National Highways 54 and 51 in Mizoram and Meghalaya. The improvement of NH-54 will enhance connectivity of the Kaladan Multi-Modal transport corridor, which seeks to link India's northeastern states with the rest of India via Myanmar by roads, inland water transport and marine transport.[18]

JICA has funded the Imphal Water Supply Augmentation Project (IWSP) in support of the Mapithel dam. This initiative will not only lead to privatization of its water supply, it will also legitimize the violation of community rights and the deprivation of people's livelihood, due to flooding of their agriculture lands, forests and settlement areas by the dam.

Other bilateral DFIs, such as the DEG of Germany, have co-financed the mining operations in Meghalaya by French mining company, Lafarge. KFW financed the Pare Hydroelectric project

in Arunachal Pradesh and is also involved in financing climate change mitigation and adaptation projects across the North East States. KFW signed a €15 million loan agreement with the Government of India on 4 December 2017 for the project 'Community based sustainable Forest Management — Component I in Manipur' to restore degraded forests in upper watersheds, reclamation of abandoned shifting cultivation areas and biodiversity conservation.[19] Lack of community consultation and the absence of impact assessment has marred the financing of these initiatives by JICA & KfW.

An enabling environment for the private sector

The creation of an enabling environment for Manipur's private sector is much in evidence with the increased financing by DFIs. One of their key objectives has been the establishment of the unhindered and full-fledged functioning of the private sector. Central to these efforts has been the creation of legal, policy and institutional mechanisms to leverage private sector roles and responsibilities in defining, consulting and managing development financing and the implementation of projects. Policies on mining and oil exploration have been diluted to make way for greater rights and roles of corporate bodies. Environmental policies are being weakened to remove all safeguard provisions to allow for the unhindered operation of the private sector. The formulation of the North East Hydrocarbon Vision 2030 in January 2016, for instance, will lead to the expropriation of land and natural resources through the drilling of oil and gas in Manipur and all over the North East. Both the Water Resource Development Policy, 2000 and the Industrial Policy, 2004-09 have promoted water privatization in the region. Policies on the privatization of services and the changing of existing laws to foster greater privatization of services, such as the enactment of India's 2011 Public Private Partnership (PPP) Policy, have been pursued. The PPP is a key modality for promoting private sector participation. Most PPP projects followed the BOO model (Build-Own-Operate), with the private sector managing the infrastructure. Section 4 of the PPP Policy deals with the facilitation of quick mobilization of financial resources and the development of new innovative financial instruments for the PPP projects. In this regard the government also intends to interface with banks, financial institutions and the private sector.[20]

The Mining and Minerals (Development and Regulation) Amendment Bill was passed by both India's houses of parliament on 29 November 2015. This amendment is deeply flawed. It does not recognize the community's rights over their land and minerals or the need for the community's consent on any mining operations. It does not contain a clause requiring "forest" or "environment clearances" in mining operations. The amendment advances the interests of mining companies through measures such as an automatic extension of mining leases to 50 years from the previous 30 as well as the extension of the limit of a mine from 10 square kilometers to an undefined amount without community consent.[21]

Recently, several additional measures were implemented to support the private sector in India. For instance, the Indian Government introduced a new Draft Energy Policy in July 2017. It supports the establishment of energy projects throughout India, with an enabling environment for the private sector to further their commercial interests. A key intention of the Finance Act, 2017

is to curb the powers of the National Green Tribunal, established to monitor the violation of "forest clearance" and "environment clearances" in development projects that have potential environmental consequences such as big dams or oil exploration.[22] India's Ministry of Environment, Forests and Climate Change introduced the Draft Wetlands Rules in 2016, which is a watered down version of the Wetland (Conservation and Management) Rules of 2010.[23] There is an on-going process to weaken the Forest Rights Act of 2006 and the Land Acquisition Act of 2013.[24] The Government of India is currently drafting the Draft National Forest Policy 2018 that will further weaken community rights over forests.

Examples of specific cases

Infrastructure Road Projects: Primary infrastructure projects supported by DFIs are road projects which are part of the South Asia Sub Economic Cooperation's objective to link countries in South and South East Asia. The World Bank, ADB and JICA have complemented each other's initiatives in financing these road projects, which are implemented by multinational road building companies. They have often involved privatization of access to the roads, such as along the Gauhati to Shillong Road. The World Bank is directly involved in financing road projects in Mizoram while ADB and JICA have financed road projects all across NE states.

In June 2014 the World Bank approved a US$107 million credit to the Mizoram State Roads II – Regional Transport Connectivity Project. The objective of this project is to improve transport connectivity for the landlocked state of Mizoram and to enhance Mizoram and other Northeastern states' road links with Bangladesh, Nepal, Bhutan and Myanmar. The Mizoram State Road project, financed by the World Bank from 2002 till 2009 and implemented by RBM Tantia (part of RBM Road Builders of Malaysia), Baghareetha Private Limited, CCAP Limited and Termat Engineering/ Infrastructure Private Limited, has also met with controversy. Issues have included project delays, problems with compensation and the rehabilitation of affected communities.[25] The implementation of the road project has also been marred by substantial delays, poor contract management and a failure to pay compensation to families of two employees who died in an accident in April 2016.[26]

Loan agreements between the Government of India and ADB were signed for the Northeastern States Road Investment Program in July 2012 (Tranche I) and for the tranche II in February 2014 at a total cost of US$200 million.[27] The implementation of the Tranche II is in progress in NE states, while the roads projects from Tupul to Bishnupur and from Thoubal to Kasom Khullen in Manipur have also been taken up.[28] On 31 March 2017, JICA signed an agreement with the Government of India to provide 67,170 million Japanese Yen (approximately INR 4,000 crores) in ODA for the North East Road Network Connectivity Improvement Project (Phase I)."[29] JICA later signed an agreement with the Government of India in April 2018 to provide an ODA loan of 38,666 million Japanese Yen (approximately Rs 2,500 crore) for the North East Road Connectivity Project (Phase 2).[30]

Several communities affected by the ADB financed Imphal Ring Road project in Manipur have expressed objections

to the road widening plan because of its multi-faceted impact and the lack of a holistic assessment consultation and consent of affected communities. In a meeting on the proposed eviction plan held on 21 September 2014 residents of Kongba Makha Nandeibam Leikai in Manipur resolved to oppose the project as its implementation and land acquisition processes had failed to obtain their consent.[31] Villagers affected by the ADB financed Imphal Moreh road pressed for adequate rehabilitation and resettlement measures and protested both the lack of information and transparency on the actual project works and impacts.

DFIs co-financing Lafarge mining in Meghalaya: The ADB, EIB, IFC, several other bilateral DFIs and the German Development Bank (DEG) have co-financed the limestone mining operations in the state of Meghalaya with the *Lafarge* Group of France and Cementos Molins of Spain. The Lafarge Surma Cement (LSC) Project, run by the French multinational Lafarge, received a loan of US$45 million from the IFC in 2003. The violation of India's forest laws, the Forest Conservation Act, 1980 and the Forest Rights Act, 2006 is evident in this project. In 2008, a confidential report by an ADB mission highlighted shortcomings, particularly the lack of transparency in the purchase or lease of land belonging to indigenous peoples.[32] In January 2014, the Khasi people affected by the IFC and the ADB funded limestone mining filed a complaint with the Compliance Advisor Ombudsman (CAO), the IFC's accountability mechanism. The Khasi people complained that Lafarge has infringed on their land without consent, while also causing environmental destruction. Their claim states that that they had been denied justice and have invited the CAO to investigate and take appropriate and suitable actions relating to those most affected by this project. The CAO found the complaint eligible for assessment and has initiated the investigation process.[33]

Water and sanitation and privatization: Water supply and sewerage projects, which are primarily financed by DFIs. JICA, AFD and ADB in India's North East, have all insisted on the privatization of services and an increase in tied aid.

JICA funded the Imphal Water Supply Augmentation Project (IWSP) in support of the Mapithel dam. JICA's pre-feasibility study for IWSP recommended a policy change in the Manipur Water Supply Act, 1992 (Manipur Act No. 1 of 1993) that would privatize water supply services. This Act requires that the state government of Manipur adopt a flat rate for their water supply services. The project financing will not only lead to the privatization of the water supply; it will also legitimize the violation of community rights and the deprivation of people's livelihood, through the flooding of their agriculture lands, forests and settlement areas by the Mapithel dam.

In the case of the water supply project for Guwahati city in Assam, funded by JICA, Louis Burger International Inc, a US based consultancy firm, has been found to have bribed officials of the Assam Government in order to win contracts. Directed by the Gauhati High Court, the Central Bureau of Investigation (CBI) of the Government of India has taken up the Louis Berger corruption case and is filing an FIR against unknown officials of the company for allegedly bribing the former Assam government. The investigation is ongoing.

Technical support for the French funded Imphal Sewerage Project in Manipur (under construction) has been undertaken by the French company, Degremont, a subsidiary of Suez.[34] This is consistent with the requirements of French aid, which tie the provision of ODA to the procurement of services of French technical and consultancy firms. The project also foresees the privatization of its services.

Energy projects: The financing of energy projects and related infrastructure is a major focus of the DFIs. The World Bank is currently financing the High Voltage Transmission and Distribution Lines across NE states. The JICA and KFW are funding the Tuirial Hydroelectric Project in Mizoram and the Pare Hydroelectric Project in Arunachal Pradesh respectively. The JICA has also financed the renovation of Umiam Stage IV in Meghalaya. The ADB is extensively engaged in power sector reform towards privatization of energy provisions.

The 60 MW Tuirial Hydroelectric Project, financed by JICA in Mizoram, landed in extensive controversy due to its inadequate rehabilitation and resettlement processes. Project work stopped in 2004 because of these issues. The Tuirial Crop Compensation Claimant Association claimed that the project failed to provide compensation for crop losses from the land that was forcibly acquired. The project was also marred by inordinate delays and cost overruns, leading to high costs for power that had to be purchased by the Mizoram Government from project developers.

The financing of the 400 KV high voltage transmission and distribution lines by the World Bank across the North East states and the continued approval of the WB to finance the transmission and distribution networks will further facilitate the construction of more than 200 mega dams by corporate bodies across the region with wide social and environmental implications. The Government of India sought financial assistance from the JICA in early 2018 to fund the 66 MW Loktak Downstream Hydroelectric Project that will be utilizing waters discharged from the controversial hydropower project, the 105 MW Loktak Multipurpose Hydroelectric project in Manipur. Communities affected by the Loktak project fear that the Loktak Downstream project will undermine their livelihood. They also cite the lack of accountability by the project proponents.[35]

Issues with the privatization agenda in Manipur and across NE India

a) Non-recognition of indigenous peoples' rights

A significant challenge in road projects financed by the Asian Development Bank and JICA has been a lack of recognition of indigenous peoples' pattern of land ownership. There has been a failure to conduct detailed impact assessments with the rightful participation of these communities. These assessments are extremely important as they help determine the best possible measures for affected indigenous peoples' rehabilitation and resettlement.

The biggest challenge is to find ways to reduce the impact of infrastructure projects on indigenous communities. A clear illustration of these issues in seen in the Heirok to Khudengthabi road project, which is to be financed by the Asian Development Bank, and the Imphal Moreh

Road project, to be financed by ADB.[36] In both cases, non-adherence or absence of strong safeguard measures for respecting environmental integrity are significant problems. In the Imphal Moreh project there is the added ethical challenge of recognizing indigenous peoples' development rights. The impact on the livelihood of indigenous communities due to road cutting, failure to rightfully involve affected communities in conducting impact assessments or the adoption of rehabilitation and resettlement measures that are acceptable to them, are significant problems.

Where bilateral financial institutions, such as the JICA, are involved, they often do not have policies to promote indigenous peoples' rights or to integrate the UN Declaration on Indigenous Peoples, 2007.

b) Failure to implement free, prior and informed consent

This relates to the pursuance of infrastructure and energy projects or extractive industries financed by the DFIs, such as the Lafarge Limestone mining in Meghalaya, the Pare Hydroelectric Project in Arunachal Pradesh, the Imphal Ring Road the, Imphal Water Supply Project to be financed by the ADB, IFC, KFW or JICA.
The ongoing oil and gas exploration and drilling by Jubilant Energy Private Limited and Oil India Limited in the Manipur area provides a clear example of a company that has failed to obtain the consent of local communities.

On 17th May 2017, villagers of Khaidem stopped the company, Asian Oilfield, from conducting surveys in their village. A day later, the community met and passed a resolution refusing all oil exploration in the Khaidem area. Residents of Kambiron, Sibilong and Oinamlong villages as well as others from Tamenglong District rejected the efforts of Asian Oilfield to seek 'No Objection' Certificates (NOC) for surveys. The latter did not provide sufficient information. These community actions were partly in response to previous experiences of malpractices by Alphageo and Jubilant Energy in 2012.

c) Roads and natural resources extraction by corporate bodies:

The extensive financing of roads by bilateral and multilateral DFIs are clearly organized to pursue corporate interests towards expropriating the land and natural resources of indigenous peoples.

There have been questions whether the main reason for the financing of roads by ADB and JICA in Manipur and India's NE region is primarily to facilitate extraction of minerals and building of dams. JICA has diverted from directly funding mega dams and is now focusing on infrastructures to aid such large scale, unsustainable and exploitative development projects across India's North East. Both the Pare hydroelectric project with KFW financing in Arunachal Pradesh and the proposed 66 MW Loktak downstream envisaged for JICA financing in Manpur have met with wide opposition. ADB makes an explicit reference in its TAs to the promotion of infrastructure projects towards enhancing private sector roles in tapping the unexplored natural resources in India's NE. Oil companies such as Jubilant Energy, Canoro, Oil India Limited and Asian Oilfields have been involved in both exploration and drilling.

d) Emphasis on profit oriented sectors

IFIs have been forcibly endorsing the privatization of services. Corporations focus on profit and commercial interests that often link with the economic interests of developed or other developing countries. This private sector motive raises many questions, particularly on the implications for addressing and advancing the real needs, wishes and aspirations of communities. Because the priorities for the private sector are commercial, they are more likely to focus on infrastructure that will advance their business prospects and returns in the nearest foreseeable future. Thus the pursuance of large infrastructure projects relating to oil exploration, hydropower, mining roads or railways by the private sector often fail to take into account communities' social issues and non profit-related concerns in their development.

e) Environment impacts

Environmental impacts are a significant and growing concern. For example, private companies, involved in the railway works in Tamenglong District have blatantly disregarded the devastating impact this project has had on the environment. These impacts have included the destruction of forest areas and the discharging of contaminated and chemical laden liquid waste in Ejei, Barak and Irang rivers. As well, direct dumping of earth excavated from hills from tunneling and road cutting are major concerns in the Tamenglong district of Manipur for which neither the companies or the Government of Manipur have assumed responsibility. The railway works are being carried out in clear conflict with the Forest Rights Act, 2006, something the Ministry of Environment and Forest and Climate Change of the Government of India acknowledges, but for which it has taken no action.

The limestone mining by Lafarge in Meghalaya, supported by financing from ADB and IFC, is afflicted with severe forest rights violations to the point that complaints have even reached the Supreme Court of India. One of the main complaints is the use of heavy explosive materials in blasting hills for limestone. Due to blasting, cracks have appeared on the earth causing drinking water sources from spring water to stop and dry up in the Shella region of Meghalaya.[37]

f) Increased presence of private companies in contract works

One clear concern regarding the implementation of ADB's road projects is its overwhelming focus on the privatization of development. Multinational private companies have carried out the entire consultancy and civil works. The Management Services Value (MSV), AECOM Asia Company Limited, (USA), Egis International, (France), Roughton International Ltd, (UK), Rodic Consultants Pvt. Ltd, Aarvee Associates Architects Engineers & Consultants Pvt. Ltd, (India) are some of the construction supervision consultants for the ADB road projects in the North East Region. Accountability for damage resulting from the work conducted by these private companies remains an unaddressed issue.

The extensive sand and stone mining of the Ejei River by ABCI company, as part of the construction of the ADB financed road project from Bishenpur to Tupul and the Bishenpur to Tupul road has led to massive soil erosion, receding of water levels and loss of fish habitat. The companies

have failed to take responsibility for the destruction of the environment and the social impact inflicted by these projects on indigenous peoples. Indeed, communities have been compelled to resort to the courts and to approach the ADB directly to address these violations. Communities affected by the ADB-financed road project in Kasom Khullen, Ukhrul District, have challenged the ADB's violations and impacts through the Manipur High Court, seeking redress and justice for violations, but to no avail.[38]

g) Corruption

Corruption is another major concern, primarily because of some of the controversial processes found in development projects implemented by the private sector. Several examples, such as the Louis Burger International case, have been provided earlier in this chapter.

The JICA financed Guwahati City water supply project is marred by allegations that Louis Burger International, based in the United States, has been bribing Assam Government officials to win contract. An investigation is underway by the Central Bureau of Investigation, Government of India.[39] The World Bank funded road project in Mizoram faced accusations of corruption and favoritism to politicians of Mizoram when the contract for road building was awarded to Sunshine Overseas.[40]

h) The impact of privatization on water supplies and agriculture

Privatization in the North East has had a profound impact on both citizens' water supplies and the development of agriculture in the region. The privatization of India's power sector has resulted in steep tariff increases. There was a 328% increase for domestic consumers after privatization – Rs 1.37 per unit in 2002 to Rs 5.87 per unit in 2013. Privatization has also caused the devaluation of public assets. A report by Comptroller and Auditor General of India stated that the assets of the Delhi Vidyut board were undervalued by a whopping Rs 3,107 crores. In addition, the Delhi government paid the private companies 10 times more in the form of a subsidy – 3,500 crores – than what they brought in as equity.

The privatization of drinking water services in Nagpur in a PPP project financed by the World Bank presents a model of complete failure. The tariff for water has increased fourfold. Earlier, Nagpur Municipal Council (NMC) signed a concession agreement with the Orange City Water Private Ltd (OCWL), a joint venture of Vishwaraj Environment Pvt Ltd and Veolia Water (India) Pvt Ltd. However, the privatisation process did not bring down the water leakages nor did the private company ensure sufficient water supplies to the residents.[41]

Agriculture in India landed in a deep crisis following broad reforms resulting from the implementation of the country's neo-liberal policies of 1991. These reforms were marked by the gradual withdrawal of the state from its responsibilities in agriculture, such as the regulating of markets. The World Bank, which has promoted the privatization of agriculture, has recommended the stopping of all forms of agriculture subsidies. The Agricultural Produce Marketing Committee Act, 2003 has made way for the setting up of private markets, allowing contract farming and legalizing direct purchase from farmers. Corporate and multinational agencies have gained spaces in procurement,

wholesale trade and retailing, much to the detriment of small-scale farmers. Rationalization of input subsidies, downsizing of incentive pricing, a decline in public investments, shrinking public extension services and the contraction of institutional credit availability in rural areas after with the 1991 policy reforms have all contributed to a widespread agrarian crisis, and indebtedness among the rural communities.[42]

Since 1995, when India joined the WTO, there has been a surge in imports of agricultural commodities, which have been dumped by developed countries in the international market below their cost of production. This has led to a deep decline in domestic agriculture prices and has compounded the agrarian crisis. One tragic result has been suicides by desperate people living in rural India.[43]

i) Problems with implementation

The JICA financed Tuirial hydroelectric project in Mizoram is afflicted with undue delays leading to cost overruns and high costs for power units. Similarly the World Bank financed road project in Mizoram is afflicted with significant delays. The French support Imphal sewerage project continues to be delayed even after fifteen years. The Government of Manipur has set December 2018 for its completion. French companies such as Degremont have received contracts to supply essential parts for this project even though it remains a non-starter. The project is almost considered a failed project.

j) Undermining DFI's safeguards

DFIs' non-application or violation of safeguards are major issues. Lafarge has failed to adhere to ADB's policies on indigenous peoples or rehabilitation and resettlement in limestone mining in Meghalaya. Similarly, there are concerns with the non-application of safeguard policies, relating to indigenous peoples and involuntary resettlement in the Imphal to Moreh or the Wangjing to Khudengthabi road projects financed by ADB in Manipur. There are also questions of whether many DFIs such as JICA actually have safeguard provisions or policies to promote indigenous peoples rights affected by JICA funded projects. Policies to promote human rights in development are missing in most DFIs in their development project financings.

k) Militarization and HR violations

Militarization and the reliance on security forces by railway works, oil exploration, dam building and other infrastructure projects are major human rights issues for indigenous peoples and rural folk. Security forces have targeted human rights defenders for seeking adequate rehabilitation and resettlement and to end contamination of their lands, rivers and forests. This was seen in the case of Marangjing village where human rights defenders resisted the violations of the railway works.

j) Undermining development effectiveness principles

The majority of donors have separate policies on aid effectiveness. A few, such as Spain and New Zealand, make specific reference to the Paris or Busan commitments in their policies on the private sector. Private sector projects should be required to adhere to the development principles agreed to at High Level Forums --- such as the Paris Declaration (2005) and the Busan outcome (2011) as they provide guidelines on effective CSO engagement

as development actors. The decision making processes and priority setting to involve the private sector need to involve civil societies and communities to ensure sensitivity to the way of life and intrinsic survival dependence of communities over their land and resources. It is critical that any development be appropriate for them. However, the IFIs' funding strategies are oriented to creating enabling environment for the private sector, not for CSOs and communities.

k) Lack of accountability standards for the private sector

Private companies involved in railway works and oil exploration have failed to assume any responsibility for the violations of community rights, for not taking into account the free, prior and informed consent of affected communities, and for the violations of existing social, environmental and human rights legislation. Mechanisms and policies to ensure accountability of corporate bodies, particularly those in the private sector, is still a distant dream. While the government targets civil society leaders and their organizations, ready to brand them as "terrorists", it provides a clear hand to those who would suppress communities in their weakest moments. Corporate bodies must uphold development effectiveness values as well as human rights principles and practices. As long as the entire state machinery is reduced to just facilitating business operations and is silencing voices detrimental to business interests, to the extent of employing emergency and security laws/ forces, accountability from the private sector or corporate bodies will remain a major concern.

Indeed, communities are compelled to resort to courts of law and to approach the ADB to address these violations. For example, communities affected by the ADB-financed road project in Kasom Khullen in Ukhrul District, Manipur challenged ADB's violations and impact in the Manipur High Court seeking redress and justice for violations but to no avail.[44]

Conclusion:

DFIs insisted on massive privatization across India's NE. Private sector development is central to the poverty reduction strategy of ADB. The ADB claims that given the limited capacity and mixed track record of the public sector, the private sector must become the "engine of growth." The ADB advocates expanding the role of the private sector from its present involvement in physical infrastructure projects like energy, water and transport into the domain of public goods and services, economic and social infrastructure, and basic services such as education, health, nutrition, water and sanitation.

The government simply does not have clear and strong accountability mechanisms so that communities challenged by large-scale development processes can seek redress. The question is: How can the basic values of development be advanced, whereby the needs and aspirations of communities are given due consideration? The determination of alternatives and development strategies should be based on people's intrinsic relationship with land and survival as well as the promotion of ecological integrity.

ADB has also stated that it will use its public sector assistance window to enforce a macroeconomic, policy, legal and regulatory environment for the "flourishing" of the private sector. This may include measures such as more open trade and investment policies, deregulation of pricing, and other market favoring interventions.[45]

The overwhelming emphasis on privatization and the role of corporate entities in India's *Act East Policy*, complemented by IFI's stand on project financing and objectives, has ushered in an economy defined and controlled by corporate interests. Such a focus leads to uncontrolled plunder of natural resources in the region, adversely affecting the physical and spiritual survival of indigenous peoples. Rather than freeing up resources for social sector spending, governments entering into ADB designed public-private partnerships have confronted increased debt and liabilities and measures that reduce social spending.

If development projects are to include the involvement of the private sector, there are certain measures that must be put into place.

Corporations investing in developing countries should promote human rights under existing international agreements and conventions. They should not collude with a partner country government in human rights violations, such as forced evictions or forced labour. Governments should issue enforceable human rights and environmental guidelines for corporations. International financial institutions and bilateral donors should ensure the formulation and compliance of social, environmental and human rights safeguards for their investments with the private sector and in project implementation, with appropriate and accessible complaints mechanisms, and in accordance with prevailing development best practice standards.

There are clear challenges in seeking justice for DFI financed projects affecting indigenous communities. In several instances the IFC has failed to take appropriate steps to ensure compliance of human rights standards by corporate bodies. Several bilateral DFIs do not have policies to promote indigenous peoples' rights as per the UN Declaration on Indigenous Peoples, 2007. The adoption of a human rights based approach to development is a challenge with private sector focused development processes.

Transparency and accountability should be at the heart of all private sector engagement and development with full public access to all project documentation. Affected populations need to have a voice and the power to hold private sector actors accountable for development results. Companies should report on their financial affairs, including tax and procurement procedures, on a country basis. The formal and informal tying of aid and aid-supported investments must end. Corporations involved in developing countries, should define a code of conduct for their role in development projects and follow these standards irrespective of the laws of the country concerned. All corporations involved in developing countries, should carry out a fair, inclusive and transparent environmental and social impact assessment before a development project is launched.

And finally, it is critically important to formulate a "policy framework for managing business and human rights based on three pillars: the state duty to protect against human rights abuses by third parties, including business; the corporate responsibility to respect human rights; and greater access by victims to effective justice remedy."[46]

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The World Bank in Africa: An analysis of World Bank aid and programmes in Africa and their impact

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Introduction

Conceptualizing development

There is a considerable amount of literature that examines the complex and highly contested components of development and development assistance. To date, no single definition of development has been agreed upon by academics or policy analysts. However, there is general agreement that development is multidimensional and requires a multidisciplinary approach. Competing and related ideas that most thinkers associate with development include economic growth, modernisation, progress and westernisation. These elements are necessary, but not sufficient, conditions for development.

Development is more than growth, progress and modernisation. In its *World Development Report (1998)* the World Bank states development includes economic, social and political attributes. This translates into a sustainable increase in people's standard of living, which allows for consumption, education, health and environmental protection, equality of opportunity and liberties as well as political freedom. These are the fundamental attributes of development, ones that make the process of development concrete and measurable.

Post-Independent development trajectories and World Bank aid in Africa

Africa did not begin to experience meaningful development until the post independence era. Development processes in Africa have been characterised by diverse trajectories, making for a complex and heterogeneous continent. Few initiatives have actually achieved much in terms of development impact, largely because development has never been the main agenda. According to Ake,

> "the problem is not so much that development has failed as that is was never really on the agenda in the first place. By all indications, political conditions in Africa are the greatest impediment to development" (1:1996).

Post-independence, most of the vital sectors needed immediate state attention and heavy investments. All states have failed to respond to the aspirations, real issues and demands of the majority of African people. State controlled development and planning in agriculture, healthcare, industrialization, education, energy generation, transmission and distribution, import substitution, inter alia, failed to bear results in large swaths of Africa. Consolidation of political power became the pet obsession of a majority of African leaders.

Various leaders adopted different approaches. Some of the most promising ones, such as President Kwame Nkrumah, became outright despots. Others, like Kenneth Kaunda of Zambia and Jomo Kenyatta of Kenya, performed no better. Jomo Kenyatta became a diabolic dictator and one of the wealthiest men in East and Central Africa. President Julius Nyerere of Tanzania moved away from a capitalistic approach, implementing instead the ujamaa ideology which was initially a success but failed to fortify the country against poor agricultural development and food insecurity. The Democratic Republic of Congo has failed to build an effective government to date, largely due to the ongoing violence and divisions in the country. Without a lasting peace it has been impossible to pursue development. Angola, the Central African Republic, and South Sudan, among others, have also had to contend with major drawbacks to sustainable development.

It is important to note that human aspirations have always been transcendental, and this is also true for the people on the African continent. The international 'development merchant system' has found room to grow inside African countries, which have been experiencing the results of stagnated and failed development. For many African countries' economies, their dismal performance has led to the need for external development assistance. Such assistance was first provided in the form of technical assistance, financial, physical infrastructure development, economic planning, and governance.

The World Bank initially focused its aid on the reconstruction of the war-torn economies of Europe and Japan. According to Kanbur R. (2000), Africa and other developing countries were not a priority for the World Bank. Instead of a wide definition of development, it concentrated on increasing production and incomes. Africa started receiving development support later, once the post-war reconstruction had been completed. The World Bank's development objectives also evolved to include a deeper understanding of poverty, resulting in a more complex approach to development assistance.

Various Western governments, development agencies, and multi-lateral development banks (MDBs) have been deeply involved in Africa's postcolonial development. They have provided generous assistance, pouring in more than $400 billion since 1960. According to Richard L. Sklar and C.S Whitaker. (1991):

> "Even in 1965 almost 20 percent of the Western countries' development assistance went to Africa. In the 1980s, Africans, who are about 12 percent of the developing world's population, were receiving about 22 percent of the total, and the share per person was higher than anywhere else in the Third World - amounting to about $20, versus about $7 for Latin America and $5 for Asia"(p.60).

The World Bank has provided over $50 billion to various projects and programs, particularly structural adjustment initiatives, over the past 30 years. Unfortunately, its project failure rate has been over 50% in Africa, which is greater than the 40% failure rate in other poor regions of the world. In an independent rating, the Independent Evaluation Group (IEG) claimed that 39% of World Bank projects in 2010 were unsuccessful (Chauvet et al., 2010). There is a general

consensus that the World Bank's programs in Africa have failed in reducing poverty, the greatest challenge affecting the continent. In 1994, the Bank evaluated the performance of 29 African countries where it had provided more than $20 billion in funding to sponsor structural adjustment programs (SAPs) from 1981-1991. Its report, *Adjustment Lending in Africa,* released in March 1994, concluded that only six African countries had performed well: The Gambia, Burkina Faso, Ghana, Nigeria, Tanzania, and Zimbabwe. This makes for a failure rate of over 80 percent. Despite this dismal record, it is also true that aid has produced some spectacular successes. For instance, in the health sector World Bank development aid has made a significant contribution towards an increase in the life expectancy in the developing world from 40 to 65 years the eradication of diseases such as smallpox and the reduction of infant mortality (CGD, 2004).

Proponents of aid such as Professor Jeffrey Sachs argue that many poor countries are caught in a *poverty trap* and so the best strategy is for rich countries to increase aid flows and work closely with aid recipients in order to eradicate extreme poverty by 2025: "Aid is actually working albeit not perfectly, and with provision of more aid, the turnaround in terms of development will be seen" (Sachs, 2005). Easterly (2006) sharply opposes this approach and maintains that if Africa continues to receive aid for development, there will be little good to show for it since the continent continues to be immersed in a dark cloud of poverty. According to another analyst, Moyo (2009), aid itself is part of the problem, as it has contributed to low development and poverty in Africa. She argued that it should either be cut by half or done away with entirely. The sobering reality is that Africa's development challenges run very deep and change will not come easily. There are no quick fixes.

Why has the World Bank failed?

The World Bank has admitted that some of its projects have performed dismally and failed to address poverty and development issues in developing countries. This failure can't be blamed entirely on the Bank. It is also partly the fault of aid recipient countries. On the Bank's side, perhaps the biggest contributor to the failure of western aid to Africa is the culture of doublespeak and inconsistencies in policy actions that have resulted in a confusing and overlapping array of objectives. (Rondinelli, 1976). Despite being cloaked in "development" garb, economic development assistance to Africa has been used as an instrument by donors to achieve a variety of non-economic (geopolitical and political) objectives, including the containment of democratization, the promotion of human rights and communist expansion in Africa. Foreign aid allocations have often been smothered in bureaucratic red tape and shrouded in secrecy. Many programs lack transparency and the people being helped are seldom consulted. (Calderisi, 2007).

According to Santiso (2001), most western governments and development agencies have failed to exercise prudence in granting aid and loans to African governments. In his view, a considerable amount of aid has been used to finance grandiose projects, which have little economic value, impose many conditionalities, and have been created to underwrite economically ruinous policies. More often than not these projects have ended up producing

little or no meaningful economic gains to the recipient countries. One example is the financing of $250 million for the construction of the Garoe-Bosaso road in Somalia which stretches 450 kilometers across a barren desert and is only crossed by nomads by foot.

Donor governments and the World Bank have often allowed themselves to be duped by shrewd and corrupt African despots. The structural adjustment programs have failed because of design flaws, sequencing, pedagogical inanities and weak commitment to reform. Foreign loans and aid programs in Africa have been badly monitored and monies have frequently been stolen by corrupt bureaucrats. The World Bank itself estimates that "nearly 40 percent of Africa's aggregate wealth has fled to foreign bank accounts." Despite this reality, the Bank considers these same bandit African governments as "partners in development." The World Bank has sponsored structural adjustment programs in failing regimes such as Angola. If the World Bank had insisted on SAP agreements with only democratic countries and those at peace, the course of history in Angola might have been different. The very act of signing an existing SAP agreement was an admission of failure.

Failure has also been caused by actions on the recipient countries side. While it is not necessarily wrong for countries to borrow, the borrowing should be used productively to generate a net income over the required amortization. However, many times this has not been the case. Aid has been used to finance reckless spending, to establish grandiose losses and to purchase weapons. Aid dollars have been squandered, creating a phenomenon known as the "black elephant" – a cross between unexpected events with terrible consequences and problems visible to everyone, yet no one wants to address it. Examples of the misuse of aid includes times when African countries have spend large amounts of aid on consumption, either to finance recurrent expenditures such as civil servants' salaries or to purchase consumer goods. For example, during the 1980s more than half of Tanzania's imports were financed by loans from foreign governments. This included buying arms and ammunition. Ethiopia received $924.9 million from the World Bank, more than two-thirds of it in 1998 after a first round of fighting. Eritrea, a much smaller country, received less. The World Bank never threatened to stop the money. An example of "black elephants" occurred in Zaire (now the Democratic Republic of the Congo) where half of its foreign debt of $6 billion went to build two big dams and Inga-shaba power line, as well as a $1 billion double-decked suspension bridge over the Congo River. The upper level is for a railroad that does not exist. Had the money been invested in visible productive ventures, it could have contributed to better livelihoods.

Critics have long maintained that foreign assistance has been wasted by bloated aid agencies pouring money into the pockets of corrupt African governments. Nigeria, for example, does not know the true amount of its foreign debt. Back in 1990, while Nigeria sank deep into debt, its former military rulers amassed huge personal fortunes. General Ibrahim Babangida acquired an estimated fortune of $8 billion and General Sani Abachahad a personal fortune of $5 billion after only four years in office. (West Africa, Sept 25 – Oct 1, 1990; p.1614). In Kenya, the former Nairobi Mayor, Abdi Ogle, demanded the resignation of the World

Bank's country director for Kenya, Harold Wackman, accusing him of turning a blind eye to embezzlement of an emergency loan of $77.5 million in July 1998 to repair infrastructure damaged by heavy rains. "Not a single cent has come to the City Council because it has disappeared into private pockets within the Ministry of Local Government," he fumed. (The Washington post, Nov 25, 1999; p.A31).

In summary, it would be true to say that

- • The programs and policies of the World Bank to tackle poverty have not been evenly successful, particularly in Africa. The World Bank's projects have overwhelmingly failed to reduce poverty. There have been various causes for this outcome, including immature state systems as well as rigid adjustment packages imposed by the World Bank onto African governments. (Ika et al, 2012).
- • All too often, World Bank project failures have been the result of a poor understanding of local cultures and gender norms, insensitivity towards local needs, the imposition of donor projects, structures and values, and a lack of maintenance frameworks to ensure project sustainability.
- • These pitfalls have resulted from the failure of donors to engage in consultative dialogues with local people, causing projects to fail and considerable resources going to waste.
- • Internal country structures of governance, despotism and corruption have also contributed to the failure of various donor funded programmes.

The next section describes case studies where World Bank projects have failed in Africa. This has been caused by a lack of local community involvement/ local integration as well as bad governance, corruption and double standards.

Case studies:

The Chad Cameroon Pipeline Project

The Chad Cameroon Pipeline Project demonstrates the consequences of corruption, double standards, a lack of community engagement, and failed attempts to beat the resource curse.

The existence of oil in Chad has been known for many years. Production agreements have been negotiated since 1973, but with no signed agreements to date. In the early 1990s Chad was recognized for peace and relative stability. This gave birth to new negotiations and, ultimately, the involvement of the World Bank in an oil exploration project. The World Bank was engaged as a 'moral negotiator' to enhance project viability, something that was needed as Chad was considered too high a risk by foreign investors to inject capital into the project. The World Bank's other interest was to transform the initiative into a development project to substantially reduce poverty in one of Africa's poorest region.

The World Bank strongly believed that this project would promote Chad's growth and change people's lives for the better. In 2004, investments in the project increased to $4.2 billion, with the World Bank providing $93 million. The International Financial Corporation (IFC), which is a member of the World Bank, added $100 million in form of direct loans to the consortium and mobilized a further $300 million from commercial banks.

In the beginning the program exhibited a high element of transparency and accountability, including the adoption of a legal framework to ensure prudent management of oil revenues and a prioritization on poverty reduction. Eight-five percent (85%) of the dividends from direct revenues were allocated for poverty reduction in five priority sectors of education, health and social services ,rural development, infrastructure, as well as environment and water resources. In 1999, oil extraction became a reality. However, one year later, in 2000, problems started cropping up when the Chad government channeled $4.5 million of the $25 million bonus from oil proceeds i.e.; into buying weapons. Even though bonuses were not part of the World Bank revenue management plan, it was perceived as a broken promise which resulted in the Bank and the IMF threatening the Chad government by cancelling its debt relief program.

Three years later, in 2003, the construction of the pipeline was finalized and there was an increase in revenues. In 2006 however, the Chad government amended the 1999 revenue management plan to make more room for unrestricted government spending. This move allowed the government another purchase of weapons to the extent that it spent 4.5 times more on military than on health, education and other social projects combined. These priorities angered the World Bank, which proceeded to block all oil revenues by freezing Chad's offshore escrow accounts and suspending all its programs in the country. The World Bank thought it had guarantees based on a model framework for oil led development. In practice, however oil has been used to fuel war with civilians being the primary victims.

"Oil for war and war for oil" is a deeply ingrained reality in Chad's popular political consciousness. Nadji Nelambaye, the coordinator of a Chadian NGO, snapped "Are you trying to provoke me?" when asked if he thought there was a link between oil and war in the country. In September 2008, the World Bank finally terminated its operations on the pipeline project due to Chad's continuous failure to comply with the guidelines set up under the revenue management plan. At this point, oil is still being pumped and revenues, to an increasing extent, continue to be spent on military operations, a clear sign of lack of prioritization.

Marred with corruption and misappropriation allegations, the 5% of oil revenues promised to residents of the oil-producing zone is being spent on "presidential projects." One of these projects is an already crumbling football stadium. Local residents claim that the more than $74 million dollars spent on development projects in the region have produced no evident changes.

For President Idriss Deby, oil revenues have served as a means to prolong abusive and undemocratic rule. He has changed the country's constitution to allow him to be president for life. Over 30% of the oil revenues have been used on war. Money allocated for development in "priority sectors" has instead been used to grant non-transparent, no-bid public contracts to a variety of colleagues. It is little wonder that Chad's civil society has declared the pipeline's inauguration a day of national mourning.

Many displacements have taken place for residents living near the oil exploration zone. A woman in Bero Village, one of

the oil producing zones, tells how Exxon displaced her whole family, promising to find them new land and to build them new houses equipped with furniture. Although the houses were built, there was no furniture provided and the work was so shoddily done that Exxon was forced to return two years later to rebuild them. In theory, everyone displaced by the Chad Cameroon Pipeline Project received some form of compensation, but the reality is considerably different. In fact, the compensation has not been sufficient to restore their standard of living. Exxon and the project planners claimed that compensation would be paid to displaced people, but that "self-resettlement" would take place naturally whereby villagers would find/purchase new land for farming from a "village land pool." A recent Chadian report notes that this has not happened and that many farmers have not found land or enough land. Agricultural production is continually declining, which will ultimately have consequences for the entire country.

This project covers two countries so the harsh reality has also not spared Cameroon. Almost 900 kilometers of the pipeline pass through Cameroon, which is receiving only minimal revenues from Chad's oil. However, the pipeline's social and environmental impact has been harsh, particularly for Cameroonians living along its route with 248 villages being directly impacted by the pipe. Dozens more have been affected by the roads, operations centers, and employee living bases all built for the project. Unlike neighboring Chad, no oil revenues have been set aside for development spending in the affected villages. The Cameroonian government claims it only receives $25 million per year in revenues and some of this money has been returned to impacted villages via increased social spending. But the truth is no one knows where the $25 million has been spent (or if that's the true amount) as there is no accountability for the use of the revenues. Today, Cameroonian NGOs have documented hundreds of cases in which compensation was never paid, partially paid, or paid in kind with shoddy materials.

Neither Chad nor Cameroon has seen a rise in their population's standards of living as a result of this project. This is due to poor governance, corruption and misappropriation of oil resources. The majority of Chad's population still survives on less than one dollar a day. They continue to live in mud shanties with limited access to water and sanitation. The project is regarded as a great failure in its own right, largely because of internal problems rather than because of the World Bank's actions.

The Lesotho – South Africa Water project

According to research conducted by the International Consortium of Investigative Journalists, a large percentage of projects financed by the World Bank have been responsible for threatening the livelihoods of more than 3.4 million people, pushing them out of their homes and off their lands. The Lesotho Highlands Water Project, which included the construction of two large dams (Katse and Mohale) between 1989 and 2007, has been earmarked as one of these projects. It is an irony that the World Bank, which was the primary financer, also critiqued this project.

The Lesotho Highlands Water Project (LHWP), which began in 1986, is one of

Africa's largest hydroelectric projects. The project's objective was to supply water to South Africa and electricity to Lesotho. Another goal was to reduce environmental degradation, which for decades was considered to be one of the worst problems of soil erosion of any country in the world (Showers 2005). The project entailed the building of several large dams and other support infrastructure including roads, bridges and power lines. All this required the relocation of the local population. The World Bank provided funding of US$45,000,000, approximately 3% of the total project cost. Other funders included the government of Lesotho, the Development Bank of Southern Africa (DBSA), the European Investment Bank (EIB), the African Development Bank, and various commercial banks and institutions.

According to the Lesotho Highlands Development Authority and the Lesotho Highlands Water Commission, it was important to include the World Bank in the project in order to encourage other funders. Because Lesotho is categorized as one of the World Bank's lowest income countries, with 55.1% of its population living below US$2 a day, it was able to qualify for a loan. It was also believed that, having the Bank on board would generate goodwill from stakeholders such as non-government organizations as well as communities concerned about social, economic, and environmental issues. In short, the view was that the World Bank's participation would help guarantee its success.

The project was intended to bring benefits to both South Africa and Lesotho by supplying much-needed water to Johannesburg and easing poverty in Lesotho. It had two phases: Phase 1 focused on the transfer of water from the headwaters of the Gariep River (called the Senqu in Lesotho) to the Vaal river catchment in South Africa and the provision of hydroelectric power to Lesotho. Phase 1A, costed at approximately R20 billion, concentrated on major construction. This included the building of a large dam at Katse on the Malibamatso river (the highest dam in Africa at 180 million Rand), a 45 km transfer tunnel to 'Muela hydropower station and ' Muela tail-pond, and a further 37 km delivery tunnel to the Ash River in South Africa. Phase 1B included the construction of the Mohale Dam, the highest rock-filled dam in Africa at 145 million Rand, the Mohale Reservoir, a 32 km tunnel connecting the Mohale Reservoir to the Katse Reservoir, and a 5.6 km transfer tunnel to the Katse Reservoir.

The project, which was implemented from 1986 to 2009, provided compensation, resettlement and development initiatives to affected populations with the aim of ensuring that project-affected people would maintain a standard of living equivalent to what they had at the time of first disturbance (Government of Lesotho and Government of South Africa [1986] Lesotho Highlands Water Project Treaty, Article 7, paragraph 18).

The World Bank had comprehensive guidelines on the resettlement process and approaches to ensure environmental and social protection during the implementation of development projects (World Bank 2001, 2005). These guidelines called for the restoration of affected people's livelihoods, not the improvement of their standard of living. Although the World Bank sees the project's compensation policies somewhat positively, it has criticized the emphasis on payments rather than helping people

to secure their livelihoods. The World Commission on Dams (2000) argued for the need to improve the livelihoods of project-affected people as well as those downstream from the project. While non-government organizations such as International Rivers (formerly International Network, IRN), the Highland Church Action Group (HCAG), and the Transformation Resource Center (TRC) as well as members of the Panel of Environmental Experts for the Lesotho Highlands Water Project all called for improvement in the living standard of resettled people, the two governments claimed that they were only willing to restore living standards to what they had been before the first disturbance.

As the LHWP progressed, other issues emerged that had consequences for the affected population. One of these issues is related free, prior, and informed consent (FPIC). The Bank argued that free, prior, and informed consultation was necessary, but not consent. People in the highlands of Lesotho, who were being affected by the project, argued that just consultation was not enough. They also wanted to have a say in issues such as whether or not the project should go forward, what kinds and levels of compensation should be provided to project-affected people, and what kinds of land they should receive in exchange for the land that they lost in the project area. None of these arguments held sway with the two governments, the Lesotho Highlands Water Commission, or the World Bank. In most dam related projects, the affected populations are often moved to upland areas that are less productive. This greatly affects their incomes and their agricultural productivity as well as having to cope with various social, psychological and physiological stresses. Some of those affected by the project have been turned into permanent aid recipients. The World Bank has insisted that in future, any compensation program must be set up together with those affected instead of a top-down approach.

As indicated in Table 1, a total of 573 households were affected directly and an additional 20,000 indirectly affected.

The project also had several unintended consequences. It clearly stands out as an example where planners concentrated on restoring homes to the affected rather than restoring the means of production (especially land, grazing resources, and wild resources on which people depended for subsistence and income). Another major problem was that in nearly all cases, the degree of impact on populations was seriously underestimated, particularly in terms of cultural, social, spiritual and personal losses. While they were able to get cash compensation and have their dead relatives moved to their new locations, affected people felt that their new lives were seriously lacking compared to what they had experienced prior to the project. According to some resettlers, there were fewer traditional ceremonies being conducted in the new locations, and people had to go long distances to take part in cultural activities. The Lesotho Highlands Water Project, they maintained, represented a serious threat to Basotho culture. Such losses are irreparable and cannot be made good by monetary means of compensation.

Secondly, the project led to the drying up of springs in several catchment areas. These areas included the village of Ha Mensel near Katse, close to the Katse Township and administrative offices that were built to oversee the project. It was ironic, villagers

Table 1: Families Relocated or Resettled by Destination and Stage in LHWP Phase 1A and 1B

Stage	Destination	Foothills	Maseru	Total
1 A Katse	Katse basin			
	71 (25 in cash program in 1995)	0	0	71
1B Mohale	Mohale Basin			
Stage 1 (1996-1998)	37	38	24	99
Stage 2 (2002-2006)	27	177	18	222
Stage 3 (post inundation, 2006-present)	103 (165)	4	0	169
People who lost over 50% of their land under stage 3	72			74
Total	**298**	**233**	**42**	**573 relocated, resettled or affected directly**

Note: Data obtained from the Lesotho Highlands Development Authority (LHDA). In the Stage 3 (Residual Resettlement) category of Phase 1B, project affected households that lost over 50% of their arable land were allocated fields in two areas in the Mohale basin, Ha Nthakane and Ha Kopor

said, that there was a large water tank built by LHDA in the village to provide water to the engineers and dam workers and their families in Katse, but they themselves had less access to water now than they had before the project began. Springs also dried up in Ha Lejone, Ha Theko, Ha Soai, Kholontsho, Mphoroshane, and Mapaleng, all in the catchment area of Phase 1A (the Katse Dam and Reservoir).

Thirdly, there was an increase in the spread of HIV/AIDS amongst the populations living in the highlands of Lesotho. Some organizations say that the dam construction workers, most of whom came from South Africa and lived in make-shift camps, contributed to the spread of HIV-Aids in Lesotho. In the late 1980s, HIV prevalence amongst the population was 0.9%. Recent figures point to 22% (Human Sciences Research Council 2009; AmusaaInambao, personal communication, 2014). It is not certain that the LHWP itself is responsible for the increase in HIV/AIDS. The World Bank says it has no concrete data linking the LHWP and the spread of HIV-Aids in the country, but admits that there maybe a connection between the two. Today, one fourth of Lesotho's population is HIV positive, and as one of the world's least developed countries, the kingdom's medical services are unable to cope.

Lastly, the LHWP had a major corruption scandal in the early 1990s. Forensic audits revealed problems in the accounting of the Chief Executive of LHDA, Mr. Masupha Sole, as well as several large private companies involved in the project's infrastructure construction. The project has done little to help Lesotho's people. Without controls and regulations on how the funds were distributed, large sums of money have disappeared into a black hole (R. Hoover, 2001).

Conclusion

A bucket filled with holes can only hold water for a short amount of time. Pouring in more water makes little sense as it will just drain away. To the extent that there are internal leaks in Africa – corruption, civil wars, wasteful military expenditures, capital flight and government waste - pouring in more aid makes little sense. Instead, priority should be placed on plugging the holes to ensure that the little aid that comes in stays in and has a positive impact. As Maritu Wagaw wrote: "Let Africa look inside Africa for the solution of its economic problems. Solutions to our predicament should come from within not from outside" (*New African*, March 1992; p.19).

There are a number of lessons to be learned from both the Chad-Cameroon Pipeline project and the Lesotho Highlands Water Project experiences that are applicable to other development partners and donors' infrastructure projects other than the World Bank.

First, the success of any infrastructure project or any aid funded project depends on transparency, openness, accountability and flexibility.

Second, in order to determine whether communities, households, and individuals are better off, the same, or worse off as a result of project activities, it is necessary to obtain detailed baseline data against which changes can be monitored and measured. Social impact assessments done as part of safeguards policies should ensure that various categories of people are interviewed and monitored, breaking the population down along gender, age, class, ethnic, occupational, vulnerability and other lines.

Third, it is necessary to have a policy environment that is appropriate and positive for all concerned, one which takes into careful consideration international, regional, national, and local level policies and practices and places significant emphasis on local culture, heritage, and traditions. According to Ika et al, (2012), parties that are involved in any infrastructure projects including the World Bank, must pay close attention to the social, political, economic, and environmental situations in the project areas.

Fourth, no matter how good a development policy is, it is likely to fail if it goes against the interests of the local populations and if local people are not involved in decision-making and planning. Public participation, therefore, is crucial to the success of any donor funded projects (Lancaster. C, 1999). Free, pior, and informed consent (FPIC) should include not just consultation but meaningful information dissemination, local-level discussion, and real consent.

Fifth, one of the areas where significant progress has been made in the past was in the rules and procedures relating to involuntary relocation or resettlement resulting from the establishment of large infrastructure projects (World Bank 2001; Scudder 2005). An issue currently with the World Bank is that the Bank is reducing their safeguards when it comes to environmental, social, and resettlement issues, in line with some current thinking on being less regulatory and more market-oriented (Chavkin et al 2015). Given the experiences of large dam projects in Africa, Asia, and Latin America, this will have a negative impact on people and habitats around the world. Involuntary resettlement policies of the world's agencies doing resettlement must

be improved and strengthened, as must the performance standards for social and environmental sustainability. The scholarly community should be consulted in this effort along with states, non-government organizations, and institutions engaged in partnerships on development.

Finally, much greater attention must be paid to issues of corruption and misdirection of finance in donor funded programmes, particularly in large infrastructure projects. The World Bank's actions on corruption issues in Lesotho had a relatively good effect. However, the companies involved in the corrupt practices should have received greater sanctions. The World Bank, the International Finance Corporation, the European Union and other institutions need to pay greater attention to corrupt practices of states, project authorities, consultants, and transnational corporations.

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Chapter 2

ODA, Security, and Migration

Rising Militarism: Implications for Development Aid and Cooperation in Asia Pacific

Introduction

As one of the key mechanisms of global development cooperation, foreign assistance has long been captured by the security agendas of donor countries, which has become especially pronounced since the 9/11 terror attacks on the United States. For the US and other top donors, aid is not just a simple act of altruism, but also an essential instrument of foreign policy. Development aid is strategically used to contribute to the global war on terror and counterinsurgency interventions. "Smart power" – the combination of "soft" (e.g. development aid) and "hard" (e.g. military) power – has become a foreign policy buzzword. As the foreign policy priorities of the major donors have shifted to the security agenda, the implications have been significant in terms of aid flows, and global attempts to reduce poverty and the promotion of development.

This trend has not slowed down. In fact, recent political and economic developments are driving even greater militarization of foreign assistance despite the fact that the global economy remains in the grip of a prolonged crisis. Conditions for higher levels of instability and militarism have been created as the US, Japan, and the European Union (EU) — traditional centers of the world economy and donor community — are feeling threatened by the rise of China as a major global and regional power. After almost two decades of a sustained and costly war on terror (both in financial and social terms), supposed new and worse terror threats have emerged. The most notable of these is the rise of the Islamic State of Iraq and Syria (ISIS), which is reportedly expanding into Southeast Asia.

All these developments feed into the intensifying of militarism and war, which has serious implications for global aid and the campaign against poverty. The United Nations (UN) is embarking on an ambitious Sustainable Development Goals (SDGs) campaign that promises to be inclusive and to maximize development finance including aid.

The continued and perhaps even heightened prominence of donors' security interests is a legitimate concern for development advocates and the world's impoverished communities. It also poses a challenge to the longstanding issue of inadequate Official Development Assistance (ODA) to sustainably address worldwide poverty and its various dimensions. The drive, for instance, of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) to supposedly modernize ODA and allow for the inclusion of increased military and police-related spending presents the potential risk of diverting already insufficient ODA resources from poverty reduction.

While it is true that development is not possible without peace and security it is important to ask how the peace and security agenda is defined. Whose interests are prioritized and served so that development aid can (or cannot) help to establish peaceful and prosperous societies? Without clarity on this fundamental issue, the heightened emphasis on peace and security by DAC donors and the general international community (i.e. UN SDGs) will only further undermine the effectiveness of ODA and development cooperation at the expense of responding to the needs of the world's most vulnerable people.

Aid Trends in Asia Pacific in the context of Militarism and War

A longstanding issue for advocates of effective development cooperation is that donors have consistently failed to deliver sufficient levels of ODA necessary for reducing poverty in developing countries. Donors have often fallen short of stated commitments, most notably the 0.7% ODA/GNI (Gross National Income) target that was first agreed in 1970 and has been repeatedly re-endorsed at the highest levels at international aid and development conferences.

When the UN adopted the 2030 Agenda for Sustainable Development with its 17 SDGs and 169 targets for "people, planet, prosperity, peace and partnership" in September 2015, the international community committed to mobilize the required resources to achieve these goals and targets over the next 15 years. Estimates vary but analysts say that the SDGs would need as much as US$2.5 trillion to US$4.5 trillion annually in state spending, private sector investment and aid (Reuters, Jul. 2015).

Despite this enormous financial requirement, aid donors have not made any new pledges to increase development assistance aside from the same, and still unfulfilled, commitment of 0.7% ODA/GNI. As *The Reality of Aid* (RoA) has noted, this is important because ODA continues to be a relevant and essential resource even though the SDGs will need to rely on a variety of sources, including from the private sector and domestic tax resources (See Box 1) ODA can play a key role in realizing the SDGs because of its uniqueness as a dedicated resource for development shaped by public policy choices. "Unfortunately, signs indicate a continued pattern of levelling off of ODA and an increasing diversion of this ODA to provider self-interests" (Tomlinson, 2016). Among the most prominent of these self-interests by donors is the security agenda.

These trends are worrisome for all developing countries that require much needed development finance, but more especially for regions where people living in extreme poverty are found. Based on World Bank estimates, there are 768.5 million people globally who subsist on less than US$1.90 a day as of 2017. More than half (50.7% or 390.2 million) of them are in Sub-Saharan Africa while 32.4% (249.1 million) are in South Asia and 9.6% (73.9 million) are in East Asia and the Pacific (Ferreira, Oct. 2017).

Overview of rising militarism in Asia Pacific

Global instability and the prospects of war, an ever-present threat in a global regime

of competing interests amid periodic and worsening economic crises, have intensified in the 21st century. The most visible expression of global instability is the worldwide increase in militarism. Militarism refers to a state's predominant use of military approaches in its domestic and foreign policies. It is often linked to aggression and intervention by one state over another.

To grasp militaristic trends in Asia Pacific and the implications on development cooperation, it is important to understand the agenda and actions of the US, and by extension, its long time "junior partner" Japan. Both are leading powers in Asia Pacific and are top sources of foreign assistance that shape aid flows and trends.

Recent developments point to Asia Pacific – where "the future of politics will be decided" – as a major theater of conflict and militaristic competition. Under the Trump administration, the US has aggressively pursued the so-called "pivot to Asia", first announced by the Obama presidency in 2011. The goal of the pivot is to contain the rise of China, which together with Russia, is deemed as the biggest threat and challenge to US interests.

This focus represents a departure from a focus on terrorism, which occupied the United States for the most part of the past two decades. The US now sees "great power competition" as the primary focus for its national security (Reuters, Jan. 2018). In its latest National Security Strategy (NSS/Dec. 2017), Washington declared that "China and Russia challenge American power, influence, and interests, attempting to erode American security and prosperity". The same theme is echoed in the National Defence Strategy (NDS/Jan. 2018), which followed the release of the NSS, and which stated that "the central challenge to U.S. prosperity and security is the re-emergence of long-term, strategic competition" from "revisionist powers" China and Russia. Both the NSS and NDS have identified North Korea and Iran as "rogue regimes".

Although the stated primary focus of its defence and security strategy is global power competition, the US has not dropped its anti-terror campaign. The latter used to provide a needed legitimacy for what some describe as US military intervention in the Middle East as well as South and Central Asia, where it intends to maintain its presence. It also gives justification for its continued and expanded military role in Southeast Asia. The Trump administration, for instance, launched Pacific Eagle – Philippines to fight extremist groups, including those reportedly affiliated with ISIS. This mission is an Overseas Contingency Operation (OCO), making the Philippines eligible for the same funding used to finance the long-running wars in Afghanistan and Iraq (Donati and Lubold, Jan. 2018). It is important to note that the Philippines has become a strategic area of US-China rivalry when the incumbent Duterte government strengthened ties with China.

At the same time, Japan's own (and first) National Security Strategy (NSS/Dec. 2013) has acknowledged a challenge to its national interests in the "unprecedented scale" of the changing balance of power in the international community, with China (as well as India) being identified as primary drivers. In particular, Japan noted China's "rapidly advancing military capabilities" and its "attempts to change the status quo by coercion based on their own assertions,

which are incompatible with the existing order of international law, in the maritime and aerial domains, including the East China Sea and the South China Sea."[1]

In what could be one of the first concrete steps to implement its new defence and security strategy, the Pentagon plans to reposition its forces from the Middle East to East Asia. This shift includes the Marine Corps Expeditionary Units (MEUs) that have been involved in US wars in Afghanistan, Iraq and Syria. MEUs are composed of some 2,200 marines in amphibious assault ships and typically are equipped with aircraft, helicopters, tanks as well as other weapons and combat-support resources (WSJ, Feb. 2018).

Even before the pivot and planned increases in US military presence in Asia came about under Trump, the US had already implemented a significant "boot print" in the region. According to one estimate, nearly 200,000 American troops have been deployed in approximately 800 US military bases in 177 countries worldwide. Of this figure, 39,345 are based in Japan and 24,468 in South Korea on top of so-called rotational deployment of several hundreds to thousands of US troops in the Philippines, Thailand, Singapore, Australia, etc. (Desjardins, Mar. 2017).

In addition to the deployment of troops, the US also installed its THAAD (Terminal High Altitude Area Defence) anti-missile defence system in South Korea in 2017. The intent was supposedly to counter North Korea's nuclear threat. This deployment has worried Russia and China, which believe that the THAAD could monitor its missile capabilities and undermine its nuclear deterrent (Connor, Apr. 2017).

Reversing decades of state pacifism, Japan has begun to establish military ties with Southeast Asian countries to "build their security capabilities to deal with unilateral, dangerous and coercive actions in the South China Sea". These measures involve the provision of direct military aid as well as the conduct of joint military exercises (Reuters, Jun. 2016). In June 2017, Japan lifted its ban on giving away surplus military kit to other countries, paving the way for deals that will allow it to provide second-hand patrol aircraft, ships and other military equipment to allies (Kelly and Kubo, Aug. 2017). In South Asia, Japan has recently forged a deal with India, which has its own territorial dispute with China, to develop their armed forces through robotics and artificial intelligence (RT, Jan. 2018).

Militarism and aid flows

A key feature of militarism is the way public resources are gobbled up by the military and defence sectors at the expense of spending for social and development programs. Its impact on the public budget directly undermines efforts to end poverty and promote lasting development.

According to an estimate by the Asian Development Bank (ADB), the Asia Pacific region would need over US$1 trillion a year to meet the SDGs. As militarism and conflict heat up in the region, an increasing portion of public sector budgets are being devoted to military spending, including payments for military aid and imports. It is estimated that in 2016, Central and South Asia, East Asia (excluding North Korea) and Southeast Asia collectively spent US$423.2 billion for the military.

Between 2007 and 2016, military spending by East Asia grew by 74% and China's spending ballooned by 118 percent. As Southeast

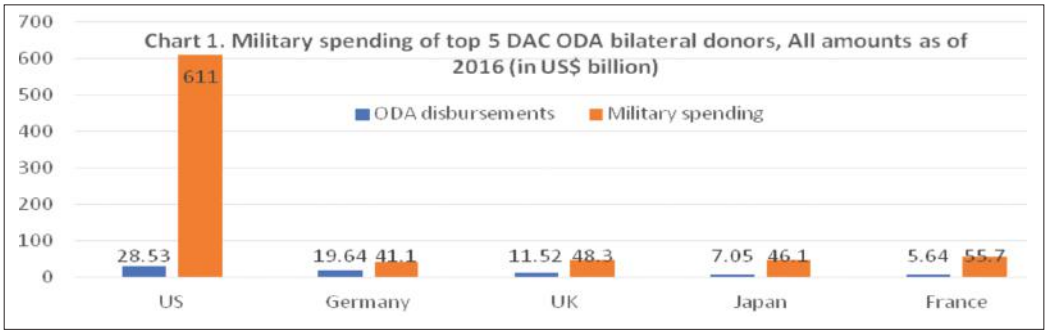
Asian states have been arming themselves, including through assistance from donors like the US and Japan, the region's military spending has jumped by 47% with Central and South Asia increasing by 51% during the same period. Five of the world's top 15 military spenders are in Asia and Oceania, namely China, India, Japan, South Korea and Australia (Fleurant, Apr. 2017).

Donor military spending easily dwarfs ODA spending. To illustrate, in 2016, the top five bilateral DAC ODA donors disbursed a total of US$72.38 billion in bilateral ODA while spending US$802.20 billion for military. The US alone spent US$611 billion. US's military spending is more than 21 times its bilateral ODA disbursement; Japan's is almost seven times (See **Chart 1**).

Military assistance is also outpacing economic aid. Looking at the world's largest donor of ODA and military aid, the US, shows that every year its military assistance has been growing twice as fast as its bilateral aid. From 2011 to 2016, US military aid expanded by 3.9% annually while bilateral economic aid grew 1.9 percent. This trend is most pronounced in Asia, especially in countries that are crucial to Washington's agenda of containing China. In Vietnam, for instance, US economic aid grew by only 0.2% yearly from 2011 to 2016 while its military aid to Vietnam expanded by a whopping 31.4 percent. In the same period, US economic aid to the Philippines grew by 2.2% a year while US military/security aid grew by 12.9 percent. Consequently, military aid has been steadily eating up an increasing portion of total US bilateral assistance in the region, most notably among ASEAN and SAARC (South Asian Association for Regional Cooperation) states, even though the global trend indicates a small annual reduction in the share of military aid in recent years (See **Chart 2**).

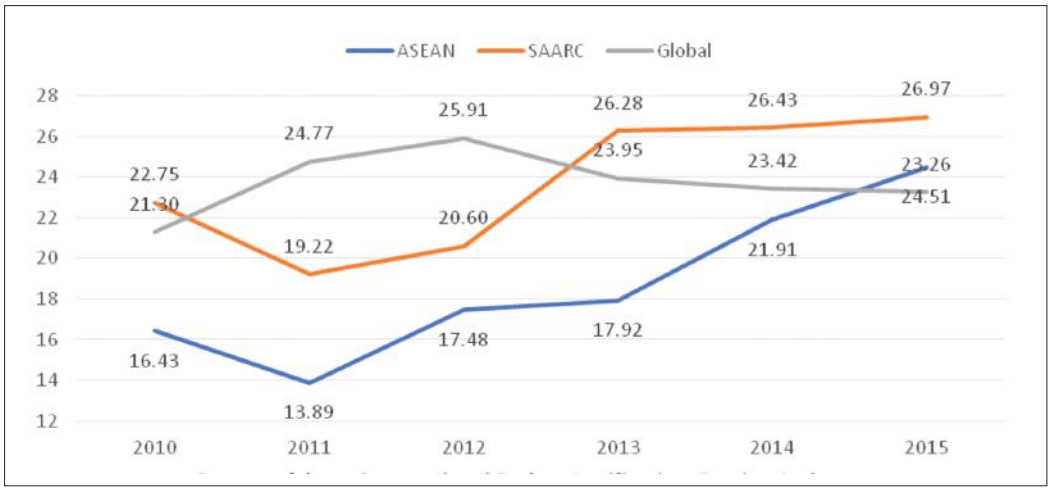
Military aid, of course, is a legitimate form of foreign assistance, just like economic or development aid. It reputedly helps recipient countries to modernize and better equip their armed forces under the stated objective of fostering peace and stability in the country and/or region. However, donors of military aid can also use these funds to realize their foreign policy objectives and advance certain security and political interests. Because military aid promotes a very different agenda than the supposed economic development/welfare and humanitarian objectives of ODA, military aid is excluded

Chart 1 Military spending of top 5 DAC ODA bilateral donors, All amounts as of 2016 (in US$ billion)



Source: OECD Qwery Wizard on International Development Statistics (QWIDS) and Stockholm International Peace Research Institute (SIPRI)

Chart 2 Share of US Militry aid to total US Assistance, 2010-2015 (in %)



Source: Congressional Budget Justification, Foreign Assistance - Summary Tables, Fiscal Years 2012 to 2017, US State Department

from being reported as ODA under the longstanding policy of OECD-DAC.

Even more alarming than the fact that ODA spending is being displaced and outpaced by donors' military spending (including the provision of military aid) is the fact that ODA itself is being systematically used to promote donors' military and security objectives. This phenomenon, which is referred to as the militarization of development aid, will be discussed later in this chapter.

A significant portion of what the US classifies as "bilateral economic assistance" is being directly used to support its strategic military and security agendas. One example is, the Economic Support Fund (ESF) that is managed and implemented by the State Department/USAID and is counted as bilateral economic aid. Its mandate is to "promote[s] US interests by addressing political, economic, and security needs in countries of strategic importance". It is "used to finance both short and long-term efforts to counter terrorism, encourage greater private sector economic engagement, and strengthen justice systems in targeted countries" (CGD, Mar. 2017). From 2010 to 2016, ESF accounted for more than a quarter (26.2% annual average shares) of US bilateral economic assistance globally. In Asia, ESF comprised an even larger share (40.6% yearly average from 2012 to 2015) of US aid. The Middle East (mainly Syria, Iraq and Jordan) and South and Central Asia (overwhelmingly Afghanistan and to a lesser extent Pakistan) comprise about two-thirds of total US ESF assistance worldwide.

This trend may continue and even worsen in the coming years. With the US gearing up for an increased military presence, particularly in Asia, the Trump administration has been pushing for significant increases in military spending while cutting back on aid spending. For its 2019 budget proposal, the Administration is asking the US Congress to increase the Defence Department budget by 14% (an additional budget of US$80.1 billion) to allow it to add 16,400 more troops. It proposes that some of this increased allocation will be absorbed by reductions

in the State Department and USAID, whose 2019 budget would contract by 29% (about US$16.2 billion) under Trump's proposal (TWP, Feb. 2018).

In general, the increase in ODA provided by the DAC members of the OECD has substantially slowed down in the 2010s. The annual growth rate of disbursement in DAC ODA for all developing countries (bilateral) and multilateral recipients this decade is 2.8% compared to 9.1% in the 2000s. In the last six years (2010 to 2016), the average yearly disbursement is pegged at US$ 134.22 billion, of which US$ 94.21 billion or about 70% represents bilateral ODA to developing countries. According to OECD data, the average annual expansion in ODA disbursement in the period 2010-2016 is the second lowest average yearly growth since the 1960s.

In terms of regional distribution, Africa (31.1%) and Asia (25.9%) together have accounted for over half of the total DAC ODA disbursements to all developing countries in the past six years (2010-2016). During that period, total DAC bilateral disbursements reached US$659.47 billion of which US$205.21 billion went to Africa and US$170.99 to Asia. In Asia, the majority or 53% (US$90.69 billion) of the regional total went to South and Central Asia while the Middle East accounted for 26.9% (US46.04 billion) and the Far East Asia, 16.7% (US$28.52 billion).

If Africa and Asia have received the largest portions of DAC ODA disbursements, the overall slowdown in the annual expansion in the 2010-2016 period has also affected these regions the most. While bilateral ODA to all developing countries grew annually by 3.1% during the 2010 - 2016 period, Africa experienced a yearly contraction of 0.3% and Asia had a negligible 0.9% annual growth. Asia's growth was actually due to the rapid 9.6%yearly expansion in DAC ODA disbursements in the Middle East (which could be attributed in part to the donors' security interests taking over development cooperation). Disbursements to South and Central Asia fell by 0.8% a year, largely due to declining disbursements for Afghanistan, a declining security interest for some donors, and by 5.3% a year in Far East Asia, the largest reduction amongst all global regions.

Where ODA has increased, it is usually due to the militarist agenda of major donors rather than the targeting of the poorest regions where development aid is most needed. For example, the substantial expansion in DAC ODA disbursements to the Middle East in the 2010s as opposed to the contraction in other Asia sub-regions is the result of the increased engagement of the US in Syria, where it has been involved in a military campaign since 2013 against both Pres. Assad and the terror group ISIS.

The US is the world's undisputed top aid donor, accounting for 29% of total DAC ODA bilateral disbursements from 2010 to 2015. Syria, with US$4.88 billion in DAC ODA disbursements in 2015, is now the top ODA recipient globally, eclipsing Afghanistan (another country where the US has been involved militarily as part of its war on terror since 2002), which received US4.24 billion. Prior to the US campaign, the annual average in ODA disbursements to Syria was a negligible US$148 million (2001 to 2009). This has ballooned to US$2.57 billion in the 2010-2015 period, with figures pegged at US$3.57 billion in 2013; US$4.19 billion in 2014; and US$5.52 billion in 2015. Much of this aid relates to humanitarian assistance in contrast to Afghanistan where donors were using aid more directly to support

their security interests in the country's war with the Taliban.

Before Syria, the same pattern was observed in Afghanistan and Iraq when the US launched its global war against terror and large-scale counter-insurgency campaigns in 2002. From just US$338 million in yearly ODA disbursements in the 1990s, Afghanistan's ODA from DAC donors led by the US jumped to US$3.19 billion in the 2000s. In the 2010-2015 period Afghanistan averaged US$5.81 billion in annual ODA disbursements, but has been declining since 2012. Similarly, in Iraq the annual average ODA disbursements were US$342 million in the 1990sbut then skyrocketed to US$6.81 billion in the early 2000s. During the 2010 – 2015 period they have declined to US$1.66 billion as the Syrian conflict has gained more attention and resources from the US and other major donors.

Conflict, peace and security ODA

One way to measure the extent to which aid donors are increasingly prioritizing their security interests is by examining detailed categories of the various activities that they fund with ODA. Unfortunately, at the aggregate level, this is very difficult. In the DAC's Creditor Reporting System (CRS) military and security-related spending is not reflected in a single category. Instead it is inserted in other sectors. The only category that can be easily distinguished as military and security-related is the Conflict, Peace and Security (CPS) sector but this only shows a small part of the whole picture.

Many projects and programs involving military and police forces of donor and recipient countries that are implemented or overseen by the ministry of defence or multilateral military alliances such as the North Atlantic Treaty Organization (NATO) are not captured by CPS data. This point is illustrated in the "ODA Casebook on Conflict, Peace and Security", released by the DAC in 2017 with the expanded scope of ODA. This casebook, which was created to guide DAC donors, provides sample cases of the activities that are now eligible to be counted as ODA.

Based on DAC classification or purpose codes (i.e., the CRS), activities considered as CPS are limited to security system and management reform, civilian peacebuilding, conflict prevention and resolution, participation in international peacekeeping resolutions, reintegration and SALW (small arms and light weapons) control, removal of land mines and explosive remnants of war and prevention and demobilization of child soldiers. However, based on the ODA CPS Casebook, other activities involving military and security actors, which are not classified as CPS, can fall under other purpose codes. Such activities include relief coordination, material relief assistance, water transport, human rights, health personnel development, disaster prevention and preparedness, legal and judicial development, public sector policy and administrative management, waste management/disposal and medical education, among others (See **Table 1**).

It is useful to examine ODA CPS data to identify overall trends on donor priorities. There has been a general upward trend in ODA CPS disbursements to initiatives involving conflict, peace and security since 2002. These disbursements peaked at US$2.99 billion in 2010 before steadily going down until 2015 when it picked up again to US$2.67 billion in 2016. While

total bilateral ODA disbursements grew by 2.8% a year from 2010 to 2016, ODA CPS actually fell by 0.9% annually during the same period. Comparing absolute figures since the global war on terror was launched indicates that ODA CPS disbursements in 2016 were more than four times greater than 2002 figures, while total bilateral ODA disbursements were just 2.5 times greater. More recently (2013 to 2016), ODA CPS is expanding at a faster rate (3.3% per year) compared to total bilateral ODA (2.6%).

After 2010, Asia, including the Middle East, obtains the lion's share of ODA CPS in countries where the US and major European donors (i.e. United Kingdom, Germany) are involved in various internal conflicts. Examples are Afghanistan, Iraq, Pakistan and Syria, among others. From

Table 1. Sample cases of ODA-eligible activities involving the military/security sector but not classified as CPS (amount in units indicated)

Project	Amount	Donor	Recipient	Purpose code
Activities involving donor country military				
Snowdrop training		Belgium	Africa, regional	Not applicable
Transport of humanitarian goods	No data provided	Belgium	Africa, regional	Relief co-ordination; protection & support services
Humanitarian aid to Fogo Island	0.66 M euros	Portugal	Cabo Verde	Material relief assistance and services
Combating outbreak of Ebola	14,000 euros	Portugal	Guinea	Material relief assistance and services
Support to the São Toméan coast guard organization	42,000 euros	Portugal	São Tomé and Principe	Water transport
Activities involving recipient country military				
Training on law of armed conflict	No data provided	Austria	South Sahara, regional	Human rights
Training on construction engineering	No data provided	Belgium	Congo	Not applicable
Education on removal of explosive ordnance	No data provided	Belgium	Tunisia	Not applicable
Exchange of expertise in the domain of tropical disease	No data provided	Belgium	Rwanda	Health personnel development
Training of military experts to counter improvised explosive devices	16,000 USD	Hungary	Iraq	Not applicable
Comprehensive disaster risk reduction	18,000 USD	Japan	Turkmenistan & other Central Asia & Caucasus countries	Disaster prevention and preparedness

Activities involving donor and recipient country police				
Capacity development of the Colombian police	4.70 M USD	Sweden	Colombia	Legal and judicial development
Support to transnational crime units in West Africa	14.5 M USD (c/o Austria 0.99 M USD)	Austria	Côte d'Ivoire, Guinea, Guinea-Bissau, Liberia, Sierra Leone	Narcotics control
Maritime security in the Gulf of Guinea	2.23 M USD	Denmark	Africa, regional	Legal and judicial development
Contribution to the financial sustainment of the Afghan national defense and security forces: police component	0.10 M USD	Hungary	Afghanistan	Legal and judicial development
Preventing violent extremism				
Building rule of law institutions	3.80 M USD	Denmark	Somalia	Legal and judicial development
Strengthening resilience to violence extremism (STRIVE Pakistan)	6.52 M USD	EU institutions	Pakistan	Public sector policy and administrative management
Strengthening resilience to violent extremism (STRIVE Horn of Africa)	2.18 M USD	EU institutions	Kenya & Somalia	Public sector policy and administrative management
Transition support program	1 M USD	US	Mali	Public sector policy and administrative management
Activities by the North Atlantic Treaty Organization (NATO)				
Ukraine medical rehabilitation trust fund*	2.25 M USD	Various NATO members	Ukraine	Medical education training
Ukraine disposal of radioactive waste trust fund	0.95 M USD	Various NATO members and Greece	Ukraine	Waste management/ disposal

**partially ODA-eligible*
See Annex 2 for additional description of the activities considered as ODA-eligible or partially eligible
Source: ODA casebook on conflict, peace and security activities, Development Co-operation Directorate, Development Assistance Committee

2010 to 2016, ODA CPS disbursements in Asia made up a total of US$7.39 billion or 40.8% of the total. Africa is a distant second with US$4.82 billion (26.6%). In Asia, South and Central Asia accounted for 62.1% of the regional total. With the conflict in Syria, ODA CPS in the Middle East expanded by an average of 13.5% annually from 2010 to 2016 even as the regional total contracted by 2.5%. Other sub-regions also posted

yearly declines during the same period (See **Table 2**).

ODA CPS disbursements in South and Central Asia are heavily concentrated in Afghanistan. From 2010 to 2016, 72.8% or US$3.34 billion of the US$4.59 billion in total ODA CPS disbursements in the region went to Afghanistan. Of this, 78.4% came from just four bilateral donors – the US (34.9%); UK (16.6%); Germany (16.3%); and Japan (10.7%).

The double-digit annual expansion in ODA CPS disbursements in the Middle East has been primarily driven by Syria, which saw its yearly average balloon from a meager US$2.39 million in 2010-2012 to US$152.95 million in the 2013-2016 period. From 2010 to 2016, ODA CPS disbursements in Syria reached a total of US$618.96 million or 31.1% of the Middle East total. Just three bilateral donors accounted for 80.6% of Syria's total, namely the UK (37.8%), US (26.1%), and Germany (16.8%). Iraq is also a major recipient of bilateral ODA CPS in the Middle East. It received 20.4% of the regional total in 2010-2016, of which 68.4% came from the same top three donors – US (34.3%), Germany (18.4%) and UK (15.6%).

In Far (South) East Asia, 85.6% of ODA CPS disbursements are distributed in five countries – Myanmar (22.2% of the regional total), Cambodia (20.8%), Laos (16.8%), the Philippines (15.7%), and Indonesia (10.1%). Japan is a major ODA CPS donor in the region and also has significant bilateral disbursements in some countries in South and Central Asia.

Table 3 summarizes the top donors and recipients of ODA CPS disbursements in Asia's sub-regions for the period 2010-2016.

ODA Modernization or Greater Aid Militarization?

In their 2012 High Level Meeting (HLM), the OECD DAC Ministers embarked on a

Table 2. Selected indicators on ODA CPS disbursements, 2010 to 2016 (figures in units indicated)

Region	Annual average (US$ million)	Total (US$ million)	Annual growth (%)	Share to total (%)
Asia, of which:	1,055.72	7,390.06	(2.46)	40.82
South & Central Asia	655.61	4,589.28	(7.77)	25.35
Middle East	284.29	1,990.04	13.54	10.99
Far East Asia	106.68	746.73	(0.61)	4.12
Asia, regional	9.14	64.01	(5.03)	0.35
Africa	688.69	4,820.86	(1.03)	26.63
Europe	177.72	1,244.06	(1.36)	6.87
America	256.19	1,793.31	19.44	9.91
Oceania	13.89	97.25	9.12	0.54
Unspecified	394.09	2,758.62	(1.88)	15.24
All regions	2,586.31	18,104.16	(0.86)	100.00

Figures may not add up to total due to rounding
Source of data: OECD Query Wizard on International Development Statistics (QWIDS)

multifaceted work program that aimed to "modernize" the DAC statistical system and the ODA concept. The overall objective was to enhance the system's "relevance in a changed international landscape" and to improve its capacity in meeting the financial requirements of the SDGs. (DAC, Mar. 2016) As noted by Development Initiatives (DI), DAC's ODA modernization process can be divided into two key areas. The first focuses on updating, clarifying and "streamlining" existing ODA reporting. This covers ODA loans and debt relief, in-donor refugee costs (IDRCs), and data changes including purpose codes, channel codes, and finance types. The second one concentrates on bringing in new activities, flows and financing instruments not previously eligible as ODA. This comprises private sector instruments (PSIs) such as equity investments, guarantees and other "market-like" instruments as well as peace and security initiatives (Development Initiatives, Sep. 2017).

Discussions leading up to this modernization were preceded by the endorsement of the New Deal for Engagement in Fragile States during the 2011 Fourth High-Level Forum on Aid Effectiveness. This meeting declared that peacebuilding, state-building and security are essential foundations for sustainable development in fragile and conflict-affected countries. Building on the New Deal, a goal of "promoting peaceful and inclusive societies" was included in the SDGs (Global Goal 16). As DI noted, this "marked a further positioning of peace and security at the heart of the global development agenda" (Dalrymple, Mar. 2016).

The DAC made a series of decisions in its 2014 and 2016 meetings to implement its ODA modernization efforts. Specifically, on reforms related to peace and security expenditures, the DAC reported at its 2017 High Level Meeting that the updated ODA rules were already being implemented for the member ODA reporting (i.e., the

Table 3. DAC ODA CPS disbursements in Asia, by sub-regional top recipients and donors, 2010-2016 total (in units indicated)

Region/country	2010-2016 tot. (US$ M)	Donor share to national total (%)				
		US	UK	Germany	Japan	Others
South & Central Asia						
Afghanistan	3,345.19	34.86	16.63	16.27	10.68	21.56
Pakistan	288.89	31.12	17.05	14.46	16.87	20.50
Sri Lanka	229.96	29.63	10.26	11.46	11.46	37.19
Nepal	186.72	21.10	25.46	10.54	4.55	38.35
India	17.12	18.45	28.16	24.61	-	28.78
Middle East						
Syria	618.96	26.07	37.75	16.76	0.16	19.26
Iraq	406.66	34.27	15.64	18.45	1.85	29.78
West Bank & Gaza	343.58	14.42	11.13	10.70	2.16	61.69
Lebanon	288.26	30.06	24.96	5.89	1.08	38.01
Yemen	53.93	20.79	29.39	15.15	1.23	33.44

Far East Asia						
Myanmar	176.99	20.05	13.89	6.45	3.58	56.03
Cambodia	165.83	14.32	8.11	8.82	41.60	27.15
Laos	133.70	29.11	6.63	3.72	27.38	33.16
Philippines	125.00	18.07	0.85	23.13	21.47	36.48
Indonesia	80.43	40.49	4.21	3.97	0.26	51.07

Source of data: OECD Query Wizard on International Development Statistics (QWIDS)

Statistical Reporting Directives) and that the revised "ODA Casebook on Conflict, Peace and Security" has been issued (DAC Communiqué, Oct. 2017).

In accordance with the updated reporting directives, the DAC published a final version of the casebook in October 2017. It listed specific examples in order to illustrate the applicability of the ODA-eligibility rules in relation to peace and security that the DAC members had agreed upon. The stated intention of the casebook was/is to facilitate the assessment of the eligibility of future cases (DAC Casebook, Oct. 2017).

According to the DAC's updated directives, all peace and security-related activities should be guided by the main objective of ODA, which is the promotion of the economic development and welfare of developing countries. In practice this means that any review of ODA eligibility of activities in the peace and security sector must use this objective as a central reference point. The DAC Secretariat has confirmed that "the long-standing rules which govern the ODA-eligibility of peace and security-related expenditures remain intact." Aside from upholding ODA's stated principle of promoting economic development and welfare of developing countries, DAC members have also reaffirmed that:

1. Financing of military equipment or services is generally excluded from ODA reporting;
2. Development co-operation should not be used as a vehicle to promote the provider's security interests;
3. The supply of equipment intended to convey a threat of, or deliver, lethal force, is not reportable as ODA; and
4. Financing activities combating terrorism is generally excluded from ODA (DAC, Mar. 2016).

But at the same time, the DAC justifies changes described earlier, saying they are long overdue. It also maintains that while issues of conflict and fragility can be seen from a variety of viewpoints, there are important challenges that must be addressed in reducing poverty and promoting economic growth (DAC, Mar. 2016).

For the DAC, these changes clarified ambiguities in reporting rules on peace and security-related expenditures and help to ensure uniform, consistent statistical reporting. They have approved the ODA-eligibility of development-related training for military staff in limited topics. According to the DAC these changes are "minor" and should not have a significant impact on ODA volumes as peace and security-related expenditures represent only 2% of bilateral ODA (DAC, Mar. 2016) (See **Box2**).

Despite the assurances and safeguards in the new DAC guidelines, there are legitimate concerns that the supposed

Box2. Summary of changes in DAC reporting rules on peace and security initiatives

Limited engagement with partner country military in the form of training

An adjustment has been made to allow limited and specific training of partner country military employees. This will only be permitted: (1) under civilian oversight, (2) with a clear development purpose for the benefit of civilians and (3) to help address abuses, prevent violence against women, improve humanitarian response and promote good governance.

Using the military as a last resort to deliver development services and humanitarian aid

The new text clarifies that in some circumstances support for the additional costs (e.g. beyond running costs such as salaries, maintenance, etc.) where military are used as delivery agents of development services or humanitarian aid are ODA-eligible. But this is limited by the requirement that it can only be accepted by last resort, and reporting countries and institutions can be asked by the Secretariat to justify this was actually the case.

Preventing violent extremism

The new directives clarify the rules by spelling out ODA-eligible activities (education and research, community-based efforts, rule of law, capacity of judicial systems, etc.) to prevent violent extremism. They state that such activities should be led by partner countries and that their primary purpose must be developmental: activities targeting perceived threats to the donor country, as much as to recipient countries, rather than focusing on the economic and social development of the partner country are excluded. This clarification is made in the spirit of the recommendations in the 2016 UN Secretary General's Plan of Action to prevent violent extremism.

Added safeguards:(1) Humanitarian principles are now integrated as a key referent point (humanity, neutrality, impartiality, and independence); (2) The Secretariat has the possibility to question the use of the military as a last resort; and (3) The Secretariat can request justification for exceptionally using ODA to finance development of humanitarian activities that are delivered through the military of the partner country.

Source: DAC Secretariat (March 2016). "The scope and nature of 2016 HLM decisions regarding the ODA-eligibility of peace and security-related expenditures"

modernization of ODA will pave the way for donors' security agenda to take over the development purpose of ODA and the interests of the people of recipient countries are further marginalized. Before the reforms, DAC guidelines categorically stated that "activities combating terrorism are not reportable as ODA, as they generally target perceived threats to donors, as much as to recipient countries, rather than focusing on the economic and social development of the recipient. "However, the inclusion of activities related to the prevention of "violent extremism" among ODA-eligible activities has opened the door for reporting activities that could be seen as clearly supporting donor security interests, even with the safeguards and restriction listed above and with the DAC's reconfirmation that ODA's primary purpose should be developmental.

A fundamental question is whether it is necessary to frame these activities inside the context of preventing violent extremism if the primary purpose is developmental. OECD defines violent extremism as "promoting views which foment and incite violence in furtherance of particular beliefs, and foster[ing] hatred which might lead to inter-community violence". There are concerns about potentially using ODA resources for specific, politically-driven activities that go against the established basic principle of aid working impartially to advance the well-being and rights of people in the face of violence and abuse by all conflict actors. (Saferworld, Feb. 2016)

Another question focuses on who defines violent extremism and who identifies the extremists. In some cases, rebel groups that are waging civil wars against foreign intervention, for national independence or autonomy from central power based on deep historical, religious or cultural grounds enjoy massive support from local communities. However, they can be branded as terrorists or extremists by established governments or political powers. Conversely, political establishments that are actually responsible for human rights abuses and poverty are seldom branded as terrorists. Instead they are only labelled as such only when their foreign policy contradicts that of the donors. For aid to be effective it should truly focus on the welfare of the people and never be used as a weapon by those in power and/or their foreign patrons.

As Saferworld, has noted, "attempts to get aid agencies to take sides are often dangerous and counter-productive, because they can lead to aid that ignores important conflict drivers, reinforces bad governance, gets diverted, looks biased, alienates the local population, and exposes aid agencies to attack." (Saferworld, Feb. 2016)

Under the new DAC guidelines, donors will be able to report an expanded array of military expenditures in the name of development assistance and humanitarian efforts. While previous guidelines allowed for the additional costs entailed in the use of military personnel to deliver humanitarian or development services to be counted as ODA, the updated guidelines also permit the use of military equipment to deliver these services. In situations of intense conflict, military personnel and equipment are primarily deployed for combat purposes, not for the delivery of development or humanitarian assistance. Because of this, it is inappropriate for the costs of using these military assets to be allocated as ODA, even when it is to deliver aid. As

well, in many cases, civilian distrust of the military is so pervasive that their use and presence severely undermines effective development or humanitarian work.

Some critics have pointed out that the ODA Casebook on Conflict, Peace and Security has failed to provide practical guidelines on which activities can be counted as aid and has also fallen short of providing clarification on the rules. This lack of clarity opens the reporting of ODA to misuse and abuse by donors and recipients. For instance, some activities deemed eligible as ODA involve "routine police functions" and the use of "non-lethal equipment and training. "These activities can be broadly defined and in the context of public safety could inflict physical harm to the public in fragile and conflict situations. To illustrate, "routine police functions" may include coercive law enforcement measures while "non- or less lethal training equipment and training" could cover weapons such as tear gas, pepper spray and sleep gas. While their use may not be deadly, they still inflict serious harm on civilians. This contradicts basic ODA principles (Dalrymple, Nov. 2017).

Another loophole in the guidelines that can be abused and that is not clarified in the casebook relates to intelligence activities that are considered "development focused" and thus can be counted as ODA. While the guidelines say that intelligence gathering on political activities is not ODA-eligible, the collection of data for development purposes, or preventative or investigatory activities by law enforcement agencies in the context of routine policing to uphold the rule of law, including countering transnational organized crime, is eligible as ODA. In the absence of a definition of key terms such as "investigatory" and "countering transnational crimes" in the casebook, 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 (Dalrymple, Nov. 2017).

Even more alarming is the fact that the casebook has failed to spell out concrete parameters to safeguard against abuse and misuse of ODA for supposedly development or civilian purposes within the context of a military or security agenda. If anything, the casebook actually appears to legitimize such possible abuse and misuse. There are many cases cited in the Casebook where assistance from DAC members to directly support the police and military establishments of recipient countries are deemed ODA-eligible or at least partially ODA-eligible. Often, ODA eligibility is justified by referencing activities that supposedly benefit civilian participants and/or civilian aspects of an otherwise military or counter-terrorism initiative.

One example of this approach is the NATO-led Resolute Support Mission (RSM), a military operation that provides training, advice, and assistance to Afghan security forces and institutions. Launched in 2015 with 13,000 troops from NATO members and partner countries, the RSM maintains a presence at Afghan airports, which are primarily meant to support military operations but supposedly are also being used to stabilize and modernize the country's civilian aviation sector. Part of the mission is the training of Afghans on operating airfields and managing airspace. According to the DAC, the training in these areas will help sustain the civil aviation sector once NATO's military presence has ended. DAC donors such as Greece contribute to the RSM by

deploying maintenance advisors from their air force. This support is deemed ODA-eligible because it is theoretically for civilian purposes and will contribute to the sustainment of the civil aviation sector in Afghanistan.

Security sector reform programs of recipient countries are being implemented supposedly to improve the capacity and effectiveness of military and police forces in carrying out their mandate, including anti-terrorism and counter-insurgency campaigns, ones that are often directed by western powers. These activities are supported with ODA resources without a clear development purpose or direct, evidence of impact on poverty reduction.

A case cited in the Casebook is the US$36-million security sector reform in Guatemala that was bankrolled and implemented by the USAID. Among the program's activities is support for the passage of a new Organic Law for the Police and the implementation of a career development program for officers and officials of the National Civilian Police. The casebook justifies its ODA-eligibility as assistance that involves non-lethal equipment and training and is designed to address criminal activity and promote public safety. In Somalia, a US$3.8-million Denmark-funded project and implemented by the UN Office for Drugs and Crime (UNODC) is considered ODA eligible even as its activities include the "construction of Mogadishu Prison and Court Complex. "The prison includes a special cell block to deal with "high risk offenders" specifically the country's declared terrorist group Al Shabaab. Other activities involve the continued management of prisons in Somaliland and Puntland. According to the casebook the project is ODA-eligible, because it "relates to support to the rule of law which is included in ODA" and that while "the project also includes a special cell block for terrorists", it is supposedly "not a primary objective."

The provision of basic social services such as medical, health services and water services, is also being used to advance donors' security agendas. Several cases deemed ODA-eligible or partially ODA-eligible cited in the revised DAC Casebook illustrate such linkages.

One example is the US$2.25-million Ukraine medical rehabilitation fund that several members of the NATO are supporting. The fund provides medical rehabilitation and long-term medical services to active and discharged Ukrainian servicemen and women as well as civilian personnel from the defence and security sector. According to the DAC the initiative is considered partially ODA-eligible because the medical services are accessible to civilians. However, in practice, these civilians are not ordinary civilians but actually work in the defence and security sectors.

Another example is Hungary's contribution of US$350,000 to support the Afghan National Defence and Security Forces (ANDSF). Part of this contribution is being used to supply the uniforms for the members of the Afghan National Army (ANA), which is not reportable as ODA. However, the funding of the outfitting of the Shorab Regional Hospital, which is primarily a medical facility for the ANA, could be ODA-eligible. In Mali, where the USAID's US$1-million ODA-eligible transition support program to "prevent future radicalization and recruitment by violent extremists" in targeted communities involves the provision of potable water and other urgent needs "in order to gain entry into the community and build trust."

Aggravating conflict flash points in Asia Pacific

The redefinition of development assistance to include more peace and security initiatives at both the level of the DAC and of individual major donors has the potential to contribute to the aggravation of key conflict flash points, thus spurring instability.

A case in point is the South China Sea where China and several Southeast Asian countries are involved in a longstanding maritime territorial dispute. Top ODA donors, most notably the US and Japan, have been drawn in as they see China's rise and its assertion of sovereignty over practically all of the South China Sea as a direct threat to their own national interests. Japan also has its own maritime territorial dispute with China in the East China Sea.

As part of their strategy to counter China, Japan and the US have revved up their defence cooperation with key Southeast Asian countries. An integral component of this cooperation is the strengthening of their allies' maritime security capabilities to defend their territorial integrity and promote freedom of navigation. It is in this area where some Japanese and American development aid resources are being used or at least potentially could be mobilized.

Even before the DAC expanded the definition of ODA, Japan has started its own aid reform program through the revision of its ODA Charter in 2015. The revision is seen as part of Japan's efforts to confront what its political leadership deems as a "security environment (surrounding Japan) becoming more severe." Observers have noted that the revision has allowed Japan to use development aid to support its first national security strategy (called "Proactive Contribution to Peace") whereby Japan has linked its peace and security to regional and global stability and security(Parameswaran, Nov. 2016).

In Japan's previous ODA charters, military or defence-related activities were kept outside the aid zone. With the revision, new possibilities are emerging that its aid budget will be mobilized for non-combat military purposes in the name of maintaining global peace (Jain, Jul. 2016). For Japan, this could include the promotion of the rule of law and the strengthening of maritime security through cooperation, support and assistance in its so-called "Vientiane Vision," Japan's first defence initiative with members of the Association of Southeast Asian Nations (ASEAN).

In its 2016 White Paper on Development Cooperation, Japan reported that "to establish and promote the 'rule of law' at sea, Japan would be utilizing tools such as ODA to seamlessly support improvement of the law enforcement capacity of maritime security agencies, etc. in ASEAN countries through the provision of patrol vessels, technical cooperation, human resources development, etc." (MOFA Japan, Sep. 2017) The strategic orientation of Japanese ODA to promote maritime rule of law, could benefit countries such as Vietnam and the Philippines which are both embroiled in territorial disputes with China over various areas of the South China Sea (See **Box 3**).

Under the revised reporting guidelines of the DAC, support for recipient country's maritime security and coast guard can be counted as ODA. In the Casebook, DAC cited examples of ODA-eligible activities supported by Portugal's Ministry of Defense to develop the functional, logistic and administrative aspects of São Tomé's

Box 3. Japan ODA and promoting "rule of law in the South China Sea"

In Vietnam, Japan completed the provision of six used vessels in 2015 and is currently advancing preparations for the additional provision of used vessels and the provision of newly-built patrol vessels. Japan and Vietnam also signed a new US$350-million aid package in June 2017 to upgrade Vietnamese coast guard vessels and their patrol capability.

Meanwhile, in the Philippines, Japan provided 10 newly-built patrol vessels in 2013 through financial cooperation using ODA loans. At the Japan-Philippines Summit Meeting in October 2016, financial cooperation using ODA loans was signed for the provision of two large patrol vessels.

Japan is providing not only the vessels but also the relevant equipment related to maritime security to these two countries. In addition, it is proceeding with human resources development through training, the dispatch of experts, etc. for coastal countries near the sea lanes such as Indonesia, and Malaysia.

Sources: MOFA, Sep. 2017; Associated Press, Jun. 2017

Coast Guard and Maritime Authority in order to reinforce maritime security in the country. Amongst other activities, the renovation and maintenance of maritime signaling equipment is counted as ODA.

Another example cited in the Casebook is the US$2.23-million maritime security program (2015-2018) in the Gulf of Guinea that is supported by Denmark. It is being implemented by the EU and the International Maritime Organization (IMO). The program provides maritime security training, the facilitation of information sharing, and capacity development to ensure the implementation of international conventions among states in the region.

Aid and Counter-Insurgency

The use of development assistance in the context of a military or security agenda is not effective aid. This is true not only for the promotion of lasting development but also in peace building and the fostering of long-term stability. In worst cases, the so-called "smart power" can fuel greater conflict, undermine people's rights, and set back development goals.

The well-documented experiences of donor interventions in massive counterinsurgency campaigns such as Afghanistan and Iraq as well as smaller operations in countries like the Philippines attest to these consequences. From 2003 to 2016, total ODA disbursements to Afghanistan and Iraq from all donors stood at US$136.13 billion. About US$121.03 billion of this came from bilateral DAC donors, of which half was US aid. That represents almost two and a half times the size of the total DAC ODA disbursements during the same period to the world's 10 poorest countries. It is nearly five times the amount of US ODA provided to these same countries, which are less strategic in terms of US geopolitical interests. (See **Chart 7**)

Despite this huge amount of funding, Afghanistan and Iraq continue to remain unstable. As a commentary published by the Center for Strategic and International Studies (CSIS) noted: "Military and civilian veterans of the past 15 years of engagement with Afghanistan and Iraq associate the term ['stabilization'] with frustration and bitterness, dashed hopes, and unmet expectations" (Dalton and Shah, Jun. 2017). One assessment of the campaign to "win hearts and minds" in Afghanistan concluded: "There was little concrete evidence from this or other studies that aid led to stability in Afghanistan" (Fishtein and Wilder, 2011). Afghanistan, already one of the world's poorest countries even before the war, saw its poverty and joblessness worsen. According to the World Bank (May 2017), "absolute poverty is increasing, with about 39% of Afghans now poor". The official unemployment rate is now at a staggering 22.6 percent. In 2007, poverty in Afghanistan was 36.3% while unemployment in 2001 was 4.5 percent (CSRS, May 2017). The latest reports estimate that more than 31,400 civilians have already been killed in the Afghanistan war with "no clear end in sight" (Westcott, Nov. 2017). In Iraq, the estimated number is 180,000 civilian deaths (McKay, Jun. 2017).

There are many examples of recipient countries where counter-insurgency campaigns have been modelled after or copied from post 9/11 US Army counterinsurgency manuals whereby "development work" is an integral part of national internal security plans. In these situations, reports of human rights violations allegedly committed by military forces abound. In the Philippines, for instance, many foreign funded development projects have been tied to military campaigns. In some cases they have been implemented with the direct participation of donors' military forces (see **Box 4 below**). This has not been limited to contesting terrorist groups, but has also included legitimate rebel forces such as the communists and Moro separatists.

As recent events in the country demonstrate, these campaigns have largely failed. One example of this is the attempt of an alleged ISIS local network to build a caliphate in a Mindanao city and the subsequent Martial Law imposition in the entire southern Philippines. A vast portion of the country, especially in the rural areas, remains restive with grinding poverty. In a 2017 submission to the UN High Commissioner on Human Rights the local human rights group Karapatan, reported that "peace and development" operations of the Philippine armed forces had resulted in massive human rights abuses such as military occupation of schools and forcible evacuations affecting about 103,337 civilian victims. Such alleged atrocities fuel the continuing resentment of local communities against the government and its forces, making lasting peace even more elusive while the displacements due to military operations aggravate poverty.

Challenging aid militarization and militarism

Various researchers and scholars have tried to explain why the use of development aid in conflict situations has failed. Some point to ineffective aid delivery; others cite the inadequate addressing of the main drivers of conflict. They describe how corruption by local bureaucrats or strong men in the provision of aid services can alienate the population and thus undermine counterinsurgency's campaigns to win the hearts and minds of the people. Thus,

instead of socioeconomic projects, these experts would maintain that development aid should shift its focus to governance and the rule of law. In addition, they maintain that better coordination between the international donor community and national governments in designing and implementing a shared strategy and a common reform agenda in promoting better governance should be put into place (Fishtein and Wilder, 2011).

While these observations provide useful insights on practical issues in aid delivery in situations of conflict, they fall short in addressing the more fundamental contradictions arising from the use of development aid in pursuing a security or military agenda. Pointing out that "there is considerable evidence" on the positive benefits of development aid in Afghanistan (e.g., improvements in mortality rates, school enrollment rates, infrastructure, etc.), Fishtein and Wilder (2011) reflected that: "One consequence of viewing aid resources first and foremost as a stabilization tool or 'a weapons system' is that these major development gains have often been under-appreciated because they did not translate into tangible security gains. US development assistance in Afghanistan has been justified on the grounds that it is promoting COIN [counterinsurgency] or stabilization objectives rather than development objectives".

In conflict situations there are questions whether there are beneficial socioeconomic impacts from aid rather than just concrete security/military gains. Observations such as the ones above on Afghanistan validate the legitimacy of concerns long raised by development workers, aid effectiveness advocates and civil society organizations on militarizing development aid. Unfortunately, policy makers and the international donor community seem oblivious to the lessons of the past two decades. Instead they seem to be moving – in the context of "strategic power competition" reminiscent of the Cold War era – towards even more systematically integrating development aid in their pursuit of security/military and geopolitical interests.

The thinking of aid as a weapon system and the policy direction that favors smart power must be continually challenged at every level – from local projects and programs to national and international guidelines and polices, including that of individual donors and at the level of the DAC.

The basic and long-proven principles of effective aid and development cooperation must be upheld and operationalized. This includes the need to –

- Promote ownership of development by communities and ensure the alignment of aid intervention under national or local development plans or programs that respond to the specific needs of these communities. Among other approaches, this can be achieved by delinking development aid from the security or military objectives of the donors and/or national governments. Local ownership is undermined and people are alienated when development work is carried out with the intention, for instance, of gathering intelligence from or isolating perceived enemies of the state within the target communities.

- Establish reliable mechanisms that hold donors and recipient governments accountable for the impact on poverty reduction of their aid projects and programs through verifiable

development outcomes. Whether in the context of counterinsurgency or power competition, such mechanisms can help challenge the practice of allocating aid resources for military and security objectives without due regard to their long-term development impact or with regard to actual development needs.

- Encourage genuine democratic participation in the development and peace building process, by local communities as well as of independent development actors from civil society. This is difficult to achieve when the overarching goal of development and peace building is security or military (e.g., defeating the state's declared enemy) instead of addressing the drivers and root causes of conflict (e.g., lack of economic opportunities, marginalization and displacement, foreign intervention, etc.) Communities and development actors working independently of the military, for instance, can be easily distrusted or targeted as state enemies.

In relation to the revised guidelines of the DAC, some of the specific issues that should be addressed are:

- As the scope of ODA is expanded to include various activities to counter violent extremism, clear and strict rules must be set out to help ensure that ODA will not be used simply to promote the security interests of donors at the expense of development and poverty reduction. While sample activities are cited in the Casebook, there are no concrete standards at the DAC on how such activities will be defined as having development or civilian purpose and thus be eligible as ODA.
- Specific parameters to protect human rights must be established. Such safeguards are crucial as the new DAC guidelines allow activities such as support for "routine police functions", the use of "non-lethal equipment and training" by state forces, and intelligence gathering for development purposes to be classified as ODA. There must also be a clear set of guidelines that will help ensure donor accountability when cases of human rights violations involving supported state forces arise.
- As an additional safeguard, guidelines on defining ODA eligibility must include concrete and specific ways on how certain activities contribute to anticipated development outcomes.
- DAC should implement a reliable and credible monitoring system that will determine whether these safeguards are executed and whether the guidelines are followed on the ground, accompanied with enforceable accountability mechanisms.
- Conflict and insecurity as currently framed by the donor community is oversimplified. The primary focus is on the presence of "extremists" (whom the donors define) or on competition for spheres of influence and power. These preoccupations often pay lip service, or entirely ignore, deeper social, economic, political and cultural contexts that give rise to conflict and insecurity. An effective challenge to the rising tide of militarism and the renewed push to further militarize development aid requires aid reforms pursued inside a framework of peace advocacy and social justice, and of the people's rights to development and sovereignty.

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ENDNOTES

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Aiding Militarization: Role of South Korea's ODA in "Peacekeeping" Activities in Asia

Youngah Lee, People's Solidarity for Participatory Democracy – South Korea

In February 2016, the OECD Development Assistance Committee (DAC) agreed to update and modernize the Official Development Assistance (ODA) reporting directives on peace and security expenditures. Accordingly, peace and security expenses for military and police training to ensure public safety in partner countries, including the supply of military equipment and activities preventing violent extremism, are now included as part of ODA.

Civil society organizations (CSOs) are deeply concerned as the aid mandate is, once again, being shifted to the field of peace and security, thereby potentially promoting the geopolitical interests of the donor countries, while risking the already small amount of ODA intended for poverty eradication and social development of developing countries.

South Korea is also not exempt from criticism of its use of its ODA for militarization and securitization purposes. The Republic of Korea (RoK) Armed Forces have been active in dispatching troops for reconstruction and emergency relief. South Korea has allocated nearly half of Korea grants to the Provincial Reconstruction Teams (PRT) in Afghanistan for a considerable period of time,[1] and the government has recently sent troops for disaster relief in addition to the inter-ministerial team for overseas emergency relief.

As the field of peace and security has increasingly becoming part of ODA mandates, it is likely that the militarization of South Korea's ODA will also intensify. There is a growing concern that ODA expenditures for military and security will increase and that the role of military and police in ODA execution will expand.

Dispatch for Korean Troops for the Afghan PRT

South Korea dispatched the ROK PRT force, Ashena Unit to Charikar, Parwan, Afghanistan in July 2010. The Korean government sent around 2,500 PRT soldiers in total for about four years until the end of June 2014 when the final withdrawal was made. The amount of ODA put into the region was very large. Since 2009 when the PRT was not yet started, Afghanistan already became the country that received the biggest part of the Korean government's ODA budget. Then, what was the effect of this development aid? A recent government review, when Korean troops were removed last year, praised the program whereby Korea shared its development experiences directly with Afghan people through public-private partnerships.

However, it is very unlikely that the ROK PRT Force resolved issues with the PRT model, commonly faced by the US and other NATO members. The Afghan PRT was designed not as a direct occupation policy, but as one to win the support of the local population. The initiative was largely in response to international politics, and proper development strategies or plans were not prepared in advance. This fact is also seen in the country assessment report presented by the Korea

International Cooperation Agency (KOICA), an organization in charge of the national grant aid.

> "Even if the Korean government sent a research group and underwent procedures of specifying the budget input size and support areas and strategies in making annual plans, when deciding to implement the Afghan reconstruction support project, it is hard to make a goal-based assessment as the performance index was incomplete and the county program was not set."[2]

The ROK PRT, similar to other donor PRTs, was also repeatedly attacked by armed forces. Concerns over the PRT personal safety were always present. It is widely known that active participation of local populations in development aid projects implemented by military forces can hardly be expected, especially when the PRTs become legitimate military targets. Sustainability and effectiveness of PRT development projects is very limited. A domestic researcher who had personally visited a Korea-Afghanistan vocational school casted doubt on why they decided to build such a huge school where threats of war and attacks are still present. This review observed

> "Even as trainees could get a considerable sum of training allowance and go through a vocational course in luxurious facilities, many of them failed to complete one-year training period or dropped out and gave up. And even those that were invited to Korea and received training often did something else or gave up teaching in the school after they came back to Kabul."[3]

Dispatch of Disaster Relief: Araw Contingent in the Philippines

The dispatch of troops for emergency relief and disaster response has been gradually increasing. The first overseas dispatching of RoK Armed Forces for disaster recovery and humanitarian aid occurred in November 2013. The Araw Contingent was sent to the Philippines, following the deadliest Philippine typhoon in history. Unfortunately, the activities of the Araw Contingent in the Philippines raised concerns about the appropriateness of this deployment for the purpose of emergency relief.

The Araw Contingent's main tasks included: (1) restoring public facilities and cleaning up disaster stricken areas, (2) providing free medical services and activities to prevent epidemics, (3) running vocational schools and Korean language programs, (4) providing feeding programs and (5) screening movies. Some activities were implemented through NGOs on the request of the Araw Contingent. In addition to these tasks, the troop also performed activities that had nothing to do with reconstruction and relief. These included the construction of the Araw Memorial Park honoring the dispatch of the RoK Armed Forces and the building of a statue commemorating the joint operation.

The appropriateness of Korean language training in the context of an emergency should also be questioned. Although the Philippines is a country with a high demand for learning the Korean language, it is hard to believe that the troop's running Korean classes was a priority immediately after the disaster. Korean classes, vocational training and as they were out of the scope

of emergency relief and were irrelevant to the restoration and recovery work, and fail to meet the criteria for development effectiveness.

Prior to sending the Araw Contingent, the South Korean government had dispatched the Korea Disaster Relief Team (KDRT) to the Philippines. This was consistent with its Overseas Emergency Relief Act, which mandates RoK to organize an overseas emergency relief team in specialized areas, conduct rescues and emergency medical service, health care, and international development. Under the Act, RoK Armed Forces can also respond to calls for urgent needs such as military transport aircraft or carriers and the rapid transport of personnel or supplies for emergency rescue and relief, upon the request of the Public and Private Joint Council for Overseas Emergency Relief. Despite this, the Ministry of National Defense decided to send troops separate from the Korea Disaster Relief Team. This is against the Guidelines on the Use of Foreign Military and Civil Defense Assets In Disaster Relief (Oslo Guidelines), which states that "military and civil defense assets should be seen as a tool complementing existing relief mechanisms" and "should be employed as a last resort only in the absence of any other comparable civilian alternative."[4]

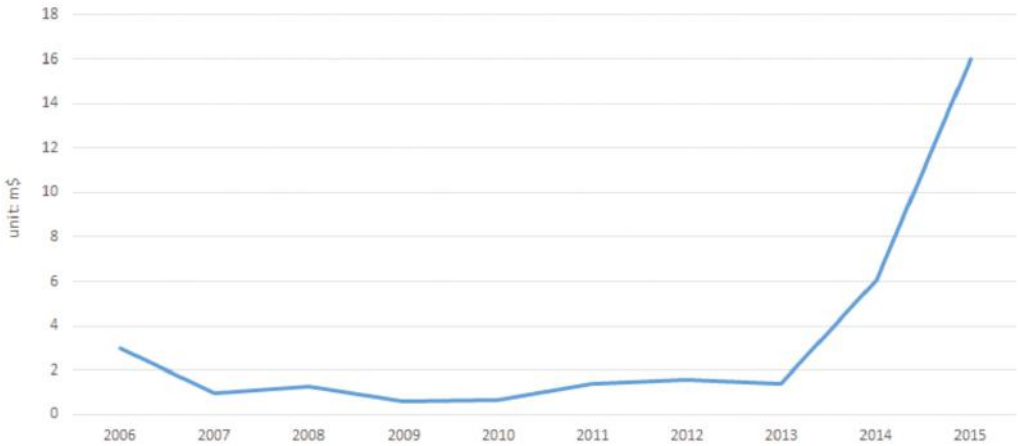
Some evaluations have claimed that diplomatic and military considerations of the South Korean government had an influence on the decision of dispatch troops. When the Philippines faced growing tensions with China relating to territorial sovereignty over Scarborough Shoal in South China Sea (Huangyan Dao in Chinese), it resumed joint military exercises with the United States Armed Forces. The US military has wanted to station rotating forces in the Philippines since 2013. In the meantime, the country suffered from damages wrought by typhoon Haiyan. South Korea sent troops to the Philippines along with the United States, Japan and Australia. Later, the US government evaluated that its military's aid for typhoon relief was a great help in enhancing military cooperation between the United States and the Philippines.[5]

It is unavoidable that political, diplomatic, and military factors for both the country sending the troops and the country accepting their presence are part of the equation. The dispatch of troops to a non-conflict region should be done with careful consideration of intended and unintended consequences. Without due consideration based on solid principles, such deployments can result in arbitrary and unforeseen ripple effects in and out of the country. For these reasons, it is difficult not to be critical of including the mobilization of military support for humanitarian activities in the scope of ODA.

Police Training Program: "K-Police Wave"

As the scope of South Korea's ODA expanded last year, financing for routine civil policing functions - the promotion of public safety and preventing and addressing criminal activities - police training became part of ODA. Beginning in 2014, South Korea has been introducing more and more programs through ODA that are related to reforming the police system and enhancing officers' capabilities in partner countries (Figure 1). ODA statistics for the past decade show that the amount spent in the public safety sector rose fivefold –US$3 million

Figure 1 ODA Statistics on the Management and Improvement of the public safety system (2006-2015)



Source: South Korea's ODA Statistics (2016), ODA Korea

in 2006 to US$16 million in 2015. The Korea International Cooperation Agency (KOICA) and the Korean National Police Agency (KNPA) signed a memorandum of understanding for grant aid in the field of public safety in developing countries in October 2014 and have expanded these projects ever since. KNPA has implemented KOICA Fellowship Programs from 2005 to the present, and have shared the knowledge and know-how on public safety system with developing nations, by providing equipment to police officers and sending technical experts. The number of the fellowship programs carried out by KOICA in cooperation with the KNPA for the past six years (2010-2015) has been on a rapid increase, reaching 54 programs as of 2015. They call this police-training program "K-Police Wave".

While some Korean partner countries, such as Oman, are not eligible for ODA, in general, from a perspective of improving governance, support for the reform of national security systems is considered to be an important part of development cooperation and the use of ODA. But whether training provided through 'K-Police Wave' satisfies human rights standards remains a question for the international community.

According to Korean media reports, training provided by the South Korean police focuses on public safety techniques to repress protesters.[6] The demands are high for water cannon trucks and a human barricade for female police officers. In 2013-2014 South Korean firms sold US$60 million of gear to Oman, including 57 water cannon trucks and riot shields. They also exported US$16 million of water cannon trucks to Indonesia in 2010.

Countries involved in the Police Training Program: "K-Police

One fear is that undemocratic leaders could use South Korea's protest-

Figure 2 Countries involved in the Police Training Program: "K-Police Wave," 2015

Country	Areas of Export
Indonesia	Automatic vehicle number recognition
Laos	112 Report Center, Forensic Science Investigation & Crime Prevention
Cambodia	Protest-management skills, Cyber Crime Investigation
Guatemala	Cyber Crime Investigation
Mexico	Protest-management skills
Kenya	Protest-management skills

Source: Compiled by the Author

management skills trainings and Korean-made equipment to quash dissent and quell democratization rallies, as has been increasingly true in South Korea itself. When MainaKiai, UN Special Rapporteur on the rights to freedom of peaceful assembly and of association, visited South Korea in January 2016, he said that the rights to freedom of peaceful assembly and of association have been in a gradual regression in South Korea for the past few years. He expressed concern over police tactics used against demonstrators during rallies, such as water cannons and bus barricades. Of particular note is the case of Mr. Baek Nam-gi, a farmer activist, who was left in a comatose state after being pummeled by water cannons at a demonstration in Seoul on 14 November 2015. He passed away after 317 days in a coma. With these cases in mind, it is hard to ensure that the police of the partner countries, which have been trained in public safety and protest-management skills shared under the name of 'K-Police Wave', would not violate the rights of their fellow citizens.

Providing the equipment used to suppress demonstrations is not the only issue. With funding of US$6.6 million, KOICA has also implemented 'The Project for Enhancing Criminal Investigation Capability of the Philippines National Police (2016-2018)'. The scope of this project includes providing police equipment worth US$4 million (e.g. patrol

Figure 3 Export Details of Police Equipment

Year	Company	Product	Exported To	Amounts (in USD)
2005	Jino Corporation	24 water cannon trucks	Bangladesh	5 million
2010	Daeji P&I	70 water cannon trucks	Indonesia	16 million
2012	-	1 water cannon truck	Thailand	0.88 million
2012	-	Police communication network build-up	Indonesia	7 million
2013	Daewoo International	800 patrol cars	Peru	30 million
2014	Daewoo International	Police communication network build-up	Indonesia	72 million
2015	-	CCTV and police communication network	Papua New Guinea	3.5 million
2015-2016	Kyungbong	CCTV system build-up	Honduras	3.5 million
2015-2016	Kyungbong	CCTV for vehicle number recognition	El Salvador	2.3 million

Source: Compiled by the author

cars, patrol motorcycles, investigation devices), dispatching some 60 South Korean experts, and inviting some 50 local officers to South Korea for training.

The Philippines suffers from poor public safety. Its police corruption is so rampant that officers are often involved in violent crime such as murder, kidnapping, extortion, robbery, and drug dealing. A local media outlet, Manila Standard, released a report that claimed that the Philippine National Police and the Armed Forces of the Philippines are the most corrupt government agencies[7]

Another serious concern is the repression of human rights by the Philippine police, a result of the abuse of its authority. President Duterte proclaimed a "War on Drugs" shortly after his inauguration and authorized the police to execute 4,075 people (according to the government figures, as of March 2018) in a summary sentence.

Extra-judicial killings by police are serious crimes against humanity which International Criminal Court (ICC) can launch investigation and international communities including the UN are highly concerned. Also, in April 2016, Philippine police opened fire at a protest of thousands of rice farmers who were demanding government assistance after a severe drought. The result was three people being killed and dozens wounded. In October 2016, as the police broke up a large-scale anti-US rally outside the American embassy in Manila, a police van (made in Korea) rammed protesters. Nonetheless, the South Korean government has continued to provide training and equipment to the Philippines police.

These examples reinforce the importance of close monitoring and evaluation of the effects of equipment and training provided by a donor country to another, partner country. It also demonstrates the fact that police training support for a partner country can be harmful to the rights of people seeking their rights as in the case of the Philippines.

Conclusion

With the extension of aid to include more peace and security costs, there is deep concern that this may greatly risk negative impacts on poverty eradication and development efforts. It may also be difficult to ensure that the human rights of residents in partner countries and their neighboring countries will be protected. As seen in South Korea's case, when aid was used for political and military means, aid can move far from its original goals. In South Korea's case, this outcome has been confirmed by a long history of failure in development cooperation. Misuse of aid for peace and security agendas is highly likely to result in disputes and conflicts. It therefore would seem absurd to expand the scope of ODA so that it can be used as military and diplomatic tools, despite all the side effects mentioned above.

The Sustainable Development Goals adopted by the international community are based on values of democracy, human rights and peace. In keeping with Agenda 2030, the South Korean government should carefully examine the possible impact of ODA on the democracy, human rights and peace of partner countries, and ensure monitoring and participation of civil society in the process of ODA policy-making.

ENDNOTES

1 The dispatching of provincial reconstruction teams (PRT) to Afghanistan and Iraq is a clear example of postwar reconstruction aid by the military. This can be seen as a kind of an appeasement policy to win the hearts of local people instead of a direct occupation policy that depends on advanced military technology. It is one of the civil affairs operations that the United States created to address specific circumstances and environment of each region. International NGOs and emergency relief officials in the United Nations have frequently maintained that the Afghanistan PRT is fundamentally unfit for development aid and that it is difficult to ensure effective implementation.

2 KOICA, "Country Assessment Report on the Afghan Reconstruction Support Project", 2007

3 Lee Tae-joo, "Going after a project: International Development and Anthropological Participation", Cross-Culture Study 17th Series 1st edition, 2011

4 Seehttps://www.unocha.org/sites/unocha/files/OSLO%20Guidelines%20Rev%201.1%20-%20Nov%2007_0.pdf.

5 Congressional Research Service, Typhoon Haiyan (Yolanda): U.S. and International Response to Philippines Disaster. 2014.2.10

6 The Jong-angIlbo, October 10, 2015http://news.jtbc.joins.com/article/ArticlePrint.aspx?news_id=NB11056565

7 PNP, AFP still most corrupt govt agencies, Manila Standards, March 08, 2016 http://thestandard.com.ph/news/-main-stories/top-stories/201180/-pnp-afp-still-most-corrupt-govt-agencies-.html.

Militarization of Palestinian Aid

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"Aid" in Context of Israeli Violations

Palestinians' need for aid is a direct result of a decades-long military occupation and conflict with Israel. Aid to both Israel and Palestine is militarized, which is furthering and prolonging this conflict rather than addressing its root causes.

At the macro level, aid to Palestine is militarized because it is a function of most western governments' unqualified support for Israel. The latter includes impunity for Israeli violations of Palestinians' rights. The provision of military aid, military trade, and other forms of economic, cultural and political exchange strengthens Israel's ability to occupy, colonize, and dispossess Palestinians. Aid directly subsidizes the costs of Israel's militarized aggression to Palestine, while international political support protects it from the consequences of non-compliance with international law, thus making aid actors complicit in Israel's violations of Palestinian rights (Murad, 2014).

One of the great ironies of these aid mechanisms is the widely adopted approach to see it as "normal" for the United States to provide military support to Israel while also providing "aid" to Palestinians to mitigate the impact of Israeli military action. In fact, the United States government has provided US$124.3 billion in bilateral (mostly military) assistance to Israel, making it the largest cumulative recipient of U.S. foreign assistance since World War II (Sharp, 2015: summary). American aid to Israel is an integral part of its military strategy in the Middle East and American investments have helped Israel develop one of the most technologically sophisticated militaries in the world (Sharp, 2015: 1). In contrast, the United States has provided approximately US$5 billion in aid to the Palestinian Authority (PA) since its establishment.

Critics of American military aid to Israel argue that it is violating US domestic law. In their review of policy implications and options, the US Campaign to End the Israeli Occupation quotes the US Foreign Assistance Act as saying,

"No assistance shall be furnished under this chapter or the Arms Export Control Act [22 U.S.C. 2751 et seq.] to any unit of the security forces of a foreign country if the Secretary of State has credible evidence that such unit has committed gross violations of human rights."

Ruebner (2012: 18-19) goes on to say,

"The Arms Export Control Act (AECA) (P.L. 90-629), which conditions and restricts the sale and leasing of U.S. defense articles and services, limits the use of U.S. weapons solely for internal security, for legitimate self defense, for preventing or hindering the proliferation of weapons of mass destruction and of the means of

delivering such weapons, to permit the recipient country to participate in regional or collective arrangements or measures consistent with the Charter of the United Nations."

American military aid to Israel may also violate Common Article One of the Geneva Conventions, which obligates third states to ensure respect for international humanitarian law in all circumstances (Dörmannand Serralvo, 2015). Others note that arms sales to Israel may be illegal because Israel, which is widely recognized as a nuclear power, has not signed the Treaty on the Non-Proliferation of Nuclear Weapons (Treaty, 1968).

Finally, aid channeled to the Israeli settlements in the occupied West Bank violates basic rules of international law and thus hinders possibilities for a lasting peace.

Palestinian civil society has called for a military embargo on Israel. This appeal is not limited to the United States; the United Kingdom has also been under scrutiny for trading arms with Israel, including weapons that evidence confirms have been used in human rights violations:

"In the six months prior to the attack on Gaza in the summer of 2014, the UK government granted licenses worth £6,968,865 for military-use exports and £25,155,581 for dual-use equipment. The licensed items included combat aircraft components, drone components, anti-armor ammunition and weapon night sights. Meanwhile, the UK's Watchkeeper surveillance drone has been developed under a £1 billion joint venture contract awarded by the Ministry of Defense to Thales UK and Israel's Elbit Systems, allowing the UK military to benefit from technologies that have been 'field tested' on the occupied Palestinians. (Wearning, 2015: 3)."

Even in the best-case scenario, the net effect of international aid to Palestinians is questionable. Its value is greatly undermined by the fact that Israel's military action has been subsidized by the United States and others and these actions have been granted political immunity by the international community. Palestinian critics of aid therefore maintain that Western donors are complicit in Israel's violations of Palestinian rights, despite efforts by donor governments to distinguish their political actions from their aid policy, suggesting that aid policy is somehow "neutral."

Fragmentation and Militarized Aid

Israeli policies have fragmented the Palestinian community into several different legal/institutional components, all of which are in some way militarized. Because of this fragmentation, aid to Palestine is also politicized and militarized in different ways. Aid policies and practices contribute directly to this political fragmentation and social disintegration between the West Bank and Gaza Strip.

Palestinians, who make up 20% of the population of Israel, are essentially colonized in a state that officially designates them as having fewer rights than the Jewish population. Western aid to Palestinian citizens of Israel, which is limited and subject to Israeli restrictions, generally focuses on strengthening Palestinian ability to claim their rights as minorities. This focus reinforces Palestinian citizens' ties to Israel while simultaneously weakening their connections to the rest of the Palestinian community in the Arab world. By entrenching Palestinians'

identity in this way as a "minority" rather than as an indigenous people, western aid to Palestinians strengthens Israel's territorial claims. In this way, aid to Palestinian citizens of Israel is politically and institutionally part of western support for Israel's vision, regardless of what those same countries may say rhetorically about their support for Palestinian rights in international law.

The three million Palestinians in the West Bank also experience politicized and militarized aid. But these mechanisms are more complicated. The Oslo Accords (1993) and the Paris Protocol (1994) established a hegemonic political and economic model within which all "development" in the occupied Palestinian territory takes place. Researchers Tartir and Wildeman have explored the neoliberal interests that underpin the World Bank framework guiding Western aid policy toward the occupied Palestinian territory. They note that World Bank prescriptions "... do not take into account the history and human reality of Palestinians struggling to survive for decades under a violent military occupation" (2012: 1). Tartir and Wildeman also maintain that the World Bank over-estimates the capacity of the Palestinian Authority (PA) to engage in demanded reforms, given that the PA lacks sovereignty.

In the West Bank, aid policy has distinct implementation plans according to three areas designated by the Oslo Accords – Area A (under Palestinian Authority control), Area B (under joint Israeli-Palestinian control, and Area C (under Israeli control). The greatest controversy is in Area C where Israel enforces (and most donors comply with) an illegal planning regime that denies Palestinians access to their own natural resources and to their right to development (Diakonia, 2013). By being unable or unwilling to challenge Israeli militarization in Area C, international donors are contributing to the sustainability of the status quo.

While discussion of the political status of Jerusalem was postponed by the Oslo process, the practical reality of Israeli annexation of Jerusalem and forced transfer of Jerusalem's native Palestinian population has been largely ignored by international aid policy. The virtual collapse of the Palestinian economy in East Jerusalem renders the city essentially unlivable for Palestinians (Arafeh, 2016). Effectiveness of both humanitarian aid (e.g. to Palestinian families whose homes have been demolished by Israel) and development aid, which is limited by Israel's explicit Judaization policy, is totally undermined.

Aid policies and implementation in the Gaza Strip is another and different case. The Israeli blockade, which is now ten years old, makes the Gaza Strip nearly totally dependent on international aid. No materials or people can enter or exit Israeli checkpoints without Israeli military permission. The system of aid is increasingly controlled by Israel, not the United Nations, thus adding aid to the arsenal of weapons through which Israel can increase its power and control over Palestinians in the Gaza Strip. In fact, the lack of adequate reconstruction after the 2008-9, 2012 and 2014 Israeli attacks is due to the militarized and securitized nature of the aid and the context within which it is delivered (or not). Notably, having this aid delivered in a highly securitized context makes it easier for donors to cover their failures using the excuse of "security."

Approximately five million registered Palestinian refugees also receive aid through a dedicated United Nations agency, the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA, 2016). According to critics, UNRWA's ambiguous protection mandate has prompted debate about the extent to which UNRWA protects Palestinian rights or weakens their ability to claim their rights through other bodies and mechanisms (Farrah, 2010).

Bilateral Aid to the Palestinian Authority

Military assistance to Israel is not the only way that international actors subsidize the Israeli occupation of Palestine. European donors, the United States and Canada provide significant bilateral assistance to the Palestinian Authority. In a scathing critique, Tartir says about 30% of international aid is directed to the $1bn/year Palestinian security sector, which is not accountable to the Palestinian people and is increasingly authoritarian.

Since 2005, the United States and the European Union have supported sector reform, but "...the central tenet of this project has been the entrenchment of security collaboration between the PA and Israel," not the security of Palestinians (Tartir, 2016). That the PA and Israel work together on security means that a substantial amount of aid to the PA security sector is as much for Israel as it is for Palestine. Aid also makes it easier and cheaper for Israel to provide security for its settlements - illegal under international law and in the eyes of the world and the US. The aid thus compromises the security of Palestinians by funding the interests of their occupier. "Collaboration" under occupation in reality means dominance of the oppressor. Tartir also notes that both Amnesty International and Human Rights Watch have documented the Palestinian Authority security forces' excessive use of force and noted PA limits on freedom of speech, political participation and mobilisation (Tartir, 2016).

So, on one hand, there is Israeli occupation and colonization that receives militarized aid. On the other, there is the Palestinian Authority, which receives ODA and spends it in a highly limited space within a securitized "development" process. So, aid in the Palestinian context is driven by a hegemonic security rationale, designed to address Israeli security concerns, in ways that make Palestinians increasingly insecure (Tartir, 2015). The power asymmetry between the colonized and colonizer translates into benefits to the more powerful actor and therefore sustains an anti-peace status. Mandy Turner has suggested that the intention of Western "peacebuilding" interventions includes counterinsurgency. In other words, aid seeks to pacify Palestinian national liberation aspirations in Israel's interest (Turner, 2014).

Investigations into the militarization of aid highlight two main questions: (1) What should be done when a liberation movement is forced to transform itself into a subcontractor to the colonizer as a result of this militarized aid? and (2) Is it possible that militarized aid can result in authoritarian tendencies giving dominance to security establishments and personnel at the expense of other sectors (e.g., health, education, manufacturing) and at the expense of democracy? In the case of Palestine, aid has not only failed to address the poverty, employment and empowerment gaps, but has also help create new insecurity and illegitimacy.

Aggression is a Crime That Should Not Be Funded By Aid

The use of aid to promote or support aggression is not only inappropriate and counter-productive, but arguably illegal. The purpose of our global governance system, i.e. the United Nations, is, first and foremost, "to maintain international peace and security, and to that end: to take effective collective measures for the prevention and removal of threats to the peace, and for the suppression of acts of aggression or other breaches of the peace, and to bring about by peaceful means, and in conformity with the principles of justice and international law, adjustment or settlement of international disputes or situations which might lead to a breach of the peace" (Charter of the United Nations, 1945: Chapter 1, Article 1.1) Three basic humanitarian principles – humanity, neutrality and impartiality– are enshrined in General Assembly resolution 46/182 (1991) and have been reaffirmed in innumerable UN resolutions and declarations (OCHA, 2009: 4).

While many Palestinians and internationals consider Palestine an exception to aid norms, the problem of militarized aid is widespread. The New Deal for Engagement in Fragile States says that 30% of Official Development Assistance is spent in fragile and conflict-affected contexts (IDPS, 2011:1). The European Parliament reported that in 2013 over-two thirds of the humanitarian assistance recorded by the OECD was directed to long-lasting crises (European Parliament, 2016: 3). This data raises significant questions about aid. Either international aid is having no effect on the perpetuation of conflict (and failing to stem the increase in humanitarian need), or, alternatively, international aid contributes to increasing conflict.

The report of the UN Secretary General on the World Humanitarian Summit takes a predictably diplomatic tone. However, a careful reading reveals acknowledgement that lack of political will is at the heart of aid ineffectiveness. It says: "...Addressing people's humanitarian needs requires more than increasing levels of assistance. It necessitates a far more decisive and deliberate effort to reduce needs, anchored in political will and leadership to prevent and end conflict." (UNGA, 2016: 1).

There is ample evidence in literature and practice of the relationship between aid and the perpetuation of conflict. Palestine offers one of many examples of how aid violates the principle of "Do No Harm" that is fundamental not only to the credibility of aid, but also the post-World War II international system.

Aid must not promote or enable aggression either actively or passively. In Palestine, aid for ostensibly "purely good" purposes such as food, health, education, and water and sanitation, is implemented inside a complex aid regime that serves the expansionist political interests of Israel and its allies among donor countries. A recent study by Aid Watch Palestine found that 78% of aid to the occupied Palestinian territory ends up in the Israeli economy (Hever, 2016), thus subsidizing between 18-30% of the costs of the occupation. Tartir and Wildeman also note that forced economic integration with Israel makes the Palestinian economy vulnerable. Israel has often withheld funds (with American support) as punishment for Palestinian policies it dislikes, including Palestinian pursuit of internationally enshrined rights through United Nations mechanisms (2012: 1.)

In one blatant example, international aid utilizing the Gaza Reconstruction Mechanism, to which the United Nations is a party, has been criticized as giving legitimacy to the illegal Israeli blockade on the Gaza Strip (Murad, 2015/16) and assisting Israel by giving international cover for Israel's promotion of its own economic and military interests.

Conclusion

Aid to Palestinians is militarized on at least four levels:

1. Military aid and military trade with Israel has been normalized, despite proof that such assistance is being used to violate Palestinian rights under international law;
2. The Oslo two-state framework, within which Western aid is implemented, reflects the political and military interests of the United States, Europe and the World Bank-led neoliberal consensus, instead of democratically determined Palestinian interests;
3. Development and humanitarian aid to Palestinians, whether it is funneled through international or Palestinian Authority institutions, is structured to protect Israel's colonial monopoly at the expense of Palestinian security and self-determination; and
4. Humanitarian aid through civil society, both international and Palestinian, is conditioned by anti-terrorism policies that exacerbate internal conflict, including armed conflict, in violation of principles of impartiality and neutrality.
5. Aid supporting Israel would not inherently violate Palestinian rights if aid actors (in their political and aid roles) held Israel accountable for compliance with international law. However, impunity granted Israel by international actors has had the effect of empowering its aggressive policies, resulting in what appears to be a shocking hypocrisy: donor governments and aid actors allowing Israel to deny Palestinian rights while providing aid to Palestinians in ways that ensures Israel's continued dominance.

Reclaiming Aid for Human Rights: Policy Recommendations

The militarization of aid to Palestinians invalidates the legitimacy of aid as a credible humanitarian or developmental intervention. For international aid to reclaim its potential as a contributor to the realization of human rights, it must be aligned with effective political accountability mechanisms that pressure all parties to comply with international law and respect human rights.

The global civil society boycott, divestment and sanctions (BDS) campaign has had a demonstrable impact on Israel's ability to pursue unaccountable military development (Juma' and Mantovani, 2016). All concerned parties should study the potential of strategic sanctions as a way to pressure Israel to comply with international law. The most immediate and obvious action is to demand for a total military embargo on Israel and all parties until this has been achieved.

This securitized and militarized aid has a dramatic impact on the everyday life of Palestinian people and their quest for freedom and self-determination. Evidence suggests that this form of aid is anti-developmental, especially in situations of foreign military occupation. In the case of Palestine, it has limited

rather than enhanced the capacity of Palestinian people to claim their right to self-determination. The long-term effect is increased instability and the likelihood of further militarism and violence.

Empowering Palestinians means equipping them with the tools to resist Israeli settler colonial rule and enhancing their capacities for solidarity, resilience and steadfastness. International aid actors must recognize and accept that development under military occupation and colonization means first and foremost a process of confrontation to realize rights, including the right to self-determination.

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Development Cooperation, Militarism and Conflict in the Contiguous Areas of Bangladesh, North East India and Myanmar

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Geopolitics and Legacy of Conflict

The history of the contiguous areas of North East India (NE India), Bangladesh (South Asia) and Myanmar (South East Asia) has been afflicted with conflict that has often been induced by colonial powers and emerging powers. Until 1947, countries in these regions were colonies of the British Empire. Touching the Bay of Bengal and at the crossroads of South, South East and East Asia, their strategic nature and abundance of natural resources has continued to evoke much interest from powerful countries seeking economic and political dominance.

Another shared characteristic of Myanmar, NE India and Bangladesh is the persistence of armed conflict and their related social implications. These conflicts, which are multi-dimensional and multi-layered in nature, have been intensified by the move for economic and political domination by powerful countries. Two main factors account for the major forms of conflict in these regions: 1) the competition amongst powerful countries for dominance and 2) the conflict between governments and indigenous peoples (specifically in Manipur and Assam in NE India, Chittagong Hill Tracts (CHT) in Bangladesh and Rakhine and Kachin State in Myanmar)..

The indigenous populations in these regions are comprised of ongoing movements and struggles for self-determination. Many of these conflicts have been based on the state's military efforts to subdue indigenous peoples' struggles for self-determination over their lands and resources.

The persisting conflicts are fueled by the increasing efforts of powerful countries to control lands and resources. The strategies of the three regions - India's Act East Policy, China's One Belt One Road (OBOR) and Japan's Free and Open Asia Pacific strategy - are balanced against the Asia Pacific strategies of the United States (US), European Union (EU), Russia, etc. China is expanding its OBOR initiative in South and South East Asia with initiatives in roads, railways, oil pipelines and other infrastructure financing. India and Japan are increasingly combining their strategies to counter China's OBOR with strategies to control land, resources and important locations with similar initiatives.

Development cooperation and the tacit involvement of International Financial Institutions (IFIs) in financing development processes to control land and natural resources in situations of armed conflict have spurred greater conflict and fragility in all three regions. Multilateral and bilateral development financial institutions such as the Asian Development Bank (ADB), the World Bank (WB) and the Japan International Cooperation Agency (JICA), as well as financing from emerging economies, such as India and China, are actively financing connectivity projects

to tap the natural resources from these regions. Multinational companies and IFIs are aggressively pursuing oil and gas exploration in these regions.

The ADB's Country Partnership Strategy for Myanmar, 2017–2021, aims to support the government in laying the foundations for sustainable and inclusive economic development for poverty reduction. The ADB focus for connectivity in Myanmar will complement its connectivity financing in India's North East and Bangladesh, under the South Asia Sub Economic Cooperation (SASEC).[1] Myanmar is also part of ADB's Greater Mekong Sub Economic Cooperation (GMS), under which ADB financed a portion of the Greater Mekong Sub Region East-West Economic Corridor Highway Development Project in Myanmar.

ADB pursued financing of road building through the South Asia Sub Economic Cooperation (SASEC) under the North East India Strategic Plan (NEISP) to promote a business friendly environment and to tap the natural resources in India's North East. In April 2017, the JICA signed an agreement with the Union government in New Delhi to provide over 67 billion yen (US$610 million) for Phase I of the North East Road Network Connectivity Improvement Project. Phase 1 will see the enhancement of National Highway 54 and National Highway 51 in Mizoram and Meghalaya.[2]

The DEG of Germany co-financed the mining operation in Meghalaya by the French mining company, Lafarge. The German development bank KFW financed the Pare Hydroelectric project in Arunachal Pradesh. On 12 June 2014 the World Bank approved a US$107-million credit for the Mizoram State Roads II – Regional Transport Connectivity Project to improve transport connectivity to enhance Mizoram and other northeastern states' road links with Bangladesh, as well as with Nepal, Bhutan and Myanmar.[3] JICA is preparing to fund the Kaladan multi-model transportation mode in Mizoram State of India. The World Bank is funding the high voltage transmission and distribution lines across India's NE region.

Meanwhile, the China-led Asian Infrastructure Investment Bank (AIIB) is investing in the adjoining areas of South and South East Asia Region. In 2016, the AIIB approved loans amounting to US$500 million for power, housing and transportation projects in four countries in the region. In a meeting in September 2016, the AIIB approved US$300 million for the Myanmar's Mingyan project, among others.[4]In Bangladesh, the World Bank, ADB and JICA are working together to finance infrastructures geared to control strategic resources like natural gas as well as strategic locations.

This process of defining the priorities and areas of development cooperation is being pursued in an environment that excludes indigenous peoples and denies their rights. Official Development Assistance (ODA) is increasingly being utilized to advance the strategic economic and political interests of donors in the region. India is cementing a strong relationship with Japan for strategic reasons whereby Japanese ODA is utilized for strategic purposes while also deepening military cooperation.[5] The efforts of IFIs and dominant countries for their economic and political influence also involves close coordination with concerned governments to suppress indigenous peoples' rights and limit their democratic space to seek effective development cooperation and genuine development process.

Development Cooperation & Militarism in India's North East

India's North East region, which comprises eight states bordering Myanmar and Bangladesh, is projected as the corridor for connecting South East Asia under India's Act East Policy. Development cooperation and militarism in India's North East needs to be understood in the context of indigenous peoples' movements for self-determination. Two examples are the movements for greater autonomy in Tripura and for full self-determination in Manipur both of which have been subjected to military responses from the Government of India. The Revolutionary Peoples Front, the United National Liberation Front, and related groups are battling the Indian Armed forces in Manipur in a low intensity conflict, while the United Liberation Front of Assam has led the armed struggle for self-determination in Assam.

The Armed Forces Special Powers Act, 1958 (APFSA, 1958), was introduced to counter the armed liberation movements in Manipur and across India's North East region. The APFSA 1958 derogates fundamental rights, specifically their right to life, justice and remedy while legitimizing the intense militarization. The militarization has led to extra judicial executions, arbitrary killings, enforced disappearances, sexual harassment, and other abuses with complete impunity being conferred to the relevant Indian Army officials under AFSPA, 1958. The Supreme Court of India continues to hear a Public Interest Litigation (PIL) seeking an investigation into 1,528 cases of extra judicial executions from 2000 to 2012 committed by the Indian security forces and Manipur police.[6]

Militarization has intensified because of the aggressive push for large infrastructure projects. This has included extractive industries (mining, oil exploration, etc.) under the Act East Policy as well as key infrastructure projects financed with development cooperation from multilateral and bilateral financial institutions. The Indian armed forces deployed counter insurgency operations in NE India, which are involved in protecting hydroelectric projects, mining sites, and other key infrastructure projects financed by the ADB, World Bank, JICA, etc.

The Indian armed forces have launched numerous military operations. In Manipur this included Operation Summer Storm (2009), Operation Khengjoi (2006), Operation Somtal (2007), and Operation Tornado (2005). The objective of these missions has been to not only clear armed liberation groups but also to control indigenous areas already designated for Tipaimukh including dam construction, oil exploration and the mining of chromium and limestone. More than 50,000 Indian armed forces units have been deployed to military camps in Manipur. As well, over 1,500 security forces from different paramilitary units are also confirmed to be deployed for the protection of the Trans Asian Railway works under construction in Manipur.[7]

Military equipment purchased externally is being used in these counter insurgency operations. Unmanned aerial vehicles (UAVs), hovercraft and other arms purchased from Israel, US, and Russia have been used during counter insurgency operations to subdue the indigenous resistance movement in Manipur.[8] Sukhoi Jet fighters purchased from Russia have been deployed to the Tezpur Air force

base in Assam, close to the Chinese and Myanmar borders.[9] India's effort to militarily suppress self-determination movements has also involved military cooperation between Burma and Bangladesh in joint military operations against the insurgents or liberation groups operating in their respective territories. Work in economic cooperation at the regional level has emphasized the suppression of voices of resistance, using the pretext of counter terrorism. For instance, the India and ASEAN Free Trade Agreement included explicit references and a focus on efforts to jointly fight terrorism.

The extensive road building across India's North East, with financing from the ADB, WB and JICA, serves both economic and military purposes. The road building under various connectivity projects is envisaged to support the construction of over two hundred (200) mega dams across the Brahmaputra – Barak River system. These dams will facilitate the exploration and drilling of oil and gas and the mining of minerals in the NE region. JICA and KfW are directly involved in this work. In 2016 the World Bank approved a US$470-million loan to support six states in the NE India to augment their 400 KV high voltage transmission and distribution networks. This will also support the exploitation of energy potentials of rivers in the NE region through the construction of mega dams.[10]

NE India's massive road construction plans are also designed to help the Indian Armed Forces to confront its internal and external security challenges. For instance, the roads will ease the movement of Indian armed forces and intensify its counter insurgency offensives in Manipur, Assam and other parts of North East. Additionally, the road building in Arunachal Pradesh will assist the movement of Indian armed forces closer to the borders with China, where there have been long-standing tensions over territorial disputes between India and China.

Development cooperation for infrastructure financing, primarily road projects in India's North East, could stir up another dimension of conflict. The potential for intense conflict in NE India is a real issue with the JICA supported infrastructure projects, primarily road projects in Arunachal Pradesh. This has met with stern objections from China as it claims Arunachal Pradesh is part of South Tibet. There has been an on-going conflict between India and China over the control of Arunachal Pradesh. Indeed, a war between India and China broke out in 1962 over China's claim to this state. In 2009, China protested the inclusion of a water management project in Arunachal Pradesh, which was part of a $2.9 billion loan ADB had promised India.[11] More currently, China has denunciated the September 2017 statement by Japan and India, which outlines their plans to cooperate on infrastructure projects such as road connectivity and electricity in India's NE States.[12] With an eye on China's OBOR initiative, in October 2017, the US Government called for increasing connectivity in the South Asia region.[13] The tensions and conflict are likely to escalate in NE India with the continued efforts by India in oil and gas exploration as well as their plans to build hydropower projects and road infrastructure projects.

Efforts to exploit NE India's natural resources have been another source of tension in the region. The Government's plan to mine uranium in Meghalaya has been met with strong resistance from indigenous communities. There are concerns that India's agreement with Australia, Japan and Germany for peaceful

nuclear cooperation will also facilitate the mining and exploitation of natural resources in Meghalaya. At the North East Business Summit in November 2017 agreements between the Government of Manipur and corporate bodies were signed to commence mining and oil exploration in Manipur, much to the objection of indigenous groups.

Transnational companies such as Jubilant Energy Private Limited and big Indian companies like the Oil India Limited, and Oil and Natural Gas Corporation are advocating for comprehensive exploitation of oil and gas in NE India. The ADB, European Investment Bank (EIB), the World Bank's International Finance Corporation (IFC), and other bilateral finance institutions (eg. Germany's DEG) have co-financed limestone mining operations in Meghalaya with the *Lafarge* Group of France and Cementos Molins of Spain. The Lafarge Surma Cement (LSC) Project, which is run by Lafarge, received a loan of US$45 million from the IFC in 2003. The Lafarge mining is in violation of the Forest Conservation Act, 1980 and the Forest Rights Act, 2006.[14] In January 2014, the indigenous Khasi people who are affected by the IFC- and ADB-funded limestone mine, filed a complaint with the Compliance Advisor Ombudsman (CAO), the IFC's accountability mechanism. The Khasis maintain that Lafarge has illegally infringed on their land without their consent or recognition of their rights.

Community leaders striving for the defense of their lands and natural resources are rejecting the current exploitative and unsustainable development models that include dam building, oil exploration and mining. They are often branded as anti-development, anti-national or insurgents and have been subjected to human rights violations. Community leaders in Burma, NE India and in Bangladesh's CHT have been killed, jailed and tortured.

Development cooperation involving the military is an emerging phenomenon in NE India. The underlying objective seems to be to counter Chinese influence in both South Asia and South East Asia. In the Annual India – Japan Ministerial Defense Dialogue (September 2017), India and Japan agreed to step up their defense cooperation, including anti-submarine exercises and counter terrorism measures.[15] In July 2017, the US, India and Japan conducted joint naval exercises demonstrating increased defense cooperation in the Indo-Pacific region. This has included the deployment of front-line warships, submarines and aircraft as part of the tri-nation Malabar exercises in the Bay of Bengal.[16]

In early May 2018, military cooperation between India and the US was enhanced with the Trump administration's agreement to supply long endurance high-altitude surveillance armed UAVs to India. India has supported Japan's position, which is opposed to China's claims in the South China Sea. In a joint statement in July 2016 on the South China Sea, India and Japan asked parties involved in the territorial disputes to "show utmost respect" for the *UN Convention on the Law of the Sea* (UNCLOS).[17] India also joined the quadrilateral alliance with Japan, Australia and US to counter China.

Conflict in Rakhine and Kachin State in Myanmar

Myanmar is afflicted with multiple layers of conflict, which are intensifying in scale and geographic scope. One major factor is that external countries are increasingly eager to control its land and resources, economy and polity. Myanmar is at the confluence of South, East and South East Asia and hence extremely strategic for economic and political reasons. Indeed, the country has experienced intense efforts by powerful countries to exert their influence. Myanmar has become a last Asian frontier for current modes of development – plantation agriculture, mining, and water extraction. Myanmar lies between China and India, both of whom are hungry for its natural resources and to gain influence over the country.

As a major provider of financial and military aid, China has aggressively pursued road building and the laying of oil and gas pipelines. It is also heavily involved in mining and attempts to build mega dams in Myanmar. China is establishing a foothold in the Rakhine State with its promise to develop a deep-water port at Kyaukphyu at the staggering cost of US$7.3 billion. Oil and gas exploration by Chinese companies in Rakhine is still progressing, along with investments by Indian and Korean companies. With its access to the Indian Ocean, Myanmar remains a critical pillar in China's regional plans and energy security, as it would allow China to circumvent the Straits of Malacca by importing oil from the Middle East on a quicker route.[18] The effort of countries such as India, Japan, US and the EU to challenge China's dominance is a key factor in Myanmar's evolving and multilayered conflict.

The conflict between the ethnic Rohingyas and Kachin with the Myanmar State is interpreted as fallout from ongoing efforts to control the rich natural resources and geographically strategic locations of the two States, one of which has access to the Bay of Bengal (Rakhine) and the other access to the mighty China (Kachin). Myanmar's best potential hydro-power, oil exploration and drilling sites are primarily in conflict prone areas such as Rakhine and Kachin.

The conflict in Rakhine State has ethno - religious dimensions rooted in historical political realities of conflict between the Myanmar Buddhist and Muslims, the latter being perceived as 'Bengali' migrants from Bangladesh by majority populace of Myanmar. The ethnic conflict also is a continuation of the tensions that appeared during the Second World War, where each side were situated against each other, one with the British forces and the other with the Japanese imperial forces during their occupation of Myanmar.[19]

The ongoing tensions caused by the forced displacement of indigenous people in Rakhine State is also perceived as an attempt to regain control of areas which are strategic for extractive industries. This includes oil and gas exploration as well as the establishment of trading points, such as in the Sittwe Port. There is an interest in opening up lands to foreign corporations. Since major foreign investors have entered the country under the new legal regime, demand for land has become a major factor in the conflict.

The persecution and expulsion of the Rohingya from their land is a strategy of the Myanmar Government to free up land and water for future use by corporations from outside countries.[20] An estimated 655,000 Rohingya Muslims are believed to have crossed into Bangladesh since

the Myanmar army launched a crackdown in August 2017 on suspected Muslim insurgents who were blamed for attacks on security outposts in the Rakhine State. There have been many reports that civilians have been tortured, women raped and homes burnt by the military.[21] The State repression in Rakhine led to the formation of the Arakan Rohingya Salvation Army in January 2018. The establishment of this armed ethnic group has deepened the crisis and armed conflict in Myanmar. The displacement caused by the conflict in Rakhine has also led to the exodus of refugees in Mizoram and Manipurin NE India, which may become another source of tension.

Kachin State is one of the most conflict-afflicted areas of Myanmar. The Kachin Independence Army, which has been demanding self-determination from Burma since the early 1960s, clashed with the Burmese military in June 2011, ending a 17-year ceasefire agreement.[22] The construction of Myitsone Dam, which was to be financed by China, contributed to the anger and resistance of the Kachin people. In the end the Government was forced to cancel the dam. The controversial Myitsone dam project was first signed between Myanmar's previous military government and the state-backed China Power Investment in 2005. Construction formally commenced in 2007 but was formally suspended in September 2011.[23]

In recent years the Myanmar military has increased airstrikes and attacks in the Kachin State, forcing about 3,000 civilians to evacuate to churches in the Kachin capital of Myitkyina. Approximately 2,000 people have fled to the jungle. This means that there is an estimated 5,000 newly displaced people in the Kachin State. As noted by the UN Special rapporteur on Myanmar, "Innocent civilians are being killed and injured, and hundreds of families are now fleeing for their lives."[24] The escalating battle between the Myanmar military and the Kachin Independence Army has driven thousands of residents in northern Kachin State from their homes, creating new refugees for a country already under criticism for the Rohingya crisis.

The conflict in Kachin State is predominantly based on a fight for control of its geography (wedged between South Asia, South East Asia and East Asia) and rich natural resources.[25] Fighting erupted again in early 2018 in amber-rich Tanai region in Kachin state and near the jade mines of Hpakant, with both sides jostling for control of these strategic areas. Jade sales primarily line the pockets of businesses, military elites, drug lords, armed groups, and Chinese business groups.[26]

The conflicts in Rakhine and Kachin State have led to the exodus of refugees to several parts of Bangladesh and NE India, unleashing other forms of human rights violations. The provincial governments and various civil society groups have voiced their concerns and objections to the increased presence of refugees in places such as Manipur and Mizoram. The provincial governments have criminalized and jailed several refugees attempting to enter Manipur, which has further complicated the situation.

Several powerful countries have a strong interest in influencing the conflict in Myanmar, partly through the provision of military aid. According to 2011 figures from the Stockholm International Peace Research Institute (SIPRI) Arms Transfers Database, China has been the major

supplier of military hardware to Myanmar since 1988. It has supplied over 90% of Myanmar's military transport and has also provided warplanes and ships. In early 2018 China announced its plan to increase military aid and cooperation with Myanmar. India is also trying to influence Myanmar through the supply of artillery guns, radars and night vision devices to Myanmar's army. India seeks Burmese military support for its counter-insurgency operations against armed liberation groups in NE India, which are operating along the borders with Myanmar.[27]

China, Japan and India are competing for influence in the peace process between the Myanmar Government and the ethnic rebel groups. In November 2016, Japanese Prime Minister Shinzo Abe held talks with Myanmar leader Aung San Suu Kyi and pledged 40 billion yen (US$390 million) in aid to back Myanmar Government's peace process with ethnic minorities amid growing international concern about human rights violations in Rakhine State.[28] The Japanese support is also an attempt to compete with China's growing political and economic influence. **But at this point China remains the most influential player in Myanmar's peace process. Beijing has its own peace envoy, Sun Guoxiang, the Special Envoy for Asian Affairs, who regularly visits Myanmar for talks with all the peace actors. China has pledged $3 million in financial support for the peace process.**[29]

Development aid has been used by powerful countries to supposedly facilitate conflict resolution but is in fact meant to influence recipients and create a favorable political environment to serve their commercial interests. The human rights dimension of conflict situations is completely sidelined in such processes. For instance, in November 2016 Japan announced nearly US$8 billion in aid, loans and investment to promote development and reconciliation in Myanmar after talks with Daw Aung San Suu Kyi in Tokyo. The announcement failed to denounce the military violence in Rakhine State.[30]

There are major concerns that the substantial aid and increased loans by Japan and China to Myanmar are primarily to strengthen business interests and to give them a distinct economic and political advantage at the regional level. In March 2018, JICA signed loan agreements with the Government of Myanmar for four projects in Nay Pyi Taw. This included a commitment to provide Japanese ODA loans of up to 117.04 billion yen (approximately US$1.04 billion). The loan agreements envisaged comprehensive socio-economic development in Myanmar including: 1) an 30.469 billion-yen (US$271 milliion) agriculture income improvement project; (2) a 14.949 billion-yen (US$133 million) project for the development of finance for small and medium-sized enterprises (Phase 2); (3) a 15 billion-yen (approximately US$133 million) housing finance development project; and (4) a 56.622 billion-yen (US$504 million) Yangon-Mandalay railway improvement project (Phase 2).[31]

China is providing humanitarian assistance to the refugee crisis in Rakhine, while also giving aid for education, infrastructure and agriculture projects in this state as well as other parts of Myanmar. In February 2018, a "model project" for rural poverty reduction with financial and technical assistance from China was launched in Lewe and Tatkon townships in Nay Pyi Taw, Myanmar. China provided 33.33

million yuan (US$5.31 million) for the project, which includes social infrastructure development, vocational training and income-generation assistance for residents. In March 2018, China provided aid to Myanmar for the new Kunlong bridge project in the northern Shan State. China is working with the Myanmar government to support the China-Myanmar economic corridor, which extends from Yunnan in China to Mandalay, Yangon and the Kyaukpyu Special Economic Zone in Myanmar. The initiative is considered one of the flagship projects of China's Belt and Road Initiative.[32]

Development cooperation and Conflict in Bangladesh

Connecting South and South East Asia, Bangladesh is center stage of disputes between economically and politically dominant countries for control of the Bay of Bengal and Bangladesh's strategic and economic importance. This has been marked by increased competition between China on the one hand and India, Japan and the US on the other hand. Bangladesh is also affected by internal political contradictions between the indigenous nationalities in the Chittagong Hills Tract (CHT) and adjoining areas, and the Bangladesh Government over the control of land, resources and polity.

The CHT is one of the most heavily militarized zones in the world. According to the CHT Commission, CHT has been under a de facto Bangladeshi military rule codenamed "Operation Uttoran" (Operation Uplifting) since the early 1980s. The Bangladeshi military is responsible for gross human rights violations against the indigenous people of the region, including 13 major genocides and crimes against humanity.[33] Though a peace accord was signed in 1997, it has been marred by violations and continued human rights abuses by the Bangladeshi Army.

China and Bangladesh cooperated to connect East and South East Asia with South Asia under the aegis of the BCIM (Bangladesh, China, India and Myanmar) Economic Corridor. In making strategic investments in Bangladesh, China has faced competition in the Bay of Bengal from regional and global powers, particularly the US, Japan and India. Japan has increasingly tried to leverage ADB and JICA to finance key infrastructure that would deter Chinese investments and interests while consolidating its own interests in Bangladesh. In CHT, the ADB, World Bank and JICA are also financing infrastructure projects. Indigenous people's lands and their traditional decision-making processes have been undermined by the World Bank funded Bangladesh Regional Connectivity Project, which is meant to connect CHT with Mizoram in NE India.

Financing of extractive industries and the exploitation of natural resources are another source of conflict. Japan has already approved US$1.18 billion in loans to build the coal-fired Matarbari power plant.[34] The Phulbari Coal mine, funded by the World Bank and ADB, has met with wide objections in Bangladesh.[35] Several activists were killed and tortured for addressing the impact of the project. JICA isproposing to build a port, a liquefied natural gas (LNG) terminal, four 600-MW coal-fed power plants, as well as rail lines, roadways, and electrical systems. This is part of an infrastructure package deal, under which JICA will provide a loan of $3.7 billion to Coal Power Generation Company Bangladesh Ltd. This project, as well as

others from Japan is likely to restrict the influence of China in Bangladesh as it has increasingly opted for financial assistance from Japan, rather than China. The ADB, JICA and WB financing of infra-structure and coal-fired power plants will facilitate the exploitation of natural resources in Bangladesh such as natural gas and coal as well as the use of port facilities to trade with other countries. The Chakma people of CHT are concerned with the impact of extractive industries being developed in their lands.

China's efforts to control strategic locations in the Bay of Bengal as well as its plans to build sea ports have caused considerable tension in Bangladesh. A proposed Chinese-backed seaport construction project in Bangladesh has been abandoned in favor of Japan after India, the US and Japan pressured the Bangladesh Government to turn down the Chinese financing plan. Earlier, Bangladesh approved Japan's proposal to finance and build a seaport in Matarbari, located some 25 kilometers from Sonadia, where Beijing had offered to construct the country's first deep water port. JICA also offered 80% financing on easy terms to build four coal-fired power plants of 600 MW each and a port complex in Matarbari.

In 2010, China was publicly invited by the Government of Bangladesh to participate in the expansion and modernizing of Chittagong port, and the country pledged US$9 billion for the endeavor. This plan paves the way for China's broader ambitions to build an overland corridor from Yunnan province to a port on the Bay of Bengal, bypassing Southeast Asia. In February 2016, the China Harbour Engineering Company project was scrapped by the Dhaka government to modernize Chittagong Port, following intense political pressure from India and the United States, both concerned over China's growing influence in the Indian Ocean region, including Bangladesh, with its Belt and Road Initiatives.[36] JICA offered a loan to cover US$3.7 billion of the total US$4.6-billion price tag for this project.[37] Since 2014, there are indications that Bangladesh and Japan are committed to deepen their bilateral relationship through the Bay of Bengal Industrial Growth Belt, something that is key to Japan's strategy for South Asia.[38]

Military aid from China is a source of tension in Bangladesh as it undercuts the efforts of India and Japan to deter Chinese influence in the country. China has been the biggest military aid provider to Bangladesh.[39] When Bangladesh's military purchased two *Ming*-class type 035B submarines from China, costing around $203 million, India and Myanmar were alarmed. While Myanmar had no official reaction, it started to speed up its own submarine purchasing program. India, on the other hand, openly showed its displeasure by sending a high-profile government representative to Bangladesh.[40] India also operationalized a US$4.5 billion line of credit, its third and largest ever, to Bangladesh in October 2017 as part of its strategic efforts to wean Dhaka away from China.[41]

Development cooperation in indigenous territories, which does not respect their rights over their land and resources, is another major source of conflict. With funding support from the World Bank, the Bangladesh Government commenced work on the "Chittagong Hill Tracts Connectivity Project" in early 2016.[42] The main objective of this road construction project, which is to be built

by the Engineering Core of the Bangladesh army, is to expand trade with the Mizoram State of India.[43] The CHT Regional Council has not given any level of consent for the Thega Mukh land port, which is part of the World Bank project, because of its possible adverse impact. Nonetheless the government has begun to implement the project, ignoring the opinion of the CHT Regional Council.[44] The road building plan of the World Bank would further facilitate the control and suppression of indigenous people's right to and movement for self-determination in the CHT.

Japan has been using its ODA to leverage its influence in Bangladesh, including in the conflict in Rakhine. In May 2018 Japan announced that it would provide around US$1.8 billion in loans to finance infrastructure and other development projects in Bangladesh to repatriate the Rohingyas refugees in the country.[45] On 29 June 2017, JICA and the Government of Bangladesh signed a loan agreement to provide ODA loans of up to 178.225 billion yen (approximately US$$2.05 billion) to fund six major infra-structure projects. The ADB has commenced a financing plan for development of the Chittagong Port to improve the inter-modal transport systems and to expand regional trade. The Japan Fund for Poverty Reduction is providing technical assistance for this ADB project.[46]

Human rights violations, threats on the survival of indigenous communities, the continued impunity of the military and the unaccountability of corporate bodies are deliberately ignored in the pursuit of political and economic dominion of Bangladesh by powerful countries.

Conclusions

The contiguous South Asian region of North East India, Bangladesh and Myanmar in South East Asia presents a continuing legacy of efforts by colonial powers and newly emerging powerful countries to pursue their economic and political interests. The process has led to considerable conflict that has been triggered by competition for the control of resources, for key/strategic locations. Corporations from foreign countries have been eager to expand into this region.

China's influence, through its One Belt One Road initiatives and also through the financing from the AIIB, has caused many tensions. India, along with Japan, the US, and Australia, has tried to keep China at bay and limit its influence in South Asia, particularly in terms of controlling strategic geographical locations. By cooperating with India and Bangladesh, and also with Myanmar, to develop connectivity projects in South and Southeast Asia, Japan has an opportunity to accomplish its objective of countering Chinese economic and strategic expansion in the region. Japan's use of ODA as a tool of economic statecraft seems to be directed toward reinforcing its dominance as an aid donor while counterbalancing China's expansion.

The pursuit of these policies and alliances has been developed with a recognition of the strategic nature of the land, geography, and resources. At the same time, the indigenous peoples in these contiguous areas are perceived as threats and obstacles to these ambitions. Increased militarization, suppression of community

rights and voices and the restriction of civil society space while insisting on economic and counter–terrorism cooperation figure large throughout the region.

The human rights implications for indigenous peoples include displacement, extra judicial executions, and sexual harassment, to name just some of the consequences. All are the direct consequence of military operations by these three states against their indigenous peoples. Another factor is the rising tension created by the military build-up and cooperation amongst powerful countries in pursuit of their political and economic agendas for NE India, Myanmar and Bangladesh.

The pursuit of unsustainable and destructive development processes has pushed indigenous peoples to the periphery of survival, compelling them to consolidate and deepen their struggle for their self-determination, for defense of their land and livelihood, and for their rights and dignity as a people. Their resolve is fueled by the increased militarism unleashed on their lives and land.

The massive loss of land and livelihood by indigenous communities and the destruction of their environment and culture due to militarization is likely to intensify the resistance of indigenous peoples and exacerbate existing armed conflicts. The opposition to dam building in Kachin State along with increased conflict situation and the cancellation of Myitsone Dam in Myanmar illustrates this point.

Development cooperation should be founded on a response to the development concerns and needs of affected communities. It should assist in the advancement of democratic development processes, and encourage the meaningful participation of indigenous communities in defining and implementing projects affecting their rights, land and resources, and their future as a people.

Development cooperation, including the provision of aid, should insist on strong compliance to standards of indigenous people's rights, environmental protection, sustainable development and corporate accountability to uphold human rights' principles and practices. Donors' involvement in and financing of peace building processes should not be manipulated to advance their political objectives or the interests of their multi-national companies at the expense of the recipient countries and their people.

Governments should stop all forms of militarization and human rights' violations of indigenous communities. All emergency and security laws employed to repress indigenous peoples such as the AFSPA, 1958, or the National Security Act, 1980, should be repealed. Indigenous peoples' right to self determination over their lands and resources as outlined in the *UN Declaration on Rights of Indigenous Peoples* (UNDRIP) should be fully recognized and implemented.

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Development Ground Zero: Philippines, Cambodia, Myanmar

Council for People's Development and Governance

In the aftermath of World War II, foreign aid was used for the reconstruction of states allied with the US and to establish US neocolonial influence over many countries in the "third world". Determined to maintain political control, donors led by the US used foreign loans, technical assistance and grants to help douse anti-colonial and national independence struggles taking place in the 1940s in the region, including in the Philippines, Cambodia and Myanmar.

Given such historical background of using aid to advance donors' economic, political and military agenda, development cooperation reforms must be persistently espoused to ensure that the potential of aid to foster development is truly maximized.

Major bilateral development agencies such as the US Agency for International Development (USAID), the UK's Department for International Development (DFID) and Japan International Cooperation Agency (JICA), as well as multilateral institutions like the Asian Development Bank (ADB) and the World Bank, have designed and implemented aid strategies that merely promote the interests of donors. For example, the US frames its development assistance as an opportunity to *"support America's national interests"* through *"collaboration with aspiring partners that are aligned with US interests and development investments where [it] can have the most impact"*. A similar position is expressed by the UK when describing its work and development investment portfolio in its former colony Myanmar: *"DFID's programme is part of a wider UK strategy for Burma to become a stable, prosperous, democratic, and like-minded ally that champions human rights, plays a positive role in the world, and that supports UK interests and bilateral trade."*

Development aid has been an effective tool to assure donors of markets that will absorb their surplus goods and capital. They have accomplished this through using aid as leverage on recipient governments to implement free trade, labor flexibilization, public-private partnership (PPP), and promotion of foreign investments, among others, as supposed drivers of progress and prosperity as well as of stability and peace. Recipient governments are often more than willing to abide by these policy conditionalities not just because of the 'development' that aid supposedly brings but also because aid helps prop up their own political power. Unfortunately, many projects funded by aid are rarely aligned with and determined by the sovereign people's demand for genuine development. As such, violence against local communities, including through militarization, often accompany the implementation of these projects.

Over the past decades, official development assistance (ODA) has faced several challenges. Apart from the continuing struggle over donor countries' 0.7% ODA/GNI (gross national income) commitments,

effective development advocates have also been vigilantly monitoring the increasing use of development aid to legitimize counter-terrorist and other security-related initiatives in recipient countries. Dwindling development aid spending vis-à-vis increased trend of military spending observed in the Asia Pacific is also becoming a cause for alarm. In 2016, the top five bilateral DAC ODA donors—US, Germany, UK, Japan, and France—disbursed a total of U$72 billion in bilateral ODA while spending U$802 billion for military, with the US military spending amounting to more than 21 times of its bilateral ODA disbursement.

This worsening condition is observed in developing Southeast Asian countries such as the Philippines, Myanmar and Cambodia where military force is being used to forcibly convert vast tracts of land for aid-funded 'development' projects in communities where protracted disputes over land, food security, human rights and justice have long been taking place.

Development aid for donors' military/security agenda

Intense militarism and wars of aggression in recipient countries have created serious implications on the global aid regime and overall campaign for sustainable development. Especially since the US-led global war on terror in the wake of the 9/11 attacks, aid has been increasingly utilized as an instrument to protect donors' national security and promote their foreign policy such as the US's recent preoccupation of containing competitors like China. This use of what some refer to as 'smart power' is not limited to traditional world powers. China, for instance, played the most important role in boosting Myanmar's post-1988 economy through foreign investment that utilized Myanmar as source for its "much-needed natural resources and a market for Chinese manufactured goods, including weapons."

The increasing tendency of prioritizing conflict, peace and stability as preconditions for development is realized not just in the individual donor development strategies being implemented in countries like the Philippines, Cambodia and Myanmar but also in the very efforts of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) to "modernize" ODA that allow for military and police-related spending in relation to maintaining peace and security and prevention of violent extremism in recipient countries.

This increasing trend is observed in the development rhetoric perpetuated for instance by USAID in the Philippines when it proposes in its current development strategy how instability "brought about by poverty, marginalization and conflict has impeded development in many areas throughout the region" without taking into consideration what conditions have created conflict in the first place. The similar narrow focus of development is also noticeable in DFID's work in Myanmar that is oriented towards "help[ing] Burma continue on a path to being a better governed, fairer and more peaceful society, through working with the government towards increased wealth and better public services shared by all of its people."

Continuing underdevelopment amid repression

Increasing ODA disbursements have been noted in the Philippines and Myanmar (with Cambodia experiencing a decline even as absolute figures show it still corners a substantial amount of aid) over the period of 2010 – 2015 (Table 1). A significant

portion of people in these countries live below the national poverty line (Figure 1) amidst increasing reports of human rights violations committed among marginal and vulnerable communities.

In Myanmar, for example, the persecution and displacement of the Rohingyas through state-supported military violence have resulted in the forced evacuation of more than 650,000 Rohingyas to Bangladesh on top of an estimated 120,000 internally displaced people in the central Rakhine State. Meanwhile in the Philippines, an average of 1 farmer is killed every five days since President Rodrigo Duterte assumed office in 2016. These killings exclude the estimated 5,000 drug-related killings under the Duterte administration reported by media outlets and human rights organization. In Cambodia, while international development agencies have lauded the creation of jobs facilitated by development projects and foreign investments—bringing its unemployment rate to 0.2 per cent (ILO 2018)—51percent of jobs in Cambodia are actually considered as "vulnerable" jobs or jobs where people work but do not receive a salary.

Militarization, land grabs and aid

There is an increasing trend in the region of corporate land grabs enforced through state security forces often in collusion with big foreign corporations and supported by foreign aid.

A growing number of military encampments have been reported and observed by peasant communities and indigenous populations in the rural areas of the Philippines, Cambodia and Myanmar where decades of conflict and dispute over control of rich natural resources have been taking place.

In the Philippines, for instance, human rights violations, including violations against indigenous people's rights to ancestral domains are rampant in regions such as in Cordillera where government promotes large-scale foreign-funded mining projects, hydropower and geothermal plants, irrigation dams, and cash-crop plantations (Figure 2). In Mindanao, an April 2018 international fact finding and solidarity mission led by the Kilusang Magbubukid ng Pilipinas (Peasant Movement of the Philippines or KMP), Karapatan Alliance for the Advancement of People's Right and other groups recorded around 2,945 human rights violations in land-contested areas in the said region. Note that Mindanao has been put under Martial Law by Pres. Duterte since May 2017 while big-ticket infrastructure projects are planned for implementation there as part of the administration's flagship program, 'Build, Build, Build' financed mainly through ODA. It is said that about 70% of the country's military and security forces are currently deployed in Mindanao.

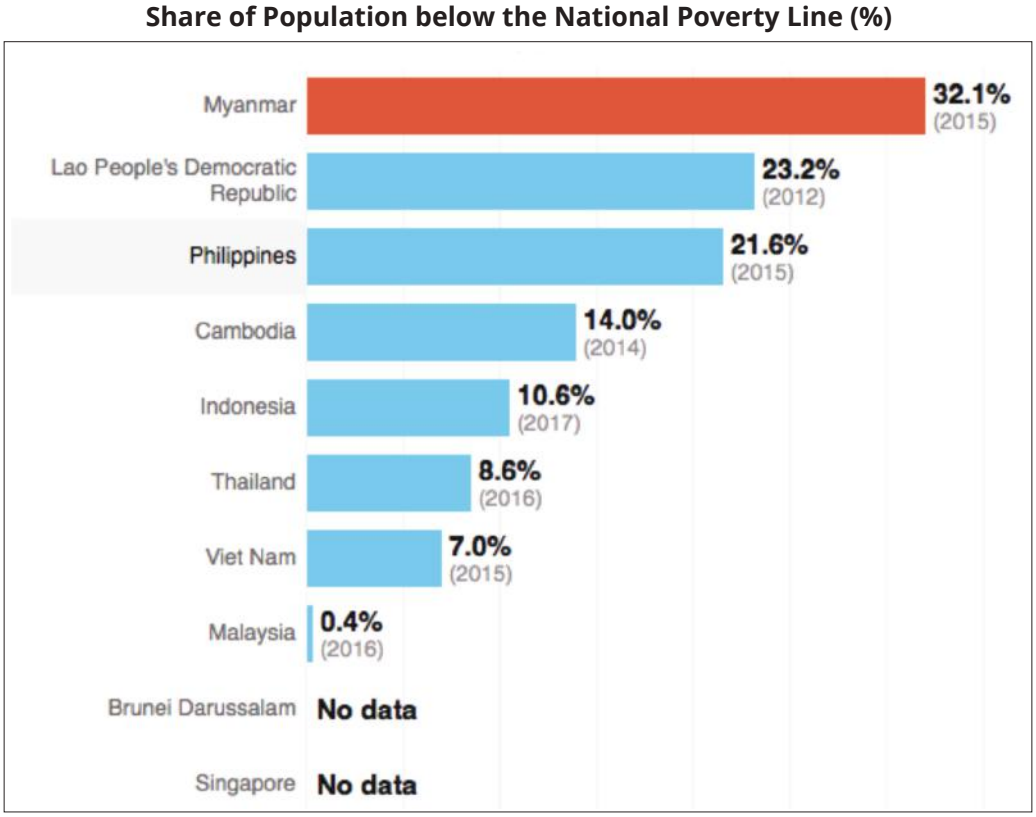
In Cambodia, rampant land grabs and violation of human rights among indigenous and peasant communities have been prevalent in areas under the government's Economic Land Concession

Table 1. Registered ODA Commitments for Philippines, Myanmar and Cambodia for period of 2010 -2015

	2010	2015
Philippines	USD 14 billion	USD 32 billion
Cambodia	USD 72 billion	USD 67 billion
Myanmar	USD 7 billion	USD 63 billion

Source: OECD Creditor Reporting System Aid Activity Database

Figure 1 Population living below poverty line in South East Asia



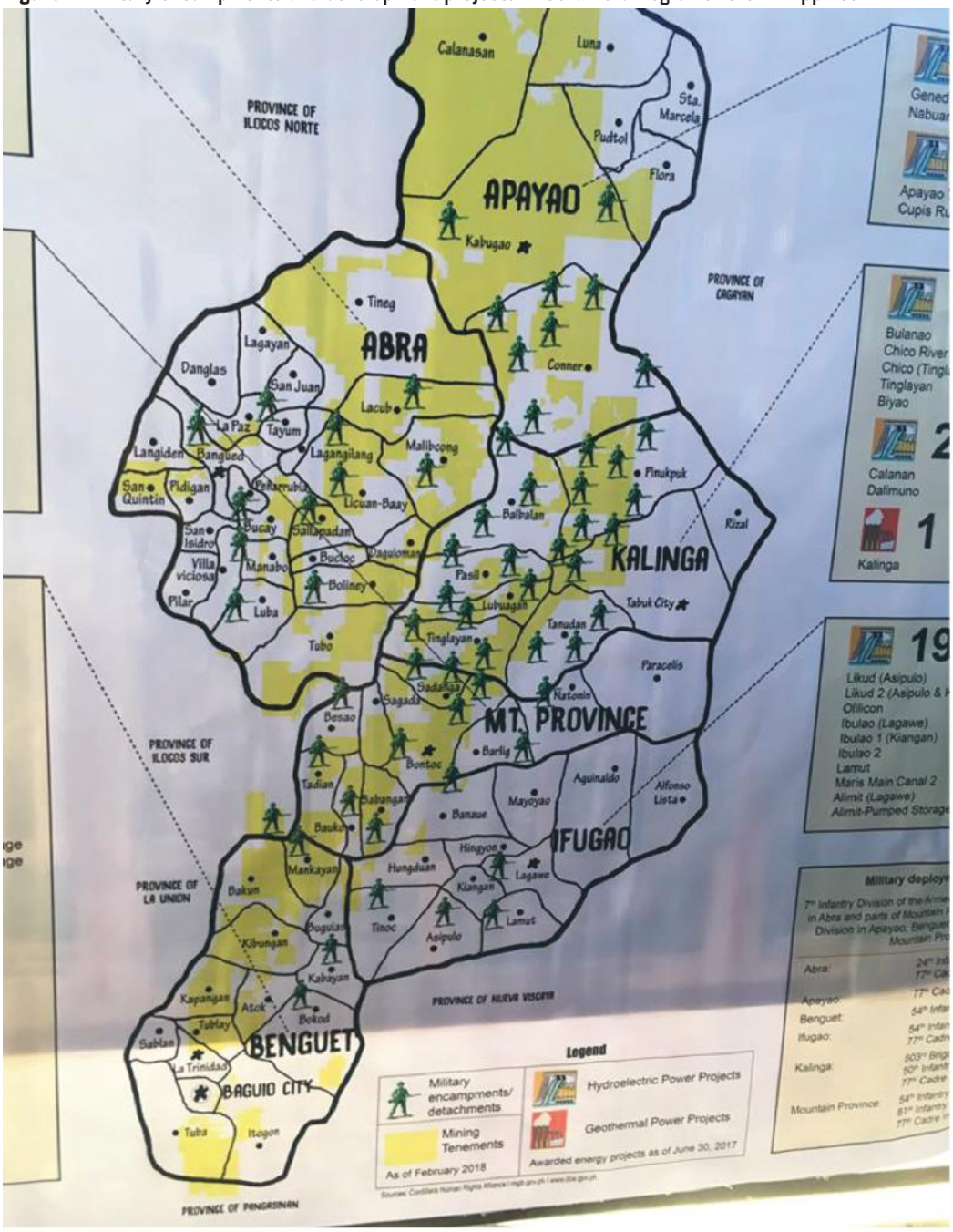
Source: Asian Development Bank, Basic Statisticds 2018

(ELC) program. ELC is a long-term lease arrangement allowing a concessionaire to clear land to develop industrial-scale agriculture. As of 2017, about one-fourth of the country's agricultural and forest lands are already under the control of Chinese companies of which almost a million hectares have been acquired through ELCs. It's no coincidence that emerging power China is not only Cambodia's top foreign investor but also its top contributor of aid, accounting for more than 70% of the aid they receive.

The intensifying repression of rights related to these investments is being experienced, for instance, by the Kuy people in the province of Preah Vihear where tens of thousands of indigenous people suffer from displacement, destruction of the livelihood, dispossession and harassment. The Cambodian government granted 42,000 hectares of land in Preah Vihear to Chinese company Hengfu Group Sugar Industry Co., Ltd in 2016.

Meanwhile, donors such as Japan and the UK continue to provide loans, grants, and technical assistance to Myanmar amid the ongoing reported genocide of almost 800,000 Muslim Rohingyas. For instance, while the UK's DFID seems to be careful in distancing itself with the central government by channeling its aid through multilateral institutions as well as local and international NGOs, it still does not hesitate to express the "UK Government's enduring

Figure 2 Military encampments and development projects in Cordillera Region of the Philippines



support for Aung San Suu Kyi [and] provid[ing] good foundations to influence and help her government to succeed."

Emerging discourse among development and peasant scholars have begun to re-examine the religious/ethnic persecution

of the Rohingyas as mere smokescreen to whitewash the state-supported corporate land grabs taking place in resource and mineral rich regions of Myanmar. In his research, Sakia Sassen notes the massive land grabs of vast stretches of land from smallholders enforced by state military forces since 1990s; enforced without compensation and threats against fighting back. "This land grabbing has continued across the decades but has expanded enormously in the last few years. At the time of the 2012 attacks, the land allocated to large projects had increased by 170% between 2010 and 2013. By 2012 the law governing land was changed to favour large corporate acquisitions."

Sassen adds that aggressive persecution of the Rohingya and other minority groups is possibly motivated by less by religious/ethnic issues more than military-economic interests given how expelling Rohingya from their land is "good for future business." This coincides with the government's allocation of 1.3 million hectares of the Rohingya's area for corporate rural development, a sharp increase from the previous allocation of just 7,000 hectares in 2012.

Making aid work for development

Structural adjustments and other conditionalities that come with loans, technical cooperation and grants aggravate the conflict and social unrest in already conflict-riddled areas. Organized resistance against destructive 'development 'projects pushed by governments and funded by foreign aid are suppressed, often by military force.

As donors and governments promote the view that "peaceful and inclusive societies" are precondition to development, they also dismiss legitimate people-led struggles for land, food, justice, and self-determination as violent extremism. Such rhetoric as perpetuated by the US and other top bilateral donors not only undermines the people's struggle for real democracy but also delegitimizes the very root causes of their struggles—unequal distribution of wealth, landlessness and state-sponsored land grabs, rural underdevelopment, lack of access to basic social services, etc. Instead of helping address these underlying issues, aid initiatives for conflict, peace and security programs focus more on civic engagement, technical skills training, economic participation and restoring law and order as solutions to prevent radicalization and spread of extremist ideology in conflict areas.

The current practice of ODA delivery, use of aid, and influence over *what constitutes development* outlined in this essay illustrate how the use of state-sponsored military and security influence to oversee the implementation of development goes far and beyond diverting critical financial resources to military expenditure of top foreign powers. What with the increasing land grabs and forced conversion of lands in rural areas of the Philippines, Myanmar and Cambodia is ensured through state supported deployment of security and military in these areas. When peace-keeping and stability are framed as main drivers of development, protracted wars and emergency are becoming less an exception but rather a norm of development. And where the norm for addressing poverty and premise for development is economic growth that involves bending towards neoliberal orientation the use of state-supported militarized force to guarantee 'development,' how can aid function into anything but aggression? How can aid be transformed to serve the people's need and champion the people's guaranteed rights?

In the last 20 years, civil society organizations have used their combined position to engage high-level political space and unique knowledge and grasp of grassroots realities faced by marginalized communities around the world to counter the prevailing development rhetoric, challenge the practice and conduct of development aid, and advocate for overall development reform. Civil society and people's organizations, as representatives of the people, are uniquely placed to hold donor countries to their historical obligations to assist poor countries recover from the aftermath of colonial aggression. CSOs and people's organizations must continuously push for key reforms that will realize the transformative potential of development aid in helping change the lives of the people.

The potential of ODA as an essential and relevant resource for achieving sustainable development goals (SDGs) cannot be overlooked. When utilized according to the principles of democratic country ownership, inclusive development partnership, and transparency and accountability, aid has immense potential to steer economic and political policies that are truly beneficial to the people. Development effectiveness advocates maintain that it "could play a key role in realizing the SDGs because of its unique characteristics as dedicated resources for development shaped by public policy choices." Most importantly, the participation of the people through organized political actions, people's organizations and civil society is critical in ensuring that aid is driven by the demands, needs and aspirations of the people who stand to benefit from it.

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Migration and Integrity of ODA as a Resource in Sub-Saharan Africa

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1. Introduction

Increasingly, there have been debates on the integrity of Official Development Assistance (ODA) to recipient countries. While many see the need for reforms to improve the integrity of ODA, others believe that recipient countries should introduce national and regional agendas to move beyond aid dependence.

Given global economic inequalities and harsh realities of many Sub-Saharan African countries, including Nigeria, there are numerous challenges affecting millions of citizens, particularly the youth population. Aside from the obvious issues of widespread poverty, insurgency, youth unemployment, the migration of millions of youth to Europe in search of greener pastures has globally assumed worrisome proportions. Sadly, it has even been an avenue for the re-introduction of slave trade, hundreds of years after it was abolished.[1]

There has been some evidence which point to the fact that recipient countries are depending less on aid. In fact, aid dependency has fallen on average by a third in the poorest countries in the first decade after 2000, according to a report by Action Aid.[2] In Ghana aid dependency has dropped from 47% to 27%, in Mozambique from 74% to 58% and in Vietnam from 22% to 13%. Although aid levels have increased, economic growth and countries' ability to mobilise their own resources has increased faster. The Action Aid report also states that "fourteen of the 30 most aid dependent countries in 2000 reduced their dependence by more than 20% of expenditure by 2009."

Some of the reasons are not hard to discern. Aid dependent governments are in danger of losing the space they need to design and implement home-grown development policies. Loss of policy space can occur as a direct consequence of aid, because donors can insist, that recipient countries implement donors' policy priorities through tied aid.

When services are funded largely through aid, it can undermine relationships whereby citizens hold their governments accountable for delivering services such as education, health or water. Governments are less accountable to people, switching their attention to relations with aid donors rather than their own citizens.

In 2008, The Economist nevertheless suggested that, despite manifold and persistent problems of poor performing governments and erratic climates, Africa has a chance of rising.[3] The increasing interest in Africa by emerging economic giants such as China and India is connected with new market opportunities opening up in the continent. This is a sign that Africa is being seen as a continent of interesting promises.

The quest for self-reliance is seemingly undermined by the ever-increasing commitments for more and better aid accountability that donor countries

make at every international summit. Many recipient countries are beginning to pose two questions: Does Africa need more aid? And if so, why is this, given the promising economic trends the continent is registering? Does Africa need aid to stem the slave trade in Libya and stop the hundreds of thousands of deaths in the Mediterranean and Sahara desert?

2. Aid and migration

Migration has always been an integral part of human life. Escaping natural and human threats, as well as harsh economic conditions, are the most important motivations of those leaving their home countries.[4] The recent flow of refugees around the world evokes diametrically opposed reactions by the host countries' citizens. Many people are willing to help refugees, whereas many others are not.[5]

Yet, the underlying mechanisms that lead to refugee helping versus rejection are not well understood. Robert Böhm, Maik M. P. Theelen, Hannes Rusch, and Paul A. M. Van Lange (2018) reckon that costs associated with refugee helping are a key determinant of citizens' willingness to do so. It is especially people with a higher degree of solidarity that are willing to bear the personal cost of helping. Emphasizing the neediness of refugees as well as their integration efforts increases the willingness among citizens to provide help.[6]

The proportion of ODA spent on hosting refugees inside donor countries has reportedly risen steeply, to 10.8 percent of total ODA in 2016, up from 9.2% in 2015 and 4.7% in 2014. The latest figures on ODA spending by the Development Assistance Committee, released by the Organisation for Economic Co-operation and Development, also show that, while donors have increased aid budgets, much of this new spending is being directed toward in-donor refugee costs.

ODA spent on hosting refugees inside donor countries has jumped by 27.5% in real terms since 2015. In 2016 it reached $15.4 billion. That equates to 10.8% of total net ODA, up from 9.2% in 2015 and 4.8% in 2014. Many donor countries have seen unprecedented inflows of refugees in the last two years. The DAC is working to clarify its ODA reporting rules to ensure that refugee costs do not eat into funding for development. Humanitarian aid rose by 8% in real terms in 2016 to USD 14.4 billion.[7]

These overall increases are largely due to increased contributions by countries such as Germany, which is the second-largest donor country, spending $23.8 billion on net official development assistance in 2017 (in 2016 prices). This corresponds to 0.66% of GNI. Germany achieved the 0.7% target for the first time in 2016, largely driven by refugee-related expenditures ($6.6 billion in 2016). A decrease in the ODA-reportable costs for hosting refugees in Germany (US$5.9 billion in 2017, an 11% decrease) explains the lower overall ODA level in 2017. When excluding these, net ODA only marginally decreased (-1% between 2016 and 2017).

The DAC set up a temporary working group to reassess the rules for what in-house costs can be counted as aid. Over the past year, they have worked to "improve the consistency, comparability, and transparency of reporting of ODA-eligible, in-donor refugee costs." The group was billed to meet for the last time on July 10, before new rules, likely to come into effect in 2018, are announced in October. Abby Young-Powel (2017) posits that while

some countries are pushing for a broader definition of what counts as ODA, a number of aid organizations are now campaigning for tighter limits. They also want greater transparency around the reporting process — OECD data currently just has one headline for "in-donor refugee costs," with no further details of what exactly is spent and how.

Shifts in Spending

Abby Young-Powel further notes that some $15.4 billion in DAC countries' ODA was spent domestically in 2016 — an amount that has nearly quintupled since 2010, when it was just 3.25 billion. For the first time, DAC donors spent more on domestic costs — about $1 billion — than on humanitarian assistance.

Ten European countries spent over 15% of their ODA on domestic refugee costs in 2016, with Austria (37.7 percent) spending the most, followed by Italy (34.3%) and Germany (25.2%). Four DAC-donors — Australia, Japan, Korea and Luxembourg — did not count any refugee costs as ODA.

According to Julie Seghers, the rules on what can be classed as ODA are currently vague and unclear, and some donor countries have used this to their advantage.[8]

Germany intends to deepen its focus on Africa. During its G20 presidency, Germany spearheaded discussions on increased public and private investments through two major initiatives: the 'Compact with Africa', launched in 2017, and the 'Marshall plan with Africa', which focuses on stimulating private investments in Africa and supporting countries which implement good governance reforms.

In this context, Germany has established a migration consulting centre in Lagos, Nigeria. The global program, "Programme Migration for Development" is commissioned by the German Ministry of Economic Cooperation (BMZ) and is being implemented by the Centre for Migration and Development (CIM) as a joint operation.

The overarching objective of the migration program is to strengthen the development-relevant contributions of migrants in their countries of origin and improve the conditions for legal migration in selected partner countries. It handles returning migrants as well as citizens who are interested in emigrating.[9]

However, the quality and integrity of aid as a resource for poverty reduction is increasingly being challenged by CSOs. The inclusion of first year refugee costs in the donor countries has raised many questions. There is concern that ODA is being undermined by European countries that are taking advantage of rules in the OECD-DAC guidelines for development cooperation. While support for refugees is a human rights obligation in donor countries, these resources as ODA are self-serving for the donor governments.

It is also important to examine this question of aid and refugees from the perspective of the forces that are driving migration from African countries. Migration is a long-standing phenomenon. However, as Guma el-Gamaty has noted "the issue has accelerated sharply in the past five years, and migration from mainly sub-Saharan African countries to Europe across Libya and other North African countries can be traced back to the year 2000."[10] According to the International Organisation for Migration (IOM), which

monitors checkpoints, some 270,000 people passed through Agadez on their way towards Libya between February and the end of September 2016.

Libya is not the only route for migration. Morocco and Tunisia are also used, though to a much less extent. Libya is sadly caught in the middle of an international migration web and a trafficking model that starts and stretches across the whole of sub-Saharan Africa to the south and beyond to Bangladesh.

Migrants come from many countries such as Nigeria, Gambia, Mali, Senegal, Sudan, Somalia, Eritrea , Ethiopia and others. Recently migrants from Bangladesh travelling through Libya have also increased in numbers. Migrants naively believe that by reaching Europe they will land jobs, money and a quality of life that they could only have dreamt of achieving back home.[11]

Migrants who risk their lives through thousands of miles of hazardous desert routes and dangerous sea crossings on very crowded small boats are driven by poverty, lack of jobs and persecution in their countries of origin. There are recruiters inside the sub-Saharan countries of origin who make money from recruiting potential migrants. The city of Agadez in northern Niger is a famous hub used by African traffickers. However, the dreams of the majority of these people are often shattered. Europe refers to these migrants as "illegal" migrants, but seeking asylum for political or humanitarian grounds, including economic reasons, is a legal right according to international human rights conventions and laws.

Looking forward, costs of hosting refugees in Germany are expected to decrease further, bringing the ODA/GNI share to 0.52% in 2018.

3. Emerging trends in ODA allocation and displacement

Foreign aid serves a multitude of objectives. For some donor states, the allocation and type of aid is largely shaped by concerns for the development needs of recipient countries, while other states use aid rather as an instrument of foreign and commercial policy interests. Since the early 1990s, the criteria for bilateral aid allocation decisions have shifted towards some new objectives (Hjertholm & White, 2000). Czaika M. (2009) notes that one of these new goals of development policy is mitigating the root causes of the heightened migration pressure from refugees and other migrants coming from developing countries to Western industrialized countries. The prevention of refugee movements and the cessation of long-lasting refugee situations have gained priority in international politics as primary development and foreign policy objectives, although bilateral donor governments have, as yet, been rather slow in implementing these objectives (UNHCR, 2006b).[12]

There are several emerging trends in the distribution of ODA for development initiatives that relate very directly to donor reactions to the increasing number of migrants attempting to cross over to Europe. Germany, for example, frames its development policy under an overarching narrative of “fighting the root causes of displacement.” The 2017-2021 German government coalition treaty focuses on fair trade, Africa, gender and education, social and health systems, poverty, and climate change, but with particular attention to the Middle East and North Africa, a source of refugees coming to Europe.

Also, new aid rules allow for the inclusion of

a wider set of peace and security activities. Sarah Dalrymple (2016) posits that ensuring transparency and illustrating the development impact of funding decisions will be critical to ensuring that the needs of vulnerable people are met. At the High-Level Meeting of the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) held in 2016, governments agreed to new rules that allow for a wider set of peace and security activities to be counted as official development assistance (ODA).[13] This decision was obviously taken because most migrants are from conflict riddled nations.

Dalrymple is also of the opinion that there is a risk that for some donors, depending on how the wording in the communiqué for the High-Level Meeting is interpreted, these changes to aid rules may result in resources being diverted away from activities with a greater development and poverty-reduction focus in favour of those that align to national security and political priorities. The new focus on 'preventing violent extremism' through ODA, which aligns closely with many donor governments' foreign policy priorities on counter-terrorism, does validate this concern. As a result, the direct impact of ODA on people facing acute poverty and insecurity would be reduced, undermining efforts to meet the ambition set out in the 2030 Agenda on Sustainable Development to "leave no one behind"

4. Impact of programmes that address the root causes of forced migration

Europe has been searching for quick fixes to deal with its huge migration issues. Unpopular governments are trying to mitigate their migration policy failures. However, these governments are not investing the time or resources required to create a permanent solution by tackling the root causes of the migration problem.

One of the root causes of the problem is the huge gap in human development attainments between sub-Saharan Africa and Europe. According to the Washington think-tank, Centre for Global Development, the flow of Africans risking everything to achieve a better life in Europe is likely to continue. The centre argues that as poor countries develop, migration rates tend to rise until GDP per person reaches $7,000 to $8,000 per year. Most African countries are far below this level of per capita income. For example, per capita income in the Gambia is about $500 per annum.[14] For Nigeria, which is one of the highest in the region, per capita income is $2,144.[15] The GDP per Capita, in Ghana, when adjusted by Purchasing Power Parity is equivalent to 24 percent of the world's average. GDP per capita PPP in Ghana averaged $2,711 from 1990 until 2017, reaching an all time high of $4,227 in 2017 and a record low of $1,919 in 1990.[16]

The first systematic quantitative assessment of the global average effect of aid on emigration is the gravity model in Berthélemy et al. (2009).[17] They find that aid raises net emigration from the average poor country to high-income OECD countries: When aid rises by 10% of GDP this raises the average emigrant stock as a share of population by 1.5 percentage points. They also find that aid shifts the composition of emigration toward low-skill migrants, and that the share of bilateral aid raises emigration about twice as much as aggregate aid.

One complication in interpreting these results, a complication common to many

cross-country findings, is the possibility of over-controlling—that is, holding portions of the relevant causal pathway constant. The regressions used by Berthélemy et al. (2009) control for the aid recipient's GDP per capita, population, and trade with the migrant destination country. This is a sensible empirical choice because all of these factors can affect migration independently of aid. But it has the drawback that all of these factors can likewise form part of the causal pathway from aid to migration. Thus the coefficient estimates on aid itself show the relationship between aid and migration other than any effects that aid might have via any effects on economic growth, population growth, or trade. In principle, aid could affect these other factors in ways that reduce migration, or increase it even more.

The broad finding of Berthélemy et al. has been challenged by a small, recent literature. Lanati and Thiele (2017), also in a gravity model, find no effect of bilateral aid on migration, and a negative effect of aggregate aid on migration.[18]

In sum, the few cross-country studies testing the overall relationship between aid and migration fail to offer clear evidence that aid has substantially deterred migration on average. The only study to date published in a peer-reviewed journal finds that aid typically raises emigration.

However, the European Union, and the International Organisation on Migration (IOM) have continued to seek ways to better channel aid and other development assistance to countries of the south to minimise the impact of migration on their countries deploying the instrumentality of overseas development assistance. The case study of Edo State, Nigeria, West Africa presents perhaps what could be one way of having a positive impact on channeling ODA to deal with migration challenge.

5. Case Study Of Edo State, Nigeria

Nigeria is one of the countries in Sub-Saharan Africa with the greatest migration crisis issues. Over 70 per cent of migrants from Nigeria are from Edo State.

The European Union (EU) Unit is responsible for the coordination of all EU supported programs/projects, including the returning of irregular migrants. The Ministry of Budget and National Planning is responsible for the administration of EU projects, as well as the monitoring of EU programs. Migration is handled under the Ministry's Special Projects and Programs Contribution to Non-focal Areas.[19]

A review of the situation for returning refugees to Africa confirms that the International Organization on Migration and the Federal Government hold co-responsibility for returning Nigerian refugees who are held in Libya. This has been orchestrated by the European Union, which made €100 available for every Nigerian returnee under the IOM returning program. When a refugee arrives at either the Murtala Muhammed or Port-Harcourt Airport, he/she is to receive N41, 000 which is given to them in Lagos.

From available records, Nigeria's federal government, which signed the deal, has not been providing funds for rehabilitation of returnees. The sub-national Edo State Government has been providing some cushioning funds for returned citizens to enable them to visit their relatives.

Out of deep sympathy for the plight

of returnees, the Benin Monarch, His Royal Majesty, Omo N'Oba N'Edo Uku Akpolokpolo, Oba Ewuare II, the Chairman of traditional rulers in Edo State, bestowed a N20,000 payment for returnees from his kingdom who registered at his palace. His foundation also promised to make payments to beneficiaries for three months to help them to begin a new life.

As the repatriation of Nigerian refugees living in Libya continued, Edo State Governor, Mr. Godwin Obaseki approved the release of 150 hectares of land and N100million seed capital for victims of human trafficking as well as 150 returnees. The money and land were given to those who completed skills acquisition training at the Edo Agricultural Development Programme (ADP) office in Benin City, the Edo state capital. Over 2,000 Edo citizens have returned from Libya to Edo State.

Since he came into office a year and half ago, Governor Godwin Obaseki has been working to end human trafficking of females from 13 – 35 years of age to various destinations in Europe. Aside from the great pain and misery to these individuals and their families, these violations have placed the state in bad light, not only nationally but also internationally. The Governor had approached the palace for support.

Nigeria's National Agency for the Prohibition of Trafficking in Persons (NAPTIP), had pleaded with the Oba of Benin, Oba Ewuare II, to prevail on Juju priests to stop administering oaths on victims of human trafficking.

During an advocacy visit to the Benin monarch the Director-General of NAPTIP, Ms. Okah-Donli, stated that their investigation revealed that some local witch doctors have been involved in the trafficking of persons to Europe. Their research confirmed that, once a victim's consent to be trafficked was obtained by fraud or coercion, this person would be taken to a shrine to swear to an oath of secrecy and allegiance before a local juju man. NAPPTIP's Director General has partnered with the traditional institution in Edo, particularly the Benin Kingdom, to try to eliminate the tide of human trafficking in the state and Nigeria in general.[20]

Dan Owegie stated that "it was quite interesting to note that the cursing ceremony at the palace, which had in attendance, priests, priestesses, native doctors, traditional religious worshippers, Bini chiefs, dukes, village heads, market women, shrine worshippers, directors and officials of the National Agency for the Prohibition of Trafficking in Persons (NAPTIP) as well as members of the diplomatic community in Nigeria and security agencies heralded the unprecedented step taken by the Benin monarch in combating the ugly menace of human trafficking in the state."[21]

Through the odionwere (clan leaders), the Oba Ewuare II placed curses on all the pastors, churches, individuals, groups, families and parents who promote, indulge, contract, participate or encourage perpetrators in any vices associated with human trafficking. Native doctors who had been holding the perpetrators of the heinous crimes to oaths of secrecies were also cursed as were cultists and violators of the order banning community development associations and others whose businesses have been initiating the sons and daughters of the ancient kingdom into various cult groups.

For NAPTIP, this ceremony and the partnership were most welcome, as all other strategies had been exhausted, with no success. Although many juju priests had assured the Agency that they would stop administering oaths on the victims this practice had continued unabated.

During this period, the Edo State Governor sent an Executive Bill to the State House of Assembly to ban all human trafficking activities in the state. The House quickly passed the Bill and the Governor has assented. The signing ceremony whereby the Edo State Trafficking in Persons Prohibition Law 2018 was passed into law had in attendance the Ambassador of European Union to Nigeria, Ketil Karlsen, as well as the Chief of Mission, International Organisation for Migration, Enira Krdzalic.[22]

The law established the Edo State Task Force Against Trafficking in Persons, which is headed by the Attorney General and Commissioner for Justice. It provides an effective and comprehensive legal and institutional framework for the prohibition, prevention, detection, prosecution and punishment of human trafficking and related offences in Edo State.

Since these concerted actions, several human trafficking cartels and 'king-pins' have collapsed locally as well as across Europe. Only recently, a Benin City High Court convicted a Human Trafficker to several years in prison in accordance with the provisions of the new anti-human trafficking law. The deterrence level for human trafficking and irregular migration is high in Edo to combat the high rate of this crime.[23]

Providing returnees with programs on poverty reduction and empowerment by the Sub-Saharan African governments and development partners would go a long way in reintegrating them into the society and using their stories to deter others who would want to embark on similar lethal trips to reconsider such plans and look inwards. These measures are fundamental to truly addressing and ending the migration challenge. The European Union and other OECD countries interested in the migration challenge should, therefore target the deployment of ODA such as the Assisted Voluntary return Programme as well as providing support for policy reforms that help to curb human trafficking, disruption of traffickers' cartels and prevention of migration of young people to produce more success stories as recorded in Edo.

5. How integrity of ODA as a public resource can be improved and preserved in the context of migration

Increasing domestic pressure in many donor countries to stem migration from developing countries is putting ODA at risk of being instrumentalised for the benefit of donor countries. With migration-related activities becoming more and more predominant in many donors' development policies, it is critical that the DAC strengthen its oversight and reporting tools to monitor how this translates at the level of donor programs and projects, and to ensure that these indeed "promote the economic development and welfare of developing countries" and do not "pursue first and foremost providers' interest (e.g. restricting migration)."[24]

Of great significance is how ODA's integrity can be improved and preserved. This

chapter advocates the following:

1. The purpose of ODA should be refined to explicitly focus on poverty reduction and to leaving no one behind. DAC should continue reporting on projects aiming at ending trafficking in humans, especially women and children, under existing codes 15160 and 15180 in order to ensure alignment with the text and context of SDGs 5.2, 8.7 and 16.2. They should promote proper guidance, informed by development objectives and human rights, not migration control.

2. Policymakers in rich countries are right to view foreign aid as an appropriate instrument to curb the flow of migrants, but it will be important for them to act collectively, because of the heterogeneous impacts of different types of foreign aid. For instance, ODA can help safeguard the integrity of borders and optimize administrative processes in countries of the south.

3. In-donor refugee costs (IDRCs) should not be counted as ODA, rather they should be considered as donor countries' domestic costs. OECD member countries should live up to their 1970 commitments of dedicating 0.7% of their GNI to ODA.

4. Rethinking EU policy on smuggling is key to ending migration crisis in Sub-Saharan Africa**.** The EU should deploy ODA to target economic alternatives in smuggling communities. Realistically, it's hard to end people smuggling because the demand for it is so high, as are their passengers' extraordinary tolerance for danger. The EU has discussed targeting Libyan smuggling vessels, and arrests smugglers when they arrive in Italy. But for logistical and legal reasons the former would be very hard to do in practice, and the latter targets only low-level pawns rather than key players. The EU has pushed to make smuggling illegal in the parts of Africa where it is rampant – such as in Niger, the door to Libya from West Africa. But smuggling continues unabated because low-paid police take substantial kick-backs from the trade, and because there are no other major sources of income for locals.

5. What this context suggests is that the use of ODA to improve greater economic activities in smuggling communities, which would provide local people with an alternative to the smuggling trade, might be the best long-term policy and would ultimately reduce the migration crisis.

6. Continuation of the use of ODA to support reintegration plans particularly in Voluntary Return Programmes is crucial to addressing migration crisis. Reintegration is critical in optimizing migrants' chances of a successful and sustainable return to their home country. In 2016, the International Organization for Migration (IOM) provided almost 100,000 migrants with support in the form of subsistence allowances, accommodation, medical support or economic livelihood support through its Assisted Voluntary Return and Reintegration Programme.[25]Donor governments also provide various types of reintegration support, for example, the Swedish government offers approximately €3,200 per adult (up to a maximum

of €8,100 per family) in reintegration assistance.[26]Reintegration support is critical to address the considerable challenges faced by migrants upon return to rebuild their livelihoods. Reintegration also must be seen from the perspective of the receiving communities and their absorption capacity. This is to prevent returning migrants to worse case scenarios such as contributing to social vices as was seen in the cases of some returned migrants who upon return take to armed robbery and prostitution.

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Chapter 3

ODA and responding to the acute challenges of climate change

The Need for A Climate-related Official Development Assistance (CODA) Framework to Improve Climate Finance Status Quo

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Introduction

Official Development Assistance (ODA) is the flow of concessional financial and technical assistance from developed countries to developing countries. The Paris Agreement on Climate Change, the 2030 Agenda, the Sendai Disaster Risk Reduction Framework and the Addis Ababa Action Agenda have all recognized the importance of ODA in supporting sustainable development in developing countries.

While development assistance is an important priority, so are urgent climate actions. The global economy will need around $4.1 trillion in incremental investment between 2015 to 2030 to keep the temperature rise below the internationally agreed limit of 2°C (World Bank, 2015). To limit global warming to 2°C, the world economy needs to decarbonize at a rate of 6.3 % every year (PwC UK, 2015). These urgent climate actions, particularly immediate adaptation actions, should be considered a priority and key measures to eradicate poverty and increase resilience (World Bank, 2016).

Climate finance is dedicated to supporting the mitigation and adaptation actions needed to address climate change. Climate finance can be delivered through a variety of mechanisms: 1) non-market approaches based on direct concessional transfers to recipient governments; 2) private sector initiatives using existing ODA mechanisms and 3) the use of market-based instruments, such as international emission trading (Buchner et al. 2011) or domestic emissions trading systems within the developing countries (Flachsland et al. 2009).

Developing country parties of the UN Framework Convention on Climate Change (UNFCCC) maintain that climate finance is the responsibility of developed countries. Without new and additional finance, many developing countries will not be able to meet their adaptation needs after 2020 (UNEP, 2016). Despite this, there is still no common agreement on what qualifies as adaptation finance or how it should be measured (UNFCCC, 2016). Only 16 percent of total climate finance (public and private) is currently being spent on adaptation (Oxfam, 2015). Without new and additional finance, many developing countries will not be able to meet adaptation need after 2020 (UNEP, 2016). Yet the majority of international climate finance is supporting climate mitigation (UNEP, 2014).

By 2014, there were 50 international public funds, 60 carbon markets, 6000 private equity funds (Vandeweerd, et al., 2014) as well as 99 multilateral & bilateral climate funds currently in operation (OECD 2015). Although this increase in climate finance sources has boosted funding opportunities, it has also contributed to the severe fragmentation of the existing climate financing landscape (Jakob et.al., 2015). Dedicated climate funds account

for only a small component of the global climate finance flows. Yet, they are very important to ensure developing countries' access to current and future climate finance (OECD, 2015c). Currently, climate finance under the UNFCCC is delivered through the Green Climate Fund (GCF) and the Global Environment Facility (GEF), both of which serve as the operating entities of the Convention. The GCF is recognized as the primary climate finance instrument globally and is expected to be the major funder of future adaptation initiatives. Adaptation Fund (AF) is the only dedicated source of climate adaptation finance though it is not fully dependent on ODA. There are also funds that operate outside the UNFCCC such as the climate investment funds and national climate funds.

In response to the UNFCCC COP 15 decisions in 2009, developed countries pledged that, by 2020, they will mobilize at least $100 billion per year climate finance from both public and private sources to help developing countries mitigate and adapt to climate change. According to Article 9 of the Paris Agreement, developed country parties will provide financial resources for continuing their existing obligations to support country-driven strategies to achieve balance between adaptation and mitigation. Furthermore, developed country parties must communicate quantitative and qualitative information biennially in regard to the levels of public financial resources that has been provided to developing countries.

Trends in climate change-related Official Development Assistance (ODA)

ODA that is dedicated to funding climate finance in developing countries could be labeled climate-related ODA. According to the OECD, 16 percent of the total global ODA budget was climate finance in 2012,18 percent in 2013, and 20 percent in 2014. Japan, Germany, France and the EU have provided two-thirds of all climate finance from 2010–2015. Since 1998, the DAC has defined aid targeting the objectives of the Rio Conventions as climate-related ODA, and has been monitoring it through the Creditor Reporting System (CRS) using the 'Rio markers'.

The Rio markers indicate climate finance objectives within every development cooperation activity. Such activities can be marked as either principal climate objective, a significant climate objective, or not targeting any climate objective. At least two-thirds (66%) of all bilateral climate financed marked principal purpose in the DAC has been offered through loans (Tomlinson, 2017). Less than 25 percent of reported climate finance in 2013–14 was in the form of grants. Around 8.5% of climate-specific finance was channeled through the UNFCCC funds and multilateral climate funds in 2013-2014.

Climate-related ODA has been increasing since 2002 (Shine and Campillo, 2016). The number of countries that received climate-related ODA increased in 2012 to 114, from 41 in 2002. Climate-related ODA targeting mitigation was officially introduced in 2002 while climate-related ODA targeting adaptation began in 2010. Climate-related ODA is primarily focused on mitigation (OECD, 2011). During the period 2013–2014 (OECD, 2015b), only 16 percent of climate-related ODA was allocated to adaptation, 67 percent to mitigation and 17 percent was cross-cutting. Mitigation is the main focus of climate-related ODA in the energy, transport and storage sectors. Adaptation finance is more prominent in the agriculture, forestry and fishing,

general environmental protection, and water supply and sanitation sectors. In 2014-2015, the energy sector received the largest share (29%) of climate-related ODA, followed by the transport and storage (16%) as well as the agriculture, forestry and fishing (11%) sectors. Across all sectors, the highest share of climate-related ODA was delivered through loans (69%) in 2014-2015 (OECD, 2016a).

In 2014-15, Least Developed and other Low Income Countries (LDCs and other LICs) received around 8% of total mitigation-related climate finance and 29% of total adaptation-related climate finance, while Lower Middle Income Countries (LMICs) received 32% of total adaptation-related climate finance. In 2013–2014 only 18 percent of climate-related ODA went to LDCs (OECD, 2015b).

Between 1998 and 2000, bilateral climate-related ODA was $2.7 billion (OECD/DAC 2002), which reached $29.0 billion per year in 2014-15 (OECD 2016). In the last five years, bilateral climate-related ODA targeting adaptation has increased 6% while the share of finance allocated to mitigation has decreased 9%. The share of activities that address both adaptation and mitigation has increased 3% in the last five years. Gender equality was targeted as principal objective in 3% of bilateral climate-related development assistance while 26% targeted it as a significant objective (OECD, 2015b).

Support for gender equality in climate-related ODA has increased from $4.4 billion in 2010 to $6.9 billion in 2013. Of climate-related ODA focused on gender equality, 46% targeted adaptation and 19% targeted mitigation. Gender equality is poorly addressed in economic infrastructure sectors such as energy and transport. The public climate finance is expected to grow to $67 billion in 2020 with the level of mobilized private climate finance for the year 2020 estimated to stand at $24.2 Billion (OECD 2016).

Understanding the challenges linked with climate-related ODA

Climate change can hamper development results and development choices can also change the Earth's climate by controlling or releasing the carbon emissions in the atmosphere. The international community has been facing many issues in managing climate change, while also pushing to achieve the Sustainable Development Goals by 2030. The fragmented nature of the global climate finance landscape increases the challenges associated with accessing finance and reduces overall efficiencies (Sachs & Schmidt-Traub, 2013).

While a number of internationally agreed documents and treaties use the terms climate finance, there is still no internationally agreed definition of climate finance, even within the OECD DAC. This lack of rules provides room for each developed country to define climate-related ODA in their own way and according to their interests. While discussions are underway within the OECD, the legitimacy of the OECD in defining "climate finance," largely in the absence of developing countries, has been widely questioned (Kowalzig, 2015). Methods are still to be developed for reporting on climate finance or climate-related ODA (Kharas, 2015). The inadequate clarity in regards to the different definitions of climate finance limits comparability of data (UNFCCC, 2016).

Most developed countries use the OECD DAC Rio marker methodology to report to the UNFCCC Secretariat on their financial commitments to developing countries.

However, this methodology was not originally intended to monitor financial flows, but rather overall purposes of different ODA flows (OECD, 2012). Projects marked significant are counted at their full budget, even though only one objective may relate to climate adaptation or mitigation. Because the Rio marker system relies exclusively on developed countries' self-reporting, climate-related ODA can be prone to overestimations (Weikmans et al., 2017). A modified or even cancelled aid project can appear as unchanged in the Rio marker system if the DAC countries have not reported this project (OECD, 2013). OECD DAC members are not required to remove projects that were listed in one year but cancelled in subsequent years (Tirpak et.al., 2010).

When OECD DAC countries report to the UNFCCC on climate finance, some countries only include a share of significant-purpose climate-related finance. As a result, in the cases of Austria, Finland, Luxembourg, New Zealand, and Spain, the amount of the bilateral ODA climate finance reported to OECD was higher than the amount reported to the UNFCCC. In their reports the majority of ODA donors apply a flat percentage to determine the amount of climate finance, ranging from 20 percent to 100 percent for significant purpose projects. The Climate Finance Shadow Report 2018 by Oxfam highlighted that the current practices of many donors either overvalue the net amount of money transferred to recipient countries or overestimate the "climate finance" element.

Donors tend to mobilize a significant portion of their climate finance contributions outside the UNFCCC financial mechanisms (Buchner et. al., 2017) to serve their own interests and visibility (De Sépibus, 2015). Developing countries within the UNFCCC perceive climate adaptation finance as compensation for damage caused by developed countries in their industrialization process. Conversely, developed countries can consider adaptation financing as a business opportunity (Nafo 2012). Poland, Australia, South Korea and Japan are promoting the idea that new, high-efficiency, coal-fired power plants are realistic and effective approaches to address climate change. Japan allocates most of its climate-related ODA to funding coal projects in Asia.

International negotiations are struggling to define the expanded nature of climate finance and its relationship to aid (Stadelmann, et. al., 2011) in scaling up international climate finance. There is still no consensus on the methods for reporting new and additional climate finance and financial instruments (Donner et al., 2016). Consequently, OECD DAC members have defined new and additional climate finance as they see fit. Australia, Belgium, Norway, Spain, Sweden, Switzerland, and the United States consider funding to the Global Environment Facility (GEF) as part of new climate-related financial flow, whereas Canada, Finland, France, and the United Kingdom count their flows to GEF as partially new and additional. Denmark and Germany do not consider their contribution to GEF as something new or as an additional part of climate finance (Szabó, 2016).

Many developing countries have expressed concern that ODA is increasingly being diverted from essential services to pay for climate actions (IIED, 2015; Bird, 2014). The share of climate-related ODA has grown from 4% of total bilateral ODA in 2005 to 19% in 2014 (OECD, 2016a). If the share of climate-finance in ODA continues

to rise and be directed to middle income countries, then low-income countries may well see a reduction in their ODA. Over the last decade, the amount of the annual climate-related ODA has increased significantly; from around $5 billion in 2003–2004 to $25 billion in 2013–2014. Although climate finance goes to a wide range of governmental, private and non-governmental entities in recipient countries, reporting on recipient institutions has been incomplete.

In recent years, increasing attention has focused on private climate finance. The US$100 billion roadmap by developed countries makes it clear that one-third (33%) of mobilized climate finance will come from the private sector by 2020. CSOs worry that public climate finance to leverage private sector investments in developing countries will give priority to incentivizing private finance, rather than funding for real climate action. Private investments center on delivering a financial return and thus are not always designed to bring sustainable development benefits (OECD, 2015a).

According to the Global Climate Fund (GCF), developing countries will need to demonstrate their "readiness" for direct access to the climate funds. To be "ready", a country has to demonstrate capacity for planning, managing, delivering, monitoring and reporting climate finance expenditures. Readiness is becoming a pre-requisite for access to predictable and quality climate finance, a move that may create a divergence from the original objective of climate finance under the UNFCCC. The readiness approach narrowly focuses on the readiness of the institutions, not the readiness of the country (Jale and Jeremy, 2018). Effective access to climate finance cannot be achieved just by concentrating on improving readiness, because access to climate related ODA is highly influenced by donor interests.

The quest for a new Climate-related Official Development Assistance (CODA) Framework

Climate finance has been a central element of the UNFCCC negotiations since 1992 (Hicks et.al., 2008). Climate finance plays a pivotal role in the implementation of the Paris Agreement. ODA is increasingly devoted to funding climate change mitigation in developing countries (OECD 2011), rather than supporting vulnerable communities' adaptation to the negative effects of climate change (Ayers and Huq 2009). To enhance adaptation finance in developing countries as well as to contribute to the implementation of the Paris Agreement through ODA, a dedicated Climate-related Official Development Assistance (CODA) Framework is required. Since UNFCCC has yet to develop a robust accounting framework for climate finance (Romain& Roberts, 2017), the CODA could also contribute in this area.

Prior to 2009, ODA did not distinguish between adaptation and mitigation (Brown et. al., 2010). Since that time donors have distinguished mitigation and adaptation finance in their reporting to the DAC. The share of climate-related bilateral ODA has been dramatically increasing, but mainly for mitigation purposes. On the other hand, the non-climate related share of ODA has been rising very slowly and ODA for LDCs has been falling since 2010 (Steele, 2015).

While climate-related ODA may accelerate the mainstreaming of climate change into the development agenda (Klein et

al. 2005), it can also divert ODA from its original objective of halving world poverty (particularly mitigation finance) (Michaelowa and Michaelowa 2007). If climate-related ODA rises faster than overall ODA budgets, it could squeeze other critical areas of ODA spending. Developed country parties have agreed on mobilizing at least 100 billion USD annually for climate actions in developing countries beginning in 2020. However welcome this initiative, there is still the worry that donors will take several years to fulfill this commitment, as has often been the case with other funding pledges in the past. Climate change adaptation requires urgent and immediate public finance. The CODA Framework could play a catalytic role in providing momentum for donors' commitments.

As a framework for climate aid, CODA could be seen as part of developed countries' acknowledgement of their responsibility for contributing to the vast majority of greenhouse gas emissions that have been affecting the planet's climate over the past 150 years. For the least developed countries, climate finance is primarily about climate change adaptation. Private sources of climate finance can be used for mitigation to supplement public finance under strict regulations (BCSF, 2011).

The current Rio marker system helps OECD DAC members to judge whether assistance contributes to climate-related or development-related issues. Because of this they tend to interpret originally development-related ODA as climate-related ODA according to their individual policies and best interests. To stop such a DIY (Do-It-Yourself) approach, a new CODA Framework within the OECD DAC system is necessary.

To date, many developed countries have failed to be either transparent or complete in their reporting to the UNFCCC (UNFCCC, 2017). The Paris Agreement stresses the important role of public finance in supporting climate action and stresses the need for public and grant based resources for adaptation in LDCs and SIDS (Article 9.4). CODA could directly contribute to the implementation of the Paris Agreement by developing a baseline of climate related ODA. In principle, CODA could draw on climate finance to meet UNFCCC obligations as new ODA commitments from 2020 and onwards.

Country systems and country plans are the central drivers of climate-related development action (Amin et al, 2014). However, international political economy continues to drive decisions about climate finance (Stewart et. al., 2009). CODA should integrate recipient country strategies for utilizing climate aid. By acknowledging climate change as a common concern of all humankind, CODA would be consistent with international agreements on finance, gender equality, human rights, disability and environmental sustainability. CODA would also include the option to channel climate finance through civil society organizations (CSOs) to address urgent climate issues identified by vulnerable populations that require immediate action.

The principal purpose of CODA would be to deliver climate aid for urgent actions to address negative climate change impacts in developing countries. In the CODA framework, adaptation finance would aim to increase the resilience of human and ecological systems while mitigation finance would focus on reducing emissions and enhancing sinks of greenhouse gases.

Conclusion

Climate finance should be treated differently than normal ODA. Climate related development needs and opportunities must be consistent with climate science for mitigation and on the ground evidence for adaptation. The Climate-related Official Development Assistance Framework should mobilize new and additional ODA for climate finance.

Developed countries have been ignoring the UNFCCC's call to provide new, additional, adequate and predictable climate finance to developing countries. The OECD DAC & UNFCCC should work together to create mutually agreed guidelines for the definition of climate finance, additional climate finance as well as the reporting of CODA.

Loans are a significant modality for the delivery of climate finance through ODA. Given UNFCCC's commitment to differentiated responsibilities and country capacities, climate finance for the poorest countries, and in particular adaptation finance, should be provided as grants. OECD DAC members should only report grant equivalent transfers to developing countries as part of their UNFCCC obligations.

Although there has been a continual increase in the volume of climate related ODA since 2011, adaptation's share of overall climate finance has remain more or less the same. CODA should provide grant-based support for adaptation in vulnerable countries. Mitigation aid is also important for low carbon development in vulnerable countries that are not in a position to compete for mitigation finance with other countries. Climate-related ODA should exclude coal and other fossil fuels that are responsible for global warming. Although it is challenging for the international community to rearrange the current ODA system to include CODA, it should be done to build a transparent and efficient climate finance regime. Consistent, comparable and transparent statistics on climate-related finance through the proposed CODA approach could deliver greater accountability and results.

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"Off the tracks: Lack of climate finance could derail developing world's ability to adapt to changing climate"

Jon Sward, Bretton Woods Project

Section 1 Smoke and mirrors: Accounting methods obscure acute climate finance shortfall

At the Conference of the Parties (COP15) in Copenhagen (2009) developed countries, under the United Nations Framework Convention on Climate Change (UNFCCC) process, pledged to deliver $100 billion in 'new and additional funds' annually to developing countries' climate change adaptation and mitigation efforts by 2020 (Weikmans and Roberts 2017:1). This commitment was re-affirmed in 2015 under the Paris Climate Agreement, albeit without specific reference to 'new and additional' funds.

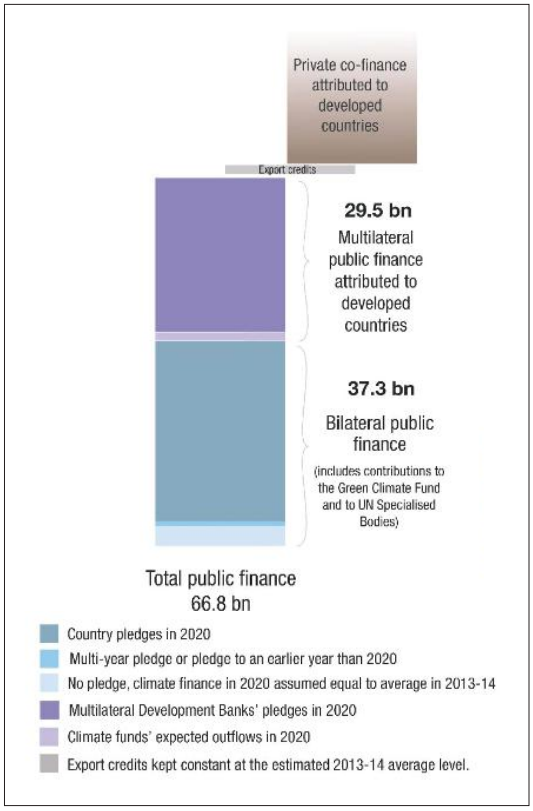
In 2016, developed countries produced a *Roadmap to US$100 Billion* detailing how this climate finance would be mobilized. With less than two years left to achieve this commitment, developed countries' progress on mobilizing climate finance has fallen well short of the promises made in Copenhagen. Saying this, the full extent of developed countries' collective failure to make adequate progress on climate finance has been obscured by a lack of transparent accounting methods. Currently, the UNFCCC framework does not include a firm agreement on how to define 'new and additional funds' and climate finance accounting methods are murky. In addition to grant funding, countries have claimed loans (both concessional and non-concessional) at their face value. In practice this means that the 'net transfer' to developing countries from this climate finance instrument, "obscures the level of assistance developing countries receive by a huge margin" (Oxfam 2018:10). Some countries have also been including the full amount of finance for development projects that contain some climate sub-projects in their climate finance reporting (Oxfam 2018).

With public funds being relatively scarce, developed countries have also increasingly included 'mobilizing private sector funds' as part of their climate finance reporting. According to the plan laid out in the roadmap, up to 25 per cent of climate finance is anticipated to come from funds 'mobilized' from the private sector (Oxfam 2018: 22).

As Oxfam (2018) argues, these accounting practices have led to an inflated calculation of developed countries' contributions towards the goal of mobilizing $100 billion by 2020. Oxfam maintains that when instruments such as loans are taken into account, net financial flows from developed countries to developing countries are lagging far behind reported figures:

> "Using OECD data, we estimate net climate-specific assistance to be significantly lower than $48bn

Fig 1: Estimated climate finance flows by 2020 (OECD)



Source: OECD (2016)

> (aggregated donor reports): between $16bn and $21bn per year, of which between just $5bn and $7bn per year is for adaptation."(Oxfam 2018: 8)

This analysis underscores the startling gap between the climate finance needs of developing countries and the types of funding that have been made available by donor countries to date, especially with respect to adaptation finance.

To make matters more urgent, the need for climate finance is now understood to be greater than was estimated at the time of Copenhagen's $100 billion commitment. According to the UN Environment Program (2016: xiii), 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." The UNFCCC Bonn meetings (April 2018) made fragile progress on climate finance, albeit with a number of concerns remaining.

Countries are now set to agree to the Paris Agreement's 'rule book' at COP24 in Poland in December 2018. However, African countries have threatened to withhold their agreement to a deal at COP24 unless there is progress on climate finance (Carbon Brief 2018). BASIC countries (Brazil, South Africa, India and China) have also highlighted climate finance as a critical issue (IISD 2018). This fraught climate diplomacy is taking place against a backdrop of an increasingly severe need for climate finance, with the effects of climate change beginning to bite in poor countries with increased storm intensity, sea-level rise, droughts, and other impacts already leading to significant fiscal (and social) impacts.[1]

Section 2 Key trends: fragmented multilateral funds and the rise of private finance

In addition to the relative scarcity of funds relative to developing countries' needs, climate finance is also hampered by a highly fragmented funding landscape, with mobilized funds being allocated through a patchwork of different sources. The developed countries' *Roadmap to $100 Billion* (2016: 19) gives a frank assessment of the challenges faced by developing countries in accessing funding for climate change and mitigation activities in this convoluted climate finance environment:

> "[D]eveloping countries can face a number of barriers and challenges in accessing and attracting climate finance. … Applicants need to navigate between numerous bilateral and multilateral financing institutions – often with varying application procedures and funding criteria. A second challenge relates to limited readiness. Even after a particular funding source is identified, applicants may lack the technical expertise and capacity to design and implement investment proposals for low carbon technology and climate resilience".

The main multilateral climate finance mechanisms that developing countries can access under the UNFCCC and other multilateral *fora* are discussed below. Beyond the questions about aggregate totals of climate finance, as outlined above, these multilateral mechanisms through which climate finance is dispersed also face significant institutional challenges and constraints.

The Green Climate Fund (GCF) and Adaptation Fund (AF), which sit inside the wider UNFCCC umbrella, are overseen on an interim trustee basis by the World Bank. The GCF was created under the UNFCCC process in 2010 to serve developing countries' needs. It has faced considerable growing pangs. In May 2017, the Trump Administration announced that the US would withhold its final pledge of $2 billion as part of its announced withdrawal from the Paris Agreement. This has made a significant dent in GCF's $10 billion in pledged funds to date (see Friends of the Earth 2017).

The GCF has been criticized for not disbursing funds quickly enough: "As of December 2017, the fund has only released roughly $150 million, or less than 6 percent of the nearly $3 billion it had committed up to that point" (*Devex,* 2018). Although the GCF has a mandate to have a 50-50 split between mitigation and adaptation finance, the fund's definition of these, as well as its attempts to parse adaptation from development finance more generally, remains a work in progress (Devex 2017). The GCF's most recent board meeting in July 2018 ended with the Fund's board unable to agree how to proceed on the Fund's replenishment, and failing to approve any of the $1 billion in developing countries' proposed climate projects that were potentially under consideration during the meeting (Bose 2018).

The Adaptation Fund, which was created under the Kyoto Protocol, is a relatively small fund, but is politically significant as it is devoted specifically to adaptation efforts. It was agreed at COP23 (2017) that the Adaptation Fund will be administered under the Paris Agreement, although negotiations continue on the technical changes needed to embed it inside the Paris Agreement's framework (Carbon Brief 2018). To date, it has committed $439 million in adaptation finance to projects in developing countries (World Bank 2018).

The Climate Investment Funds (CIFs) are two World Bank-hosted climate investment funds, which according to the Bretton Woods Project's *CIFs Monitor 14* (2016: 4), are:

> "financing instruments designed to pilot low-carbon and climate-resilient development through multilateral development banks (MDBs). They comprise two trust funds – the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF)[2]…. As of end June 2016, donor pledges amounted to a total of $8 billion to the CIFs: $5.4 billion to the CTF and $2.6 billion to the SCF."

When founded in 2009, the CIFs were conceived as temporary funds designed to pave the way for a larger fund to serve developing countries, via the UNFCCC. However, in May 2016, the CIFs joint committee decided not to instigate the so-called 'sunset clause', which requires the CIFs to close. Instead the committee agreed to continue to monitor "the developments in the international climate finance architecture to inform a discussion on the sunset clause in December 2018 at the earliest, and take a decision on this issue in June 2019" (*BWP CIFs Monitor 14*, 2016: 4). Critics suggest that the CIFs' continued operation is evidence of the World Bank trying to impinge on the UNFCCC financial framework, with more than 100 civil society organizations calling for the CIFs to close at the time of decision to extend their sunset clause (Bretton Woods Project 2016: 4).

The Global Environment Facility (GEF) was set up prior to the 1992 Earth Summit. With a budget of $1.3 billion, it was established as a global fund to finance agreements emerging from these meetings. According to Newell (2012: 127), although the World Bank runs the GEF along with UNDP and UNEP,

> "as trustee of GEF funds [the World Bank] organizes most [of the]direct control and funding, and must sign off on all financial aspects. This has resulted in some ideological wrangling over the extent to which the Bank's economistic vision should be applied to areas of UN environmental protection."

In Bruce Rich's critique of the GEF, he stated that the clear imprint of the World Bank was evident on the GEF governance structure: "The formulation of the GEF was a model of the bank's preferred way of doing business: Top-down, secretive, with a basic contempt for public participation, access to information, involvement of democratically elected legislatures and informed decisions of alternatives" (cited in Newell 2012: 130). One critique of GEF-funded projects is that they have acted as a sweetener in order to entice developing countries to accept wider World Bank finance packages rife with conditionalities (Newell 2012: 131).

Private finance: further muddying the waters of "what counts" as climate finance

Oxfam (2018: 22) noted that 15 countries and EU institutions "claimed to have mobilized private finance" in their 2015/16 biennial reports to the UNFCCC, but that donor countries "have accounted for this finance in very different ways." For example, Canada only includes private finance mobilized through its contributions to MDBs, while France and Japan report overall estimates (without granularity

on how they generate the figures). The Netherlands, meanwhile, provides specific figures for some projects and rough estimates for others.

Oxfam (2018: *ibid*) maintains that an agreement on how to account for the private sector stream of climate finance is urgently required. Increasingly, MDBs, led by the World Bank, have placed an emphasis on mobilizing private finance as part of efforts to kick-start climate action. For example, the Invest4Climate platform – which includes MDBs, the GCF and other actors, puts 'green growth' at the centre of its efforts to fight climate change by:

> "Developing new solutions and knowledge to "crowd-in" private capital, know-how, and mobilizing resources to accelerate and scale early-stage climate entrepreneurship in frontier markets, creating jobs and stimulating green growth" (World Bank 2017).

In this vein, the World Bank has sought to mobilize $13 billion annually in private climate finance by 2020 (World Bank 2016: 25). This overall approach is consistent with the wider "Maximising Finance for Development" agenda being led by the World Bank, which sees the private sector as being the first port of call for development projects (see Green 2018). There are serious questions about whether the efforts of developed countries and MDBs to 'crowd in' the private sector through de-risking investment opportunities can be aligned with the goals of climate finance. This is of particular concern when meeting the needs of the poorest countries and individuals, as the profit motives of private sector actors may be particularly hard to satisfy without creating hidden debt liabilities for developing country governments (see, for example, Romero 2017).

Section 3 Ways forward: transparent accounting and innovative financial instruments urgently needed

Given the challenges described in the preceding sections, the mobilization of climate finance that delivers a just outcome for developing countries, rather than a world with heightened inequities in the face of climate impacts, is an acute challenge. This concluding section highlights the urgent need to both clarify climate finance accounting norms and to develop innovative climate finance streams to complement existing flows.

Modalities to account for climate finance have been politically contentious since the $100 billion pledge in 2009 by developed countries. As Weikmans and Roberts (2017: 4) summarize:

> "Eight years after Copenhagen, the question of 'what counts' as climate finance is still not internationally agreed, even between OECD Development Assistance Committee (DAC) countries or European Union (EU) member states. At an even more fundamental level, to assess the "newness and additionality" of financial contributions, negotiators should have determined a baseline against which any claim of additionality could be stated (Stadelmann et al., 2011). Such a baseline still does not exist."

Estimates of climate finance have been politically fraught. An initial report, which was co-written in 2015 by the OECD and the Climate Policy Initiative at the request of the COP21 presidency, provided

a global estimate of climate finance. These findings were presented with no consultation of developing countries on the question of 'what counts' (Weikmans and Roberts 2017:2) putting questions about fairness and transparency at the heart of this thorny issue. Thus, an agreement on the post-2020 framework for climate finance accounting is key to getting parties to make progress on overall Paris Agreement implementation at COP24, with the end of 2018 being the deadline for parties to agree to the Paris rulebook that will govern implementation of the Agreement.

The lack of transparency on climate finance accounting on the part of developed countries remains a primary stumbling block: "The most severe problem ...lies in the fact that many developed countries have so far failed to be transparent and complete in their reporting to the UNFCCC on the methodologies that they used to account for climate finance" (Weikmans and Roberts 2017:5). As predicted, developing countries have been unable to ensure that developed countries honour their commitment to 'new and additional' climate finance (i.e. separate from official development assistance– ODA), as agreed under the Copenhagen commitments (Weikmans and Roberts 2017: 3).

With progress slow on mobilizing finance for adaptation and mitigation, other areas of need in climate finance are in danger of falling off the map completely under the UNFCCC Paris Agreement. After years of political wrangling, there was finally an acknowledgement of developing countries' need for climate finance to cover "Loss and Damage" (L&D) from climate change under Article 8 of the Paris Agreement. Still, there has been little progress on identifying concrete financial instruments to address L&D. It remains sidelined, emblematic of unresolved climate finance issues in general.

As Singh (2018) noted at the Suva Expert Dialogue in Bonn (May 2018), "**Civil society experts called for the provision of at** least US$50 billion per year by 2022 for loss and damage, which they said must be over and above the annual target of US$100 billion a year for climate finance." However, developed countries have thus far expressed little appetite to engage with mobilizing finance for Loss and Damage, apart from making 'climate insurance' more available to developing countries. One such initiative is InsuResilience, a G20-backed program that aims to provide 'access' to climate insurance to 400 million people in developing countries by 2020 (Bretton Woods Project 2017).

With the post-2020 Paris Agreement implementation fast approaching, there is an urgent need not only clarify climate finance accounting norms, but to identify new and innovative financial instruments that can help to augment existing climate finance flows. As Oxfam (2018:20) has noted, climate finance urgently needs to be scaled up: "New innovative sources of climate finance, such as carbon pricing for shipping and aviation, a financial transaction tax and an equitable fossil fuel extraction levy, are crucial to help address the large and growing gap between existing levels of finance and growing needs." A climate polluters' tax initiative was proposed at COP23, with advocates seeking to have the tax embedded in UNFCCC framework (Climate Home 2018). However, such innovative measures, though urgently needed, are yet to enter into the firmament of the UNFCCC process.

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ENDNOTES

1 To cite just one example, recent IMF research has found that the cost to island nations of tropical storms in the Caribbean has been drastically underestimated, accounting for an average of 5.7% of countries' GDP over the last 65 years (Acevedo 2017). Increased storm intensity, as witnessed in the 2017 hurricane season when the Caribbean suffered an estimated $130 billion in damages from Hurricanes Irma and Maria alone (Wilkinson 2017), will likely increase Caribbean countries' damages from tropical storms.

2 The SCF is an overarching fund aimed at piloting new development approaches. It consists of three targeted programmes: Pilot Program for Climate Resilience (PPCR), Forest Investment Program (FIP) and Scaling up Renewable Energy Program in Low Income Countries (SREP).

EU Should Reconsider its Approach to Climate Finance

Mattias Söderberg, Dan Church Aid

The debate about climate finance

Climate change is a global challenge, and there is a broad agreement of the need for climate action. These actions were formalized through the Paris Agreement, adopted at the UN climate summit, COP21, in Paris in 2015. The Agreement emphasizes that all countries must take action, to reduce emissions; to strengthen our resilience and possibilities to adapt to the effects of climate change, and to deal with losses and damage caused by climate change.

While there is agreement on the need to engage, this quickly evaporates as soon as the discussion turns to the actions that need to be implemented and determining who should pay the bill.

For many years, climate finance has been a core part of the UN climate talks. Currently, this debate is very fractious and is blocking progress on many negotiations' streams. However, some agreements have been established on finance, and these should be guiding developed countries in their assistance to developing countries. Before presenting these agreements, it is important to understand the context that has shaped these discussions.

Scientists have shown that global warming is linked to human activities. Emissions, from our use of energy, our consumption and production, transport, agriculture and waste, have a dramatic effect on our climate. The impacts are demonstrated through erratic and extreme weather such as droughts and flooding. In accepting the link between our way of life and its effect on growth and development, we also acknowledge our responsibility.

The responsibility for global warming can be analyzed and interpreted in many different ways. There is no formal agreement that makes the link between responsibility and the need to offer support or to take action. However, there is a general recognition that developed countries should support developing countries. From a developing country perspective, this obligation is directly linked to discussions on responsibility. Countries who cause the problem should also contribute to the solution. This is the "polluter's pay principle", and a logic which most people around the world probably accept.
With this logic in mind, the Paris Agreement reaffirms the commitment of developed countries to mobilize US$100 billion annually from 2020 and beyond, as financial support for developing countries to take climate action.

The Paris Agreement also states that new financial targets should be set for 2025 and beyond. This decision is based on the recognition that global

temperatures are likely to continue to rise and the need for mitigation and adaptation is also increasing.

Apart from financial targets, there are also a number of more or less concrete agreements on how climate finance should be mobilised and used. There is a general agreement that funds should be balanced between mitigation and adaptation and that climate finance should be "predictable". The latter is important, both for the possibility for developing countries to plan, but also for building trust and confidence.

Another principle, which has been contested, but is still on the agenda, is that climate finance should be "new and additional". This principle, which has been part of the climate change debate since Bali in 2007, is built on the understanding that climate change has created additional challenges for developing countries. Apart from ongoing work to fight poverty, improve food security, education and healthcare, and to build infrastructure and institutions, developing countries are now also facing complex issues due to climate change. These crises are primarily linked to emissions caused by developed countries, so the argument is that support should be on top of existing commitments for development aid.

This logic may seem easy to grasp, but it is important to note that there is no agreed definition of the meaning of "new and additional". In the recent "biennial reports" from developed countries, different definitions of the concept were offered with obvious differences in interpretations and viewpoints.[1] Definitions presented by the Standing Committee on Climate Finance, a UN body where developing countries participate, have also provided interpretations, which will add additional perspectives to this debate.[2]

In the UN climate talks, there is a general understanding that climate finance should be used to support poor and vulnerable countries. Firstly, this is justified because these countries, which have limited emissions, and thus responsibility, are in urgent need of assistance as they are already affected by climate change and lack of resources to take action. Secondly, these countries have been the most vocal in the debates on climate finance, and the current agreements are in large part due to their work in bringing these issues to the world's attention. And finally, listening to developed country rhetoric and its calls for emerging economies to contribute to climate finance (finance ministers of EU member states, has, in their council (ECOFIN) also made this call formally),[3] it is easy to believe that these countries do not need climate finance themselves.

Despite the existence of many formal and informal agreements, there is a lack of rules on how to count and mobilise climate finance. According to the existing wording in the Paris Agreement and earlier agreements, countries are only committed to mobilise climate finance. No guidance is provided on the types of financial flow required and their modalities for developing countries. In practice, a significant part of climate finance is currently offered as loans, both concessional and non-concessional. A few countries include export credits, and many donor countries, as well as the EU, are looking into ways of including funding from private investors. A considerable part of climate finance is also provided as grants, either through bilateral arrangements, or via multilateral banks and initiatives. Donors usually count these funds as

development aid in their DAC reports. It makes up part of their commitments to give 0.7 of their GNI as development aid to developing countries.

Developing countries are frustrated with this interpretation of climate finance. In political statements and negotiations, developed countries have promised support; but when the support arrives it is not what developing countries expected, neither in terms of size or allocations. However, in the absence of established rules or guidelines, all kinds of funds can be counted, and perhaps even double counted. The target to mobilize US$100 billion per year from 2020 may become an empty promise unless more strict rules are adopted.

EU is a vocal actor in the debates on climate finance. There is a genuine wish to provide support, but there are also strong concerns on how this support should be given and used.

The next section examines EU climate finance, and how it relates to the points made above. A recent report from ACT Alliance EU, "An Analysis of the Climate Finance Reporting of the European Union," which includes technical information on calculation methods, provides an important foundation for this discussion.[4]

Flows of climate finance from the EU

Climate finance from EU takes various forms. It should first be noted that there is a difference between finance that is delivered directly by EU member states and that which is delivered by EU institutions. There are also significant differences in how EU member states interpret the commitments that were made in the UN climate talks. While some have strategies on ways to honour their commitments, others deliver very little and are generally not active in debates on climate finance. The differences amongst EU member states becomes clear when their contributions to climate finance is compared to their GNI. This is a commonly accepted method to assess donor performance with ODA, and it can also be used as a method to assess climate finance.

A few countries, such as Luxemburg and Germany donate considerable amounts in relation to their GNI (0.35% and 0.23% respectively). Other countries, such as Bulgaria and Croatia, do not seem to prioritize climate finance at all (0.00% and 0.00% respectively).[5] EU member states have a range of economic capacities, and there is no doubt that some countries have substantial domestic challenges. But compared to most developing countries, they are rich and they have signed the Paris Agreement, which included commitments by developed countries to provide finance for poor and vulnerable countries.

In 2016, the total amount of climate finance mobilized from EU member states was approximately €15.4 billion. This represented an increase from 2014, when the amount was about€11 billion.[6] There have been fluctuations where some countries like Germany have increased their contributions while others such as Denmark have decreased. However, the overall trend is increasing support.

The climate finance derived from EU institutions encompasses three institutions: 1) the European Commission (EC), 2) the European Development Fund (EDF), and 3) the European Investment Bank (EIB). The EC and EDF are both controlled by formal

EU structures. The EIB is an investment bank, owned by EU member states, which also sit on the board.

Commitments made by EU Institutions[7]

Millions of €	2013	2014	2015	2016
EC+EDF	€964	€677	€1,517	€2,730
EIB	€2,047	€2,098	€2,276	€1,948
Total	**€3,011**	**€2,775**	**€3,793**	**€4,678**

Total climate finance from EC, EDF and EIB has increased from 2014 to 2016, largely due to greater contributions by the EC and EDF.

Adaptation vs. Mitigation

As mentioned above, there is agreement that climate finance should be balanced between mitigation and adaptation. Unfortunately, this commitment has always been difficult to reach with EU climate finance. For instance, in 2013, 80% of climate finance from EU institutions went to mitigation. In 2016, the focus on adaptation increased as a smaller share (66%) went to mitigation – an improvement, but still not a balance. The balance in climate finance allocations from the EU member states has more or less stayed the same. In both 2014 and 2016, 71% was directed to mitigation projects.

A closer examination reveals some positive developments. Among the EU institutions, EDF and EC have increased their focus on adaptation. Among EU member states, a few countries, for example, Italy and Spain have also increased their focus on adaptation, but the increase has not been big enough to change the total balance.

Despite these small increases in adaptation finance, the overall picture remains the same with the EU favoring mitigation. Considering the different actors, this is unlikely to change. The main reason for this bias is the EIB, which makes up a significant part of EU climate finance. As a bank, EIB will always favor mitigation, which will make it challenging for the EU to fulfill the Paris commitments to adaptation. The only possible solution would be if EC and EDF, and/or member states compensate by shifting their focus to adaptation.

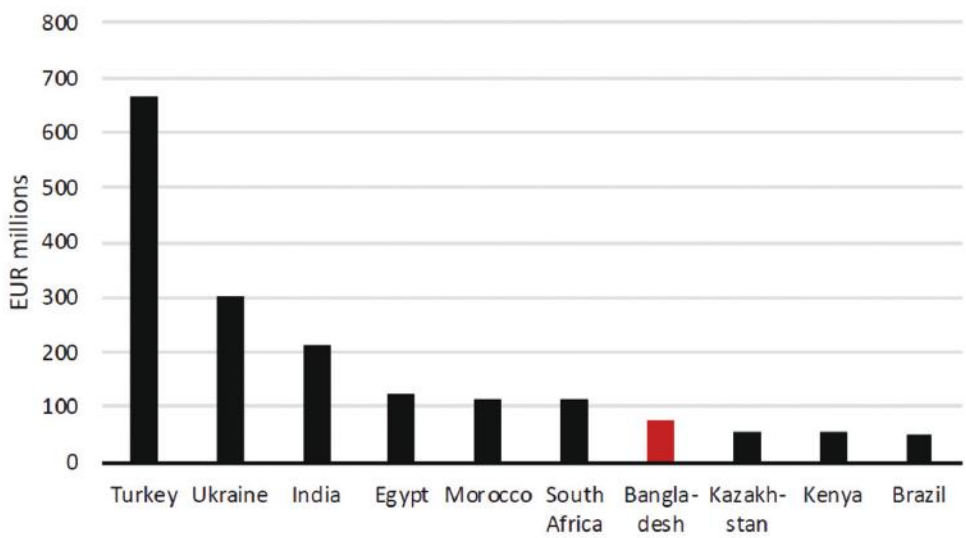
Who receives the support?

Climate finance from EU institutions is directed to a range of countries. The EC and EDF generally favor the LDCs, while EIB focuses on emerging economies. This is linked to the fact that EIB is a bank, and so it is most interested in investments that are likely to deliver a return.

Table 1 Shares of adaptation and mitigation[8]

	2014		2016	
	% Adaptation	% Mitigation	% Adaptation	% Mitigation
EC+EDF	49%	51%	45%	55%
EIB	3%	97%	4%	96%
EU member-states	29%	71%	29%	71%
Total EU	**26%**	**74%**	**30%**	**70%**

Figure 1 Top 10 recipients of climate finance from EU institutions between 2013 and 2016[9]



Overall, EU institutions seem to favour middle-income countries in their climate finance contributions. For example, from 2013 to 2016, Turkey received almost the same amount of climate finance as the total provided to Least Developed Countries.

While there are no formal rules requiring that climate finance goes to the poorest and most vulnerable countries, this is a general assumption in climate negotiations. So when such a big part of EU climate finance is directed to countries that EU often argue should be contributing to climate finance, the EU faces a political problem. This issue could affect possibilities for EU to reach agreements with poor and vulnerable countries on other elements in the climate debate.

Accounting rules and practice

A lack of rules and transparency makes debates on climate finance difficult. Parties have different interpretations and expectations. Allocations by developed countries, which they may expect merits praise, can meet with disappointment from developing countries. Developing countries continue to ask where the climate finance is, while developed countries respond that it has been disbursed. A lack of clarity leads to a lack of trust, which makes it difficult to move forward with international negotiations.

Luckily, the development of rules and increased transparency is on the agenda of the current climate talks. There is potential that an agreement will be adopted at the climate summit, COP24, in Poland in December 2018. From an EU perspective, these talks are important. Depending on the outcome, there may be new requirements for mobilization and reporting of climate finance, and the effect could be significant.

One example of potential impact relates to the widespread practice of using loans in climate finance. In 2016, 94% of the French climate finance was in the form of loans, and 16% of these loans were non-concessional. Such loans are not eligible

as ODA and cannot be included in DAC reports. If current DAC practice were to be applied to climate finance, the French climate finance would decrease from €3.3 billion to €2.8 billion. EIB also includes non-concessional loans in their climate finance. According to the DAC approach to aid, the EIB support would decrease by 15%. None concessional loans could have an important role to play, especially for mitigation projects in upper middle-income countries. However, from a developing country perspective, following the same logic as applied in DAC, these loans could be counted on top of the existing commitments for climate finance. From a developing country perspective, the use of loans in climate finance is highly controversial. They maintain that the root causes of climate change dictate that finance should be provided largely as grants and not as loans. The current use of loans means that developing countries are paying over time for climate finance themselves. A recent proposal is to count the grant equivalent amount of loans. This is consistent with developments in DAC, where donor countries have to report on the grant equivalent amount of their support.

The principle of "new and additional" is also being advocated by developing countries in talks on accounting rules. They are concerned that an increase in climate finance will lead to a decrease in ODA to meet other development needs, unless climate finance is earmarked as an additional flow. If this principle is adopted as an accounting rule, it could have big effects on existing climate finance flows. If the mentioned developing country concern was considered, developed countries would have to mobilise more funds to live up to both existing ODA targets and existing targets for climate finance. However, in relation to this debate it is important to take note of the fact that only few developed countries actually deliver on the existing target to allocate 0.7% of GNI as ODA.

The issue is linked to present accounting practices of most OECD countries. When they mobilise climate finance from their domestic budgets, they are not allocating new and additional funds with a specific focus on climate change. Instead, they assess existing ODA based on so-called Rio markers,[10] to see if there are projects and programs that could be reported, to a bigger or smaller degree, as climate finance. This approach gives a good impression of how climate finance is mainstreamed into ODA, which, of course, is an important focus. But it does not necessarily show that there is a new focus on climate change, and if there is a focus, it does not safeguard other development areas from being sidelined.

The use of Rio markers for accounting is also problematic in other ways. The assessment of a specific project is made by staff that may not know much about climate change and in most countries with a fixed scale (in several countries 0% 40% or 100%). As a result, assessments can be misleading. One example is from Uganda where Danish ODA support to a water project was reported as 100% climate finance, but in fact, only had an element that could be eligible as climate finance.[11]

Scaling up

The current level of climate finance contributions from all developed countries is still far from the US$100 billion commitment for 2020. In addition, the

United States has announced that it will reconsider and cut its climate finance, putting a lot of pressure on EU. A failure to deliver on this commitment will have a major impact on the EU's relationships with developing countries.

As noted above, there are some positive signs as some EU countries and institutions have increased their climate finance. But there is still much work to be done, and the current negotiations on rules of accounting and reporting are important as they also may effect which funds can be reported as climate finance.

A main priority should be to increase grant support from EU member states and institutions. This shift is needed to both delivery on commitment to increase climate finance, and to reach a balance between mitigation and adaptation. Grants are needed for adaptation, while mitigation can be more easily funded through loans and private investments, particularly for upper middle-income countries.

The current approach where Rio markers are used to identify how much climate finance is to be reported is a bottom-up approach, and is not linked to an increase of grants in climate finance. To scale up the amounts of grants, or climate finance in general, there is need for political decisions to ensure that more funds are allocated to mitigation and adaptation projects.

Another important consideration is the identification of instruments to mobilize private finance. This question will receive much attention from the EU as different possibilities are explored. They include the facilitation of private investments' contributions to climate action through incentives offered by governments and government institutions. However, an increased focus on private finance does not automatically lead to an increased amount of climate finance. Again, it depends on accounting and reporting rules, which UN Climate talks are currently negotiating. If developing countries have success with their positions, there will be strict rules for how to count private climate finance.

Turning money into action

There is an urgent need for action, to both reduce emissions and to help people and communities to adapt to climate change. UN agreements on climate finance should be turned into action as quickly as possible. The ongoing negotiations about accounting and reporting of climate finance may be technical and complex. However, in reality, they are crucial for the success of the Paris Agreement.

To ensure that money begins to flow and is effectively used, it is essential to have clear and transparent rules. There are currently many possibilities for developed countries to secure the funds they have promised to mobilize. It is true that the Paris Agreement refers to the commitment to "mobilize resources" without specification to the nature of these resources. However, this wording should not become a loophole for avoiding commitments to maximize concessional resources for climate adaptation and mitigation, particularly for the poorest and most vulnerable countries.

ENDNOTES

1 Interpretations of the term "new and additional" can be found in the third Biennial Reports from developed countries, Section 7.1.2. The reports can be found on the UNFCCC webpage www.unfccc.int/

2 The Standing Committee on Finance has made a list with possible interpretations of the term "new and additional." It can be found in their 2016 Biennial Assessment and Overview of climate finance flows report, Section 3.2.3, and Annex Q. The report can be found at the UNFCCC webpage www.unfccc.int/

3 ECOFIN conclusions on climate finance has several times stressed that emerging economies also should contribute with climate finance. See for example conclusions from 2015, §4 http://www.consilium.europa.eu/en/press/press-releases/2015/11/10/conclusions-climate-finance/

4 The research was carried out by INKA consult at http://www.inkaconsult.dk/ and the report can be found on the ACT alliance EU website https://actalliance.eu/

5 Figures are based on calculations by INKA consult in a report from the ACT Alliance "An Analysis of the climate finance reporting of the European Union." The report can be found at the ACT Alliance EU website https://actalliance.eu/

6 Figures taken from the report from the ACT Alliance "An Analysis of the climate finance reporting of the European Union." The report can be found at the ACT Alliance EU website https://actalliance.eu/

7 The table is based on calculations by an INKA consultation and includes data from the second and third biennial reports from the EU to UNFCCC.

8 The table is based on calculations by INKA consult and includes data from the second and third biennial reports from the EU to UNFCCC.

9 The figure is taken from a report from the ACT Alliance EU "An Analysis of the climate finance reporting of the European Union". The report can be found at the ACT Alliance EU website https://actalliance.eu/

10 "OECD DAC Rio Markers for Climate" handbook can be found at the OECD website www.oecd.org

11 Report from DanChurchAid, CARE Denmark and OxfamIbis, about Danish climate finance. The report can be found on the webpage of the Danish 92 group https://www.92grp.dk

Chapter 4

Global Aid Trends, BRICS Reports, OECD Reports

Trends in the Reality of Aid 2018: Growing diversions of ODA and a diminished resource for the SDGs

Brian Tomlinson, AidWatch Canada

A. An Introductory Summary

In 2015, the international community adopted Agenda 2030, accompanied by an ambitious set of seventeen Sustainable Development Goals (SDGs). Together they point the way towards a better future for all. The promise was to "leave no one behind." The challenges are substantial, not least in maximizing development resources towards these ends.

Yet, some three years later, the trends elaborated in this chapter suggest that a positive momentum, particularly for the poorest and most vulnerable, is diminishing. The development landscape is rapidly shifting. These trends are undermining development efforts that give priority to reducing poverty and inequalities, addressing conflict and increasing displacement, and supporting democratic space for people to secure their rights.

Aid as a unique resource

Official Development Assistance (ODA) is a unique and crucial public resource for the SDGs. In comparison with other types of financial flows for developing countries, these resources can be deliberately programmed for purposes that reduce poverty and inequalities. Where appropriate, they can be combined with government and other resources for these purposes. What are some of the unique qualities that give meaning to ODA for the SDGs?[1]

- **ODA is a core resource for catalyzing sustainable development.** The central purpose of ODA is to achieve sustainable development goals. Other resource flows may be important for achieving the SDGs, but they are often linked to other purposes. Addressing the SDGs may be one of them, but would rarely be the primary driver that sustains and directs this resource flow.
- **ODA's purposes and activities are set by public policy.** ODA's priorities and modalities are exclusively a public policy choice. Governments can choose to fully devote ODA to activities related to the reduction of poverty and inequalities, reaching marginalized communities, focusing on gender equality and women's empowerment, and leaving no one behind.
- **Resource flows are concessional by definition**. ODA, as either a grant or concessional loan, can be intentionally directed to specific countries or marginalized communities within countries. Many of the poorest countries are not able to raise other resources to finance their development (whether public or private, international or domestic). It is an essential support for non-profit oriented sectors such as health and education.
- **ODA is a flexible resource.** ODA can be fully applied, with strong predictability, to support developing

country-level national SDGs strategies. Consistent with the Busan principles of development effectiveness,[2] it can act as a catalyst to country-led and country owned development initiatives. Where relevant, it can also be devoted to global public goods, such as the coordination of humanitarian responses or monitoring global health trends, which are directly related to human rights and poverty reduction.

- **ODA is a key resource for sustaining multilateral institutions and partnering with CSOs**. ODA is a primary resource for financing multilateral institutions, particularly core contributions to UN organizations, which play leading roles in promoting and implementing Agenda 2030. Similarly, ODA is a crucial contributor to CSOs, matching substantial private efforts, which are fully devoted to achieving the SDGs.
- **ODA is an accountable resource**. As a public resource, with robust levels of transparency, ODA is currently the only development flow whose impact may be traceable. Citizens and parliaments can hold governments to account for their policies, practices and allocations choices, based on agreed-upon principles for development effectiveness and human rights norms.

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.

An unfavourable geopolitical environment for poverty-focused aid

Unfortunately, the trends documented in this chapter suggest that ODA is becoming a diminished resource for poverty eradication. Instead, it is increasingly instrumentalized for donors' narrow economic and political purposes. In the short term, the political landscape in several major donor countries, is not propitious for reversing these trends.

What are some of the conditions that are determining aid decisions?

a) **Neo-liberal policies within donor countries calling for significant reductions in public sector expenditures are in resurgence**, either through governments or major oppositional pressures on these governments. Reducing taxes and public sector programs, sometimes linked to a growing distrust of government among vocal citizens groups, is a common refrain from the United States, France, the Netherlands and Australia.

   The impact of these policies on ODA levels differs, depending on the political circumstances of individual donor countries. By and large, however, **the result has been an overall stagnation in the growth of ODA as a development resource** (See sections 1 and 3). Real ODA (discounting in-donor costs for refugee support and students) has grown by only 2% annually since 2010, from $109 billion to $126 billion in 2017.[3] With an overall ODA/GNI performance of 0.27% for Real ODA in 2017, the international community is a long way from

honouring the UN target of 0.7%, which should have amounted to $325 billion in aid in 2017. ODA at $325 billion could have driven a rigorous effort to eradicate extreme forms of poverty and reduce inequalities in developing countries.

ODA is concentrated and influenced by five donors. The United States, the United Kingdom, Japan, Germany and France together accounted for 70% of ODA in 2017, slightly up from 68% in 2010. (See section 2) Germany, France and Japan have been responsible for a significant part of the increases in Real ODA since 2014, but with much worse quality issues (see below). The future for ODA in US foreign policy and a post-Brexit UK creates deep uncertainty for future directions for global aid.

There is some evidence that increased aid on the part of several large donors have been the result of the inclusion of climate finance within ODA reported to the DAC. It is estimated that climate finance has accounted for between $15 billion and $20 billion in reported ODA disbursements for all DAC donors each year since 2012. (See section 7)

b) **Stagnation in the growth of ODA as a development resource is accompanied by an all-pervasive donor discourse that relies on the market as the main driver of development and poverty reduction.** In this narrative, the mobilization of trillions of dollars from investments by the private corporate sector has been identified as the solution for financing the SDGs. ODA is no longer a development resource in its own right, as donors and multilateral organizations seek to use ODA as a means for attracting many billions of dollars from the corporate sector. A counter-narrative, one that significantly increases ODA achieving the UN 0.7% target, might be more effective and crucial to realizing the SDGs in ways that "leave no one behind". But this is not even a consideration.

At the United Nations, the emphasis is on "multi-stakeholder partnerships" involving large global corporations in all fields of development.[4] The World Bank's recent policy, 'Maximizing Finance for Development', prioritizes private finance as the default modality in project finance. According to this view, the Bank should only promote a public sector solution after all other possibilities are exhausted. Similarly, DAC donors are ramping up and diverting ODA towards Development Finance Institutions (DFIs) for "Blended Finance" initiatives that combine ODA with various means of supporting (subsidizing) private sector investments. (See section 16).

All of this focus on engaging the corporate private sector is taking place in the absence of meaningful safeguards that establish clear alignment to specific SDGs, human rights norms and development effectiveness principles (country ownership, inclusive partnerships, a focus on results for eradicating poverty, transparency and accountability). Progress on ODA transparency and accountability is experiencing a setback as many financial intermediaries make it difficult to trace DFI projects. The rights of affected communities are often invisible with little recourse to respond to negative

impacts. Donor engagement with domestic corporations through blended finance is likely to further expand formal and informal levels of tied aid. (See section 18)

After considerable debate, rules at the DAC for expanding the reporting of such finance have not yet been finalized. Nevertheless, the DAC agreed to give donors wider discretionary scope for reporting ODA as blended finance. This will affect the quality of aid reporting starting in 2018. (See section 16)

c) **ODA priorities for poverty reduction are being eroded by increased allocations to the short-term security and foreign policy preoccupations of major donor countries.** Several European donors, including the EU, are considering aid conditionality with African countries that is linked to migration control. The EU-Ethiopian Partnership, for example, is conditional on making progress in the area of migrant returns and re-admission. Given domestic policy pressures, these initiatives, supported by billions of euros, may devolve into "quick-fix projects with the aim to stem migratory flows to Europe."[5] (See section 5)

The most recent US National Security Strategy (2017) suggests that "US development assistance must support America's national interests," which very much include security interests. The strategy is quite explicit: "We will give priority to strengthening states where state weaknesses or failure would magnify threats to the American homeland."[6] Along similar lines, a UK Conflict, Stability and Security Fund (CSSF), created in 2015, was recently criticized for using aid money to fund military and counter-terrorism projects as well as security forces in several countries involved in human rights abuses.[7]

Focusing ODA on reducing poverty

Diversions of aid resources to donor economic, security and foreign policy concerns are happening at the same time as levels of poverty in developing countries is becoming increasingly invisible in donor discourse. The fact that approximately 800 million people continue to live in extreme destitution in developing countries is a moral outrage that must be addressed. The commitment to end extreme poverty by 2030 is the acid test for the SDGs. Meeting donor commitments to Least Developed Countries (LDCs) is essential for this goal.

Rationalizing the very limited ODA growth since 2015, recent donor policies on poverty and aid propose that ODA should be concentrated on countries and sectors affected by extreme poverty. Inside this recommendation is the implication, whether explicit or not, that using ODA to mobilize private sector growth and investments will address broad issues of poverty.

The eradication of extreme poverty alone will not be sufficient to achieve the SDGs. SDG1 on poverty reduction acknowledges this reality with calls not only to eliminate extreme poverty, but also to half the number of people living below national poverty lines.

Corporate private sector initiatives are usually not designed to directly affect conditions for the millions of people living in

poverty. (See section 16) Serious conditions of poverty are highly dynamic, affecting the life opportunity of billions of people in many ways. Generally they are outside the formal economy. The impact of large corporate investments are often at best benign, but increasingly have had serious environmental or socio-economic impacts. Vulnerable and poor people are the ones most in need of targeted and expanded public interventions from governments and donors, not corporate private sector investments. (See section 8)

Using the World Bank's poverty lines, which are differentiated by country income groups, an estimated 2.5 billion people, or 40% of the population of developing countries, are living in poverty. In Low Income Countries, 46% of the population (300 million people) live in extreme poverty. But people living in poverty also include nearly half of the population (47% or 1.4 billion people) of Lower Middle Income Countries (LMICs), of which 16% live in extreme poverty ($1.90 a day). As well, more than 30% of the population (800 million people) of Upper Middle Income Countries (UMICs) are considered very poor. While progress has been made over the past several decades with respect to extreme poverty, particularly in China, complex poverty continues to be endemic to developing countries. (See section 8)

Almost all LDCs and most LMICs have less than $3,000 in annual per capita revenue available to the government for all government expenditures, including dealing with the consequences of poverty. Many UMICs have per capita revenue of less than $6,000. The comparable figure for DAC countries is more than $15,000, and these countries are still challenged by significant poverty and social inequalities. While attention to domestic resource mobilization is growing and important, most of these efforts have been with Middle-Income Countries. (See section 23)

Clearly, aid is vitally important for Low Income Countries, especially given that they have structurally lower tax bases and very low levels of public resources. But aid as a focused resource for catalyzing action for poverty reduction must not ignore very high levels of poverty in Middle-Income Countries, also with limited domestic resources. Maximizing aid for this purpose in these countries may take different forms, but will be required for many years to come.

The focus and quality of aid as a resource for poverty reduction is deteriorating

In 2017, the level of Real ODA was $126 billion, which was reported ODA less in-donor refugee and student costs, debt cancellation and interest on ODA loans. At $126 billion, Real ODA was 13% less than reported ODA of $144 billion for that year. How effectively has this $126 billion been allocated towards poverty-oriented goals? This chapter reviews some indicators that convey worrying trends.

- Just over a third (36%) of Real ODA is directed to **12 sectors that serve as a proxy for donor attention to conditions affecting poverty**. This level has remained largely unchanged since 2010. (See section 12)
- As an unprecedented number of people are affected by conflict or extreme climate events, **humanitarian assistance is increasing as a share of Real ODA, but at a rate far below what is required**. Real ODA growth has

been very modest. As a consequence, aid resources available for long-term development initiatives have been declining as a share of total Real ODA. Even the share of humanitarian investment in reconstruction and disaster preparedness has been declining from 18% of humanitarian assistance in 2010 to 15% in 2016.

- **Aid directed to gender equality and women's empowerment**, central to making progress on all SDGs, shows only modest improvement since 2010. In 2015 (the last year for data), a shocking 65% of Real ODA had no objectives relating to these crucial purposes. (See section 11) Other identity-based inequalities are currently invisible in aid reported to the DAC, which suggests that donors are likely to be giving them little attention. There is a proposal to introduce a marker on disability from 2019 onwards, but its adoption will be voluntary, making it hard to get a full picture of this crucial issue.
- **The value of aid directed to Sub-Saharan Africa** for long-term development (excluding humanitarian assistance) has increased by only 6% since 2010. In 2016, Sub-Saharan Africa received 33% of total Real ODA, a share that has not changed since 2010. This continent has the highest proportion of population (42%) living in extreme poverty. (See section 10)
- **ODA (net of debt cancellation) for Least Developed Countries and Low-Income Countries** was 44% of total ODA in 2016, down from 46% in 2010. Excluding humanitarian assistance, aid to LDCs for long-term development programming was 30% of total ODA in 2016, down from 34% in 2010. On the other hand, regional programming (excluding humanitarian assistance) increased from 31% to 39% in these seven years. Aid to Upper Middle Income Countries for long-term development was constant at 11%. Humanitarian assistance for Syria, Lebanon, Iraq and Turkey accounted for most of the overall increase in aid (from 14% to 17%) to this income group. (See section 9)

On the quality of aid, the following indications point to an overall deterioration since 2010:

- **A proliferation of donor-directed special funds within the UN** seriously affects the capacities of UN organizations to mount coherent and sustained programs to support the SDGs. In 2016, donor support for core budgets remained constant, at about 33% of Real ODA. But including special funds, the multilateral system administered more than 50% of Real ODA, up from 44% in 2010 and 36% in 2005. (See section 13)
- **The commitment to country ownership is declining.** Country Programmable Aid (CPA), which is the DAC's measure of aid that can be programmed by partner countries, has declined from 47% of Gross Bilateral ODA in 2010 to 36% in 2016. Aid delivered as budget support and sector-wide programming has declined from $5.2 billion in 2010 to $4.1 billion in 2016, almost all of which was sector-wide programming in 2016 (support for particular ministries). (See section 14)
- **The use of concessional loans has been increasing since 2010.** The increased use of loans has been almost 45% in dollar value between 2010 and

2016. As a share of Real ODA, loans increased from 26% in 2010 to 29% in 2016, down from 31% in 2015. (See section 15)

- **Increasing numbers of donors have concentrated their ODA in mobilizing the private sector.** A proxy selection of DAC sectors indicates a strong focus on the private sector, with an increase from 21% in 2010 to 26% in 2016. This trend is likely to heighten with concerted donor attention to financing development through blended finance (noted above). (See section 16)
- **Tied aid has fluctuated in recent years, from 21% of bilateral ODA in 2013, to 24% in 2015, and back to 20% in 2016**. For LDCs, a pronounced increase from 11% in 2013 to 17% in 2015 was reversed in 2016 back to 12%. Informal tied aid is much higher. In 2015 (the last year for data) more than 60% of the value of aid contracts was awarded in OECD countries. (See section 18)

While all donors share many of these trends, the chapter points to the particularly poor performance by three of the largest donors – Germany, France and Japan – which together made up more than 30% of Real ODA in 2017. Trends in these donors need to be taken into account when reviewing the projection of average trends for DAC donors as a whole.

The purpose of this chapter is to explore the performance of ODA in-depth as a strategic resource for Agenda 2030, with a detailed examination of seven areas:

AID QUALITY INDICATORS	FRANCE	GERMANY	JAPAN	ALL DONORS
1. Climate Finance as % age of Gross Real ODA (7-year average between 2010 to 2016) (section 7)	42%	24%	30%	9%
2. Disbursements to proxy poverty-focused sectors, %age of Sector Allocated ODA (2016) (section 12)	15%	21%	13%	36%
3. Disbursements to LDCs/LICs, %age of Gross ODA allocated by income group (2016) (section 9)	19%	18%	25%	36% (DAC Donors only)
4. Disbursements to UMICs, %age of Gross ODA allocated by income group (2016) (section 9)	36%	35%	17%	23% (DAC Donors only)
5. Principal purpose gender equality marker, %age of Real Bilateral ODA (2015) (section 11)	0.3%	1.5%	2.2%	5.9%
6. Bilateral ODA channelled through special multilateral funds, %age of Real Bilateral ODA (2016) (section 13)	2%	17%	15%	26%
7. Loans as a Percentage of Gross Bilateral ODA (2016) (section 15)	54%	35%	59%	18%
8. Private sector proxy indicator, %age of Sector Allocated ODA (2016) (section 16)	35%	35%	55%	22%
9. Technical Cooperation as %age of Real Bilateral ODA (2016) (section 17)	42%	38%	37%	20%
10. Percentage of Bilateral Aid that is Tied (2016) (section 18)	4%	14%	23%	20%

Source: Author's calculations based on statistics from OECD DAC Stats.

1. Determining ODA as a resource for achieving the SDGs
2. Distorting the levels of ODA
3. The purpose of ODA and poverty reduction
4. Is aid being allocated for poverty reduction?
5. Undermining the quality of ODA
6. Measuring official resource flows for the SDGs
7. Other sources of development cooperation finance

A number of conclusions are drawn for policy directions that are key if ODA is to be an effective and dedicated development resource for poverty eradication.

B. Determining ODA as a Resource for Achieving the SDGs

1. DAC aid disbursements are increasing, but at a slow-moving pace

The value of Real Official Development Assistance, i.e. aid that is broadly available for initiatives in poverty reduction, was $125.5 billion in 2017. It has increased modestly since 2010, growing by 3% between 2016 and 2017. This modest growth is far from what is required if ODA is to make an effective contribution to the ambitions of Agenda 2030. If the UN target of 0.7% of GNI for ODA had been achieved in 2017, $325 billion would have been available for development assistance in concessional finance. It will be apparent in the analysis that follows that not even this modest $125.5 billion is truly available as an effective development resource for eradicating poverty and reducing inequality.

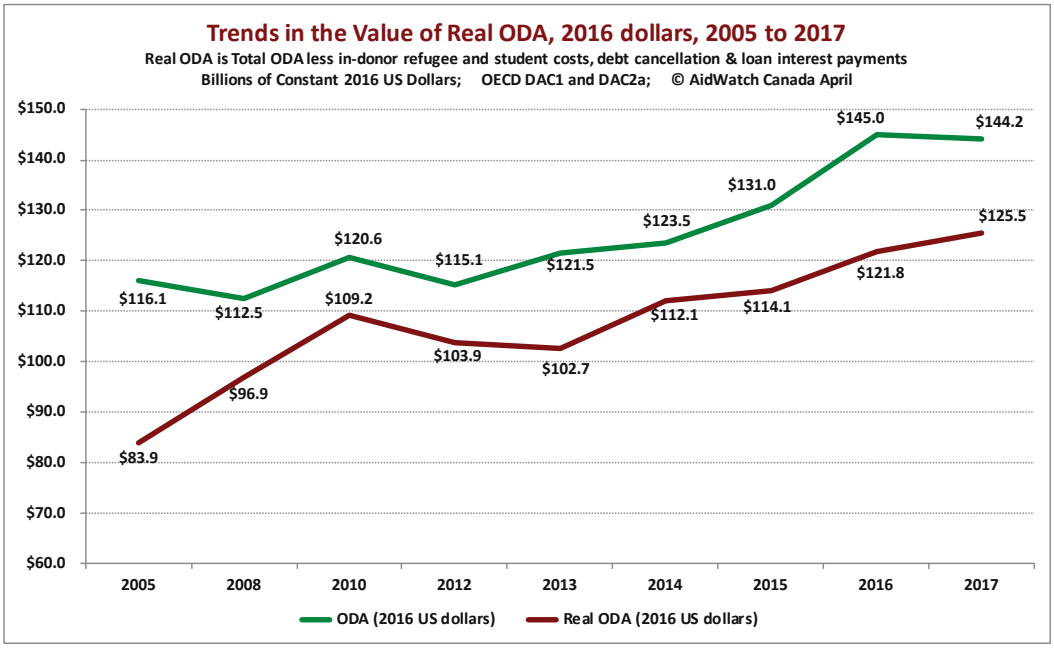
At $146.6 billion in net disbursements in 2017 in current dollars, growth in Official Development Assistance (ODA), as reported by the DAC, has effectively stagnated since 2016 ($145.0 billion). ODA in current dollars represents the actual dollar value of donors' ODA, ignoring the effects of dollar inflation and changes in donor exchange rates with the US dollar.

Reported aid disbursements are affected by rules agreed upon by donors at the DAC. These rules allow for the inclusion in ODA of in-donor costs of settling refugees for their first year in donor countries, in-donor imputed costs for students from developing countries studying in the donor country, and the charging of the full value of cancelled debt in the year that it is cancelled.

While these measures are legitimate in their own right, most CSOs have long advocated that they should not be included in the measurement of ODA, which is a resource intended to materially benefit developing countries.

- Support for refugees in donor countries is a human right obligation, but it does not fit the definition of ODA, as its purpose is not to support developing countries.
- Imputed student costs involve no real cash contribution as they represent a share of existing expenditures in donor country education institutions.
- Debt cancellation is charged to ODA in its full value in the year that it is cancelled. But the actual benefit to the finances of developing countries, which are important, are in fact spread over several decades (and for heavily indebted countries may never

Chart 1.2



have been repaid). A considerable amount of debt relief actually relates to export credits, so the debt did not have a purely development purpose in the first place. [8]

Together, these additions significantly distort the annual value of ODA to developing countries. Furthermore, under current DAC rules, donors that provide loans must deduct the annual principal repayments on these loans, but not interest payments, which can also be substantial.

The analysis of ODA in this chapter, except when indicated, removes these charges to ODA, in order to calculate **Real ODA**. The annual level of Real ODA provides a basis for understanding actual trends directly being experienced by developing countries and ODA recipients.

The value of ODA for developing countries is also affected by changes in annual price inflations (the changing price of a basket of goods that US dollars can buy each year) as well as by adjustments in donor exchange rates for the US dollar. The OECD DAC provides a conversion that takes account these impacts – ODA in constant 2016 US dollars – that is the value of ODA in a given year converted into 2016 dollars. Because of price inflation, the value of ODA in 2016 dollars for earlier years tends to be higher than its nominal value in current dollars.

The value of Real ODA in 2017 was $125.5 billion (in 2016 dollars). Since 2013, when the level was $102.7 billion, it has been increasing steadily, but it grew by only 3% between 2016 and 2017. Importantly, the value of Real ODA in 2016 dollars has increased modestly by about 2% annually over the seven years between 2010 ($109.2

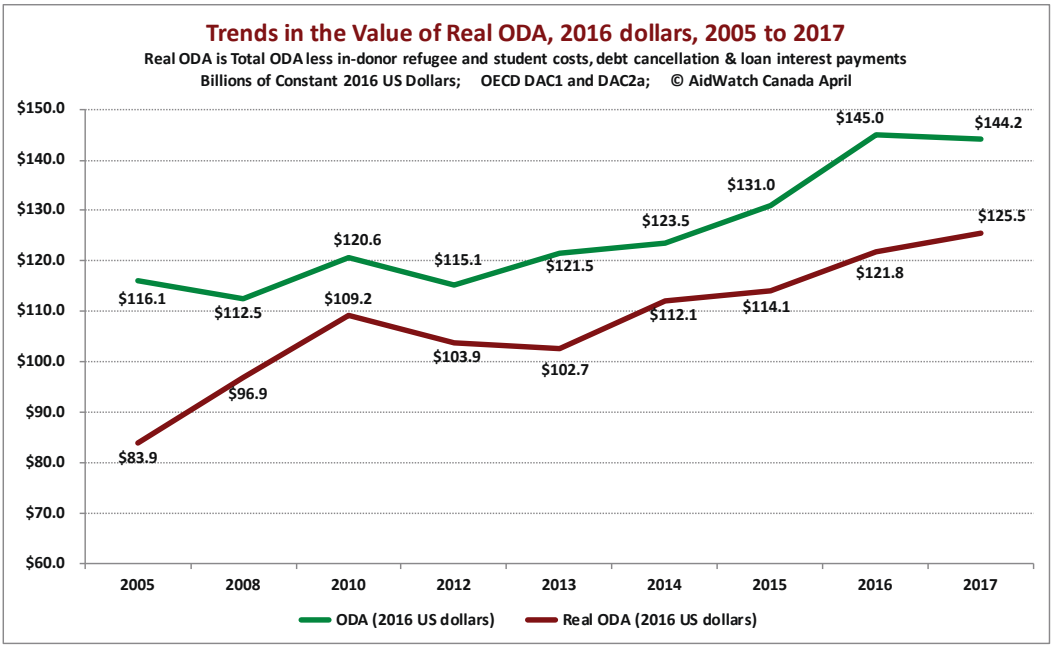
billion) to 2017 ($125.5 billion). (Chart 1.1) Nevertheless total aid disbursements are far removed from what is required and what has been repeated committed over the past decade (the UN target of 0.7% of Gross National Income).

If all donors had met the UN ODA target of 0.7% of GNI in 2017, ODA would have been $325 billion, compared to $125.5 billion. Such a level would have made a substantial contribution to long-term investment in achieving the SDGs.

Humanitarian assistance, an essential component of development cooperation, has been increasing in recent years (see Section 3 below). Of course, ODA dedicated to humanitarian emergencies will escalate in active conflicts, natural disasters or dramatic climate events. However, future progress in sustainable development requires an increase in long-term ODA commitments, ones that will contribute to social and economic programming to transform the structural underpinnings of poverty and inequality. The balance between these two imperatives is becoming increasingly complex and challenging.

What has been the trend in ODA available for long-term development initiatives, excluding humanitarian assistance? Up until 2013, such assistance closely followed the trend line for Real ODA**. In 2013, these trend lines began to diverge. Real ODA increased by 19% from 2013 to 2016, but Real ODA for long-term development only increased by 14%**. ODA available for long-term development programming is declining as a share of total ODA. Despite DAC-reported ODA at $145 billion in 2016, developing countries have received only slightly more than $100 billion for long-term development efforts. (Chart 1.2)

Chart 1.2



2. ODA levels highly dependent on politics in the largest donor countries

Much of the growth in Real ODA since 2014 comes from the five largest donors – France, Germany, Japan, the United Kingdom and the United States. Together they provided 70% of ODA in 2017. With proposals for deep cuts by the US Administration, possible cuts in Germany, and the potential impacts of Brexit on UK aid levels, there is considerable uncertainty whether even these modest levels of aid will be sustained.

How do donors compare in their performance, between 2014, the year prior to the adoption of Agenda 2030, and 2017, the most recent year in which preliminary figures are available?

The five top donors (United States, the United Kingdom, Germany, Japan and France) provided 70% of Real ODA in 2017, up slightly from 68% in 2014. (Table 2.1)

Among the 10 donors that provided more than $3 billion in aid in 2014, 9 increased their Real ODA between 2014 and 2017, and 8 of these donors increased Real ODA between 2016 and 2017. The five largest donors all increased their Real ODA by a cumulative $4.4 billion between 2016 and 2017. Real ODA increased by $3.7 billion between these years. (Table 2.1)

Of the 23 donors reviewed, it is somewhat encouraging that more than half, i.e. sixteen, increased their Real ODA between 2014 and 2017, with 15 increasing ODA between 2016 and 2017, even though some of these increases were very modest. (Table 2.1)

The fragility of these increases is apparent in the disappointing changes in individual donor ODA/GNI performance ratios (see also Section 3 below), signalling an abandonment of ambitious commitments to aid targets by several of these donors.

The continued engagement and contributions of large donors are essential. Given this, political developments in the United States are worrying, with the US President proposing 33% cuts to US assistance. As well, developments in the United Kingdom, with potential reductions due to the impact of Brexit, are also of concern.

In the United States, counter-measures by Congress have sustained US budgeted aid levels for 2018/19, but USAID and other Departments have been required to plan expenditures based on lower budgets proposed by the Administration. Some commentators speculate that approved aid allocations may be deliberately under-spent by the Trump Administration.[9] A 30% cut to US aid would reduce global ODA by more than $10 billion. Germany has also been sending mixed messages in terms of its future commitments.

3. Donors' ODA/GNI measure of generosity flat since 2010

A strong rhetorical commitment to Agenda 2030 has not been accompanied by an affirmation of ambitious aid targets towards 0.7% of donor Gross National Income (GNI). The ODA/GNI ratio, the measure of a donors' aid generosity, relative to the size of their economy, indicates that most donor levels have been declining or exceptionally weak since 2015. Five donors achieved the UN 0.7% target. However, in the UK's case, its Real ODA measures only 0.68% of its GNI.

Table 2.1 Donor Real ODA and ODA/GNI Performance

Red indicates a decline in Real ODA (2016 dollars) from 2016 to 2017
Green indicates the achievement of 0.7% target in Real ODA in 2017

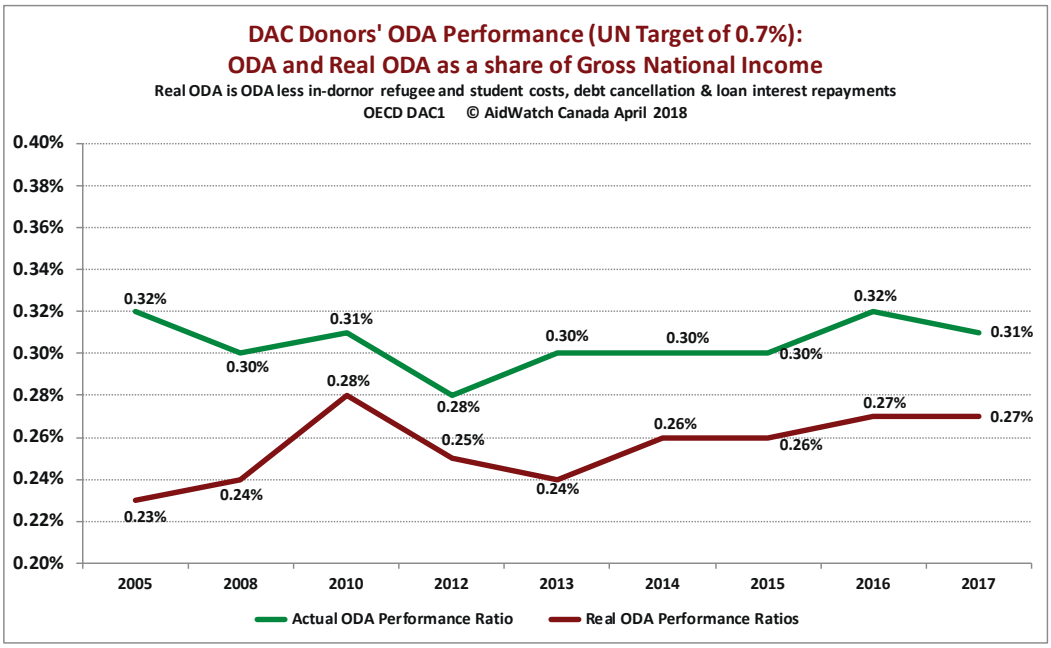
REAL ODA* (BILLIONS 2016 US DOLLARS)	2014	ODA/GNI PERFORMANCE	2016	ODA/GNI PERFORMANCE	2017 (DECLINE FROM 2016)	ODA/GNI PERFORMANCE
Australia	$3.6	0.31%	$3.3	0.27%	$2.8	0.23%
Austria	$0.79	0.21%	$0.92	0.24%	$0.91	0.23%
Belgium	$1.9	0.36%	$1.9	0.41%	$1.8	0.38%
Canada	$3.2	0.22%	$3.4	0.23%	$3.6	0.23%
Denmark	$2.3	0.78%	$2.0	.62	$2.2	0.7%
Finland	$1.4	0.59%	$0.93	0.39%	$0.95	0.38%
France	$7.4	0.30%	$7.9	0.31%	$9.3	0.36%
Germany	$12.2	0.36%	$16.6	0.47%	$17.5	0.48%
Greece	$0.18	0.09%	$0.22	0.11%	$0.24	0.12%
Ireland	$0.73	0.37%	$0.80	0.32%	$0.77	0.29%
Italy	$2.7	0.15%	$3.2	0.18%	$3.6	0.19%
Japan	$7.8	0.16%	$9.0	0.18%	$10.4	0.20%
Korea	$1.7	0.13%	$2.2	0.16%	$2.1	0.14%
Luxembourg	$0.35	1.10%	$0.39	1.00%	$0.41	1.00%
New Zealand	$0.42	0.26%	$0.43	0.24%	$0.40	0.22%
Netherlands	$3.7	0.52%	$4.5	0.58%	$3.9	0.49%
Norway	$3.5	0.94%	$3.5	0.95%	$3.8	0.95%
Portugal	$0.33	0.17%	$0.30	0.15%	$0.32	0.16%
Spain	$1.6	0.13%	$1.8	0.15%	$1.9	0.15%
Sweden	$4.3	0.90%	$4.1	0.78%	$4.6	0.86%
Switzerland	$2.8	0.44%	$2.9	0.43%	$2.8	0.41%
United Kingdom	$16.0	0.69%	$17.5	0.68%	$17.9	0.68%
United States	$32.4	0.18%	$32.7	0.18%	$33.0	0.17%
All Donors	$112.1	0.26%	$121.8	0.27%	$125.5	0.27%

** Real ODA is ODA less in-donor refugee and student costs, debt cancellation and payment of interest on outstanding ODA loans. For 2017 in-donor student costs and interest payments on loans are estimates based on amounts recorded for 2016.*

The ODA/GNI performance measure for nominal ODA was 0.31% in 2017. This represents less than half of the long-standing UN target of 0.7%, and is unchanged from 2010. The measure of performance for Real ODA has declined from 0.28% in 2010 and has hovered around 0.27% in recent years. (Chart 3.1)

In relation to Real ODA, almost half of the 23 donors (i.e. 11) registered their performance at 0.23% of GNI or less in

Chart 3.1



2017, an increase from 9 donors in 2014. (Table 2.1)

While many donors increased their ODA, these increases were not nearly sufficient to sustain higher performance ratios. **Of 23 donors, 11 had reduced ODA/GNI ratios compared to their performance in 2014 and 2017.** Ten (10) had reduced ratios between 2016 and 2017, with another 5 remaining unchanged. (Table 2.1)

Even among high performing donors, weakened commitments are evident. According to the DAC, five donors achieved the UN target ODA performance of 0.7% of GNI – Denmark, Luxembourg, Norway, Sweden, and the United Kingdom**. However, when Real ODA is the measure, only 4 of these donors made the grade, with the United Kingdom at 0.68% of its GNI.** The Netherlands, which was a 0.7% donor for many years, has diminished its ODA as a share of GNI from 0.71% in 2010 to a low of 0.39% in 2017. The new government in the Netherlands may reverse this trend with a recent coalition agreement promising annual aid increases and tying its ODA to annual growth in GNI to achieve 0.7% during its four-year mandate.

4. Increasing humanitarian assistance for enduring conflicts and extreme climate events

Humanitarian crises are affecting unprecedented numbers of people worldwide as a result of armed conflicts and extreme climate events. Approximately 87% of people living in extreme poverty are found in countries that are highly vulnerable. As a share of Real ODA, humanitarian assistance has increased from 9% in 2012 to 14% in 2016. In constant 2016, dollars humanitarian assistance

increased from $10.3 billion to $18.3 billion in 2017 (of an increase 80%). It remains far below what is required, with the overall shortfall for 2016 UN appeals estimated at 40%, and much of the shortfall located in the poorest countries. The political will to implement commitments made at the World Humanitarian Summit (2016) to reform humanitarian assistance is losing momentum. For example, there is still very little humanitarian aid channelled through local CSOs, despite recommendations to do so at the summit.

Humanitarian crises in Yemen, Iraq, Syria and the DRC continue to escalate with no resolution in sight. In 2017, the number of people newly displaced exceeded 30 million, with natural events affecting 18.8 million people in 135 countries. Armed conflicts displaced another 11.8 million, nearly doubling the 2016 number.[10]

The impact of climate change is increasingly a driver of humanitarian crises and displacement.

In the lead-up to the 2016 World Humanitarian Summit, UN Secretary General, Ban Ki-Moon, was very clear. His report, *One Humanity: Shared Responsibility*, notes,

> "More countries are slipping into fragility, marked by extreme poverty and weak institutions and compounded by natural hazards and climate-induced disasters," which are becoming "more frequent and intense," and that "[c]limate change continues to cause increased humanitarian stress as it exacerbates food insecurity, water scarcity, conflict, migration and other trends."[11]

In its 2018 *Global Humanitarian Assistance Report,* Development Initiatives (DI) offers a summary of the humanitarian context in 2017, which has only intensified:

Chart 4.1

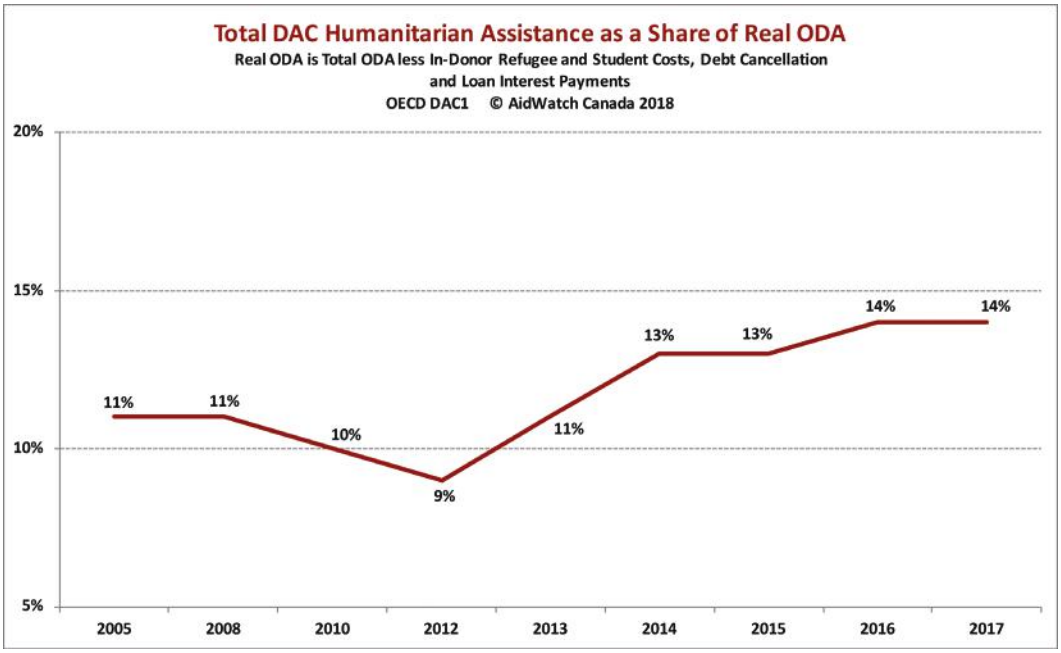


Chart 4.2

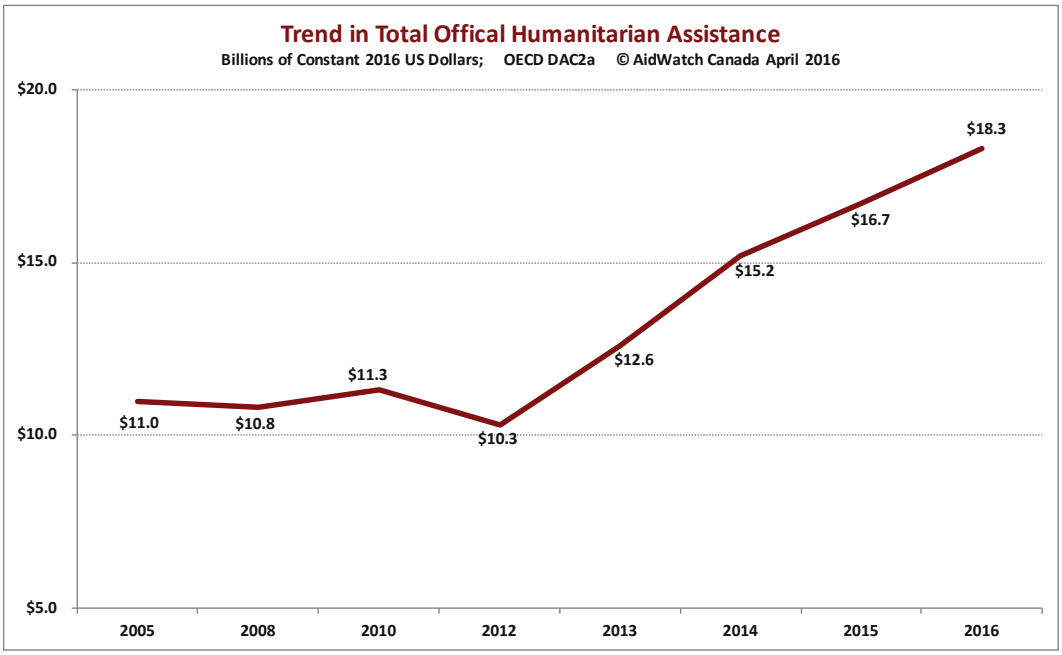
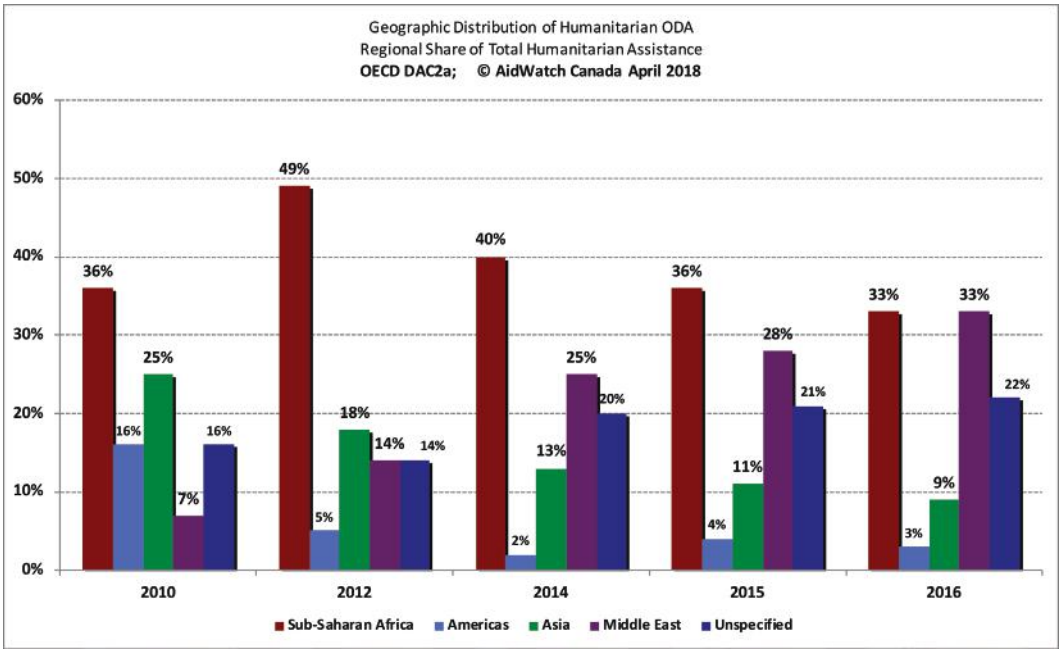


Chart 4.3



"In 2017, humanitarian need was driven by continued, large-scale conflict, with crises persisting in Yemen, Syria and South Sudan. 2017 also witnessed violence and persecution forcing the mass displacement of the Rohingya population from Myanmar, while

> hurricanes across the Caribbean caused large-scale destruction. … An estimated 201.5 million people living in 134 countries were assessed to be in need of international humanitarian assistance. … In 2017, complex crises (involving at least two of conflict, disasters associated with natural hazards and refugee situations) occurred in 29 of the 36 countries with the highest numbers of people in need. Meanwhile six of these 36 countries experienced all three crises types."[12]

DI estimates that 59% of people currently living in extreme poverty are found in countries affected by armed conflict, fragility or environmental vulnerability.[13] How is the global aid system responding to these persistent and growing humanitarian crises?

Total Humanitarian Assistance

Since 2012, humanitarian assistance has been increasing appreciably in both its share of Real ODA and its dollar value (2016 dollars). As a share of Real ODA it has increased from 9% of Real ODA to 14% in 2016, and by close to 80% in 2016 dollar value, from $10.3 billion to $18.3 billion in 2018. However, growth between 2015 and 2016 was only 3.6%, much less than previous increases in this decade. (Chart 4.1 and Chart 4.2)

The geography of humanitarian assistance has also shifted in recent years. In 2016, **the Middle East received 33% of total humanitarian assistance, compared to 7% in 2010. By contrast, Sub-Saharan Africa's share of humanitarian assistance declined from a high of 49% in 2012 to 33% in 2016** (Chart 4.3). Since 2014, humanitarian assistance to Sub-Saharan Africa has remained level, at approximately $6 billion.

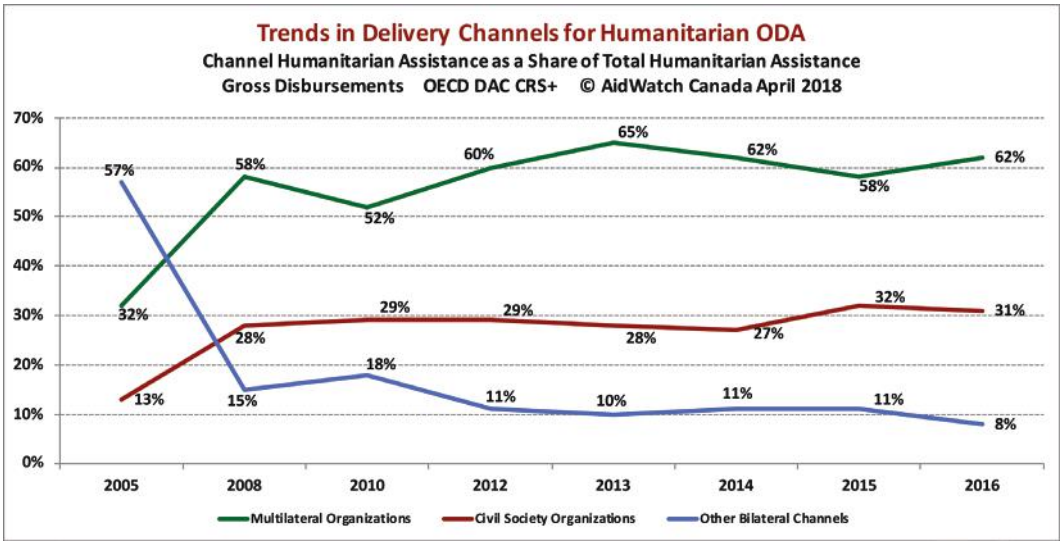
Even though humanitarian assistance has been increasing, it lags far behind what is required in response to UN Coordinated Appeals. While the volume of resources for appeals increased by $2.4 billion over 2016, the estimated shortfall in 2017 remained at 40% of the total Appeals, or $10.3 billion, the largest volume ever recorded.[14] These shortfalls urgently need to be addressed if human suffering and vulnerability is to be minimized.

Delivering Humanitarian Assistance

The channel through which humanitarian assistance is delivered has also shifted since 2010 (Chart 4.4). Multilateral channels have increased their share of total humanitarian assistance from 52% to 62%, and bilateral channels have been correspondingly reduced from 18% to only 8%. This reduction in bilateral delivery of humanitarian aid has not affected CSOs. CSOs maintained their share of delivery of official humanitarian assistance at 31% in 2016 (not including additional private humanitarian aid to these CSOs).

DAC official channels are not the exclusive modality for humanitarian responses.[15] In 2016, the DAC recorded humanitarian contributions from non-DAC members amounting to $6.4 billion (up from $3.2 billion in 2015), including $6.0 billion from Turkey alone. In addition, the United Arab Emirates contributed $717 million and Saudi Arabia $395 million. Almost all of this humanitarian assistance was devoted to crises in the Middle East.

Chart 4.4



Development Initiative's 2018 Report also shows a steady growth of humanitarian assistance from private sources – individuals through CSOs, foundations and the private sector. They estimate a total of $6.5 billion in 2017, up from $6.0 billion in 2016, which is approximately a quarter of all humanitarian resources. About 68% of these private resources came from individual contributions to NGO campaigns.[16]

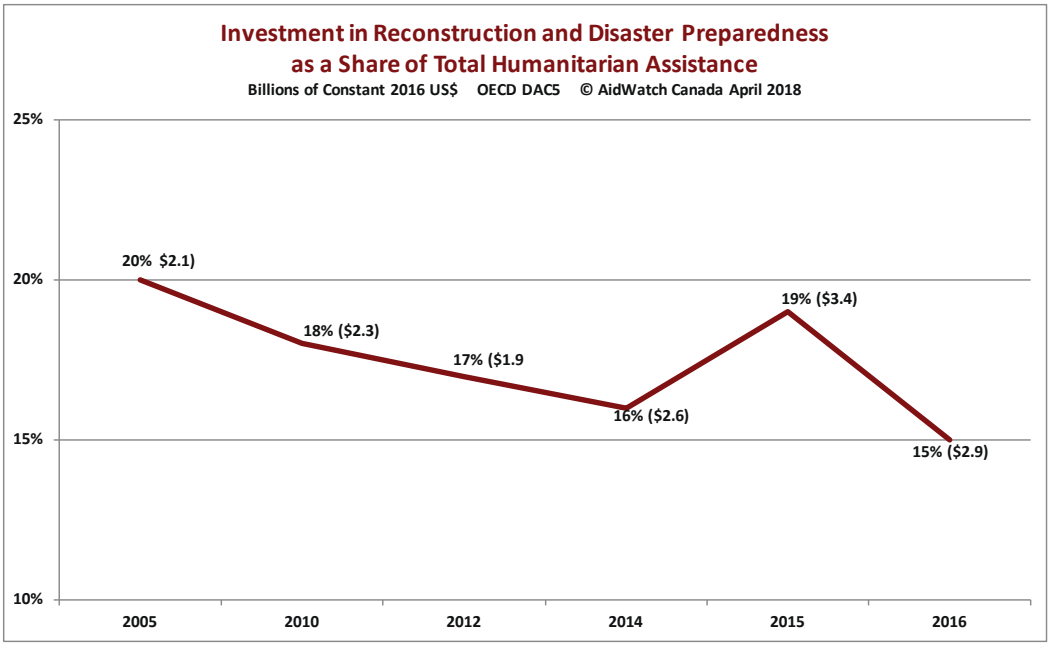
Investing in Reconstruction and Disaster Preparedness

Investment in reconstruction and rehabilitation as well as disaster preparedness is an essential component of humanitarian assistance in making the transition to longer-term development sustainability in countries affected by human and natural emergencies. However, this component of humanitarian assistance has taken a back seat to more immediate responses to humanitarian need. **With the exception of a bump up in 2015, these ODA investments have not increased in dollar value, and have declined significantly as a share of total humanitarian assistance (from 18% to 15% between 2010 and 2016).** (Chart 4.5)

The international community has a moral and human rights obligation to maximize its response to humanitarian crises and emergencies. But without substantial increases in Real ODA and increased investments in the long-term foundations for sustainable development, in more peaceful societies and good governance, and in resilience to natural and climatic events, development progress and Agenda 2030 will be severely undermined.

Because increases in Real ODA have not kept pace with the heightened need for humanitarian assistance, less ODA has been available for long-term development efforts (i.e. Real ODA less humanitarian assistance). Between 2012 and 2016, Real ODA increased by 21%, but Real ODA for long-term development increased by only

Chart 4.5



15%. (Chart 4.6) Moreover humanitarian 'emergencies' are increasingly long term crises. Seventeen (17) of the 20 largest recipients of humanitarian assistance in 2017 had received assistance over the long or medium term.[17]

Meeting the Commitments of the 2016 Humanitarian Summit

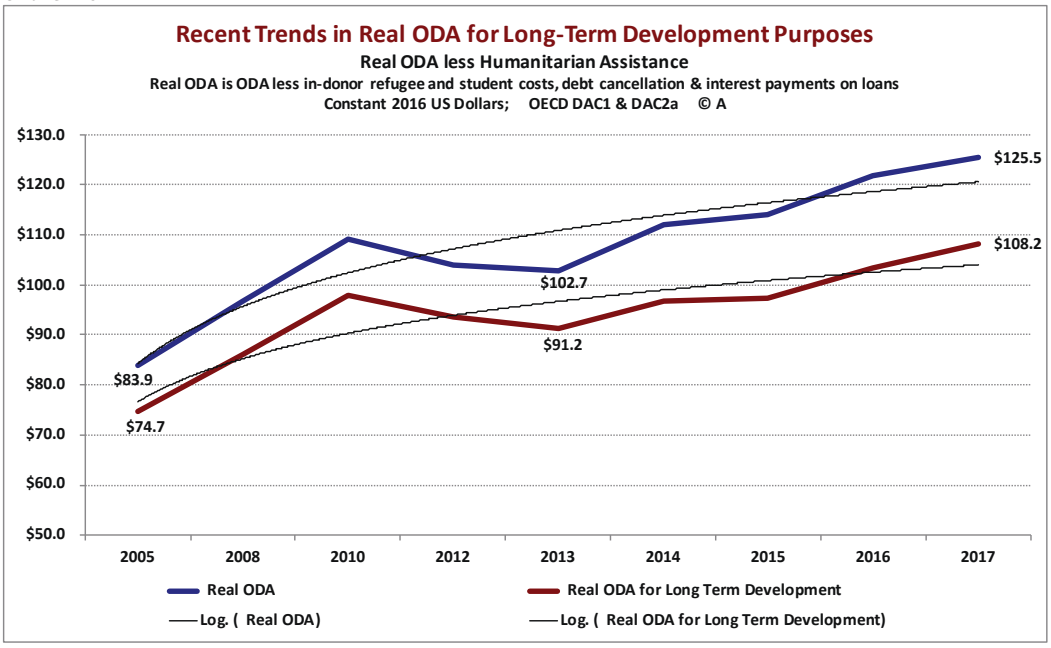
The quality of humanitarian assistance has not improved despite promises in the 'Grand Bargain' at the 2016 World Humanitarian Summit. Government and non-governmental humanitarian actors reached an agreement at the Summit, which included 51 commitments in 10 key areas to improve the efficiency and effectiveness of the humanitarian system.[18] A report prepared one year following the Grand Bargain concluded that:

> "on average, [there has been] action on 40 per cent of the commitments that apply to them – an important feat considering the breadth of the initiative. But progress is uneven, and the initially high political momentum is fading."[19]

Commitment areas with very little action included reduced overhead and ear-marking of donor contributions, increased engagement of affected communities and the humanitarian-development nexus.

Equally contentious has been the commitment to channel 20% of humanitarian resources directly to local and national responders, including NGOs and CSOs. This included greater flexibility in funding in-country partners directly, more equitable partnerships with INGOs, and greater attention to strengthening local capacities. Little progress has been made since 2016 on this commitment. According to Development Initiatives, local and national NGOs received

Chart 4.6



just 0.4% directly of all humanitarian assistance reported to the UN in 2017, a rise of just 0.1% from 2016.[20] Indeed, a coalition of southern CSOs is challenging the actual will of CSO and government donors to address this issue with a real commitment to change current practices. Donors maintain that these changes are very difficult to implement in the current donor political climate, with existing donor management and accountability regulations.[21]

5. The European Union ODA, setting worrying donor trends for Europe

At 12% of total Real ODA in 2017, the European Union is a unique multilateral donor, one that is setting trends with its member states that will affect 53% of Real ODA in 2017.

Various indicators point to declining attention to important sectors of poverty reduction. Allocations to private sector-oriented DAC sectors have been increasing, much more so than to other donors. The EU's disbursements to Least Developed and Low-Income Countries have sharply deteriorated since 2010, reflecting the domination of EU foreign policy and the priority of concentrating on countries in its immediate periphery. Aid to African countries may also increase, conditioned on acceptance of European interest in migration control. More aid is being directed to preventing extremism or terrorism and in controlling insurgency.

The European Union (EU) is the third largest donor (after the United States and the United Kingdom). In 2017, the EU provided $15.6 billion in Real ODA, up from $12.7 billion in 2010 (2016 dollars). **The EU's share of total Real ODA has remained relatively constant at 11% in 2010 and 12% in 2017.** As a European multilateral

donor, it both reflects and influences donor policies in its 28 member states. **The EU and its member states represented 53% of total Real ODA in 2017**.

Trends in aid provided by the European Union's mechanisms, therefore, will have a major impact on emerging trends in ODA as a resource for development and the SDGs. Since 2010, these trends as well as recent policy changes affecting EU aid, raise significant worries about future directions.

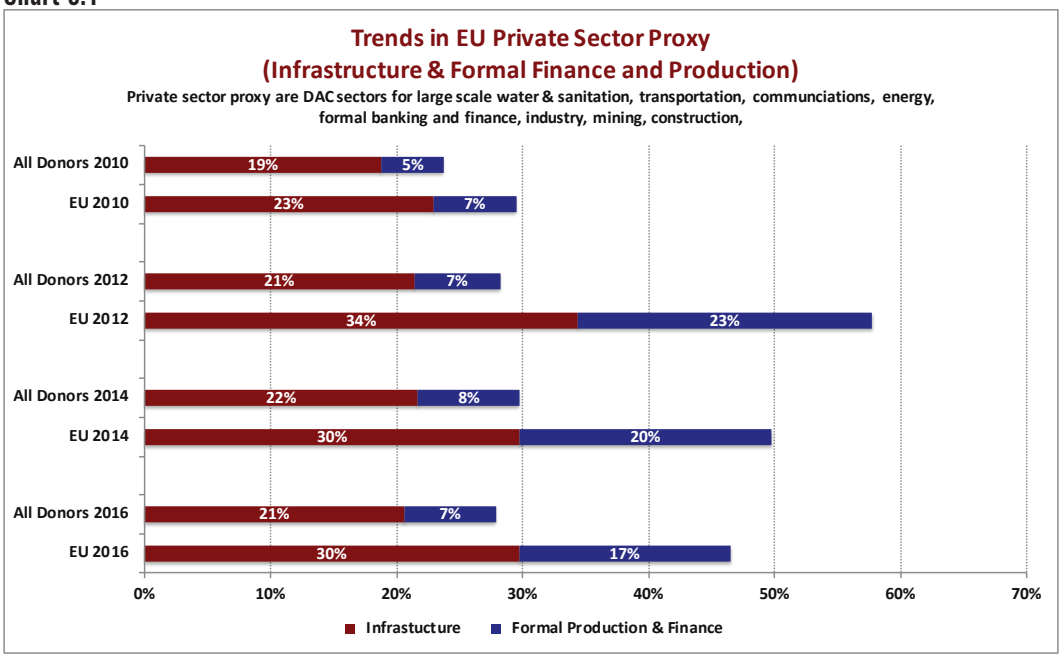
Trends in an Orientation towards Poverty Reduction

Section 12 below sets out a proxy indicator to assess the degree to which donors are orienting their ODA to poverty reduction, based on selected DAC sectors. **Since 2010 the EU poverty sector indicator has declined from 28% in 2010 to 24% in 2016 of sector allocated aid.** Throughout this period, its performance has been appreciably less than for all donors (including multilateral donors), which allocated 36% of their sector-allocated aid to these proxy sectors in 2016. (Chart 5.1)

Trends towards private sector-oriented ODA

On the other hand, **allocations to private sector-oriented DAC sectors** (see Section 16 below) have been increasing, much more so than for other donors. These sectors are those that either strengthen the formal private sector (formal production and finance) or engage the formal private sector in implementing ODA programs (infrastructure). As such they may have only an indirect and very mixed impact on poverty and inequality**. In 2016, 47% of EU ODA was disbursed to these sectors, in contrast to 28% for all donors (including multilateral donors).** The EU disbursements to these sectors have increased from 30% in 2010. (Chart 5.2)

Chart 5.1

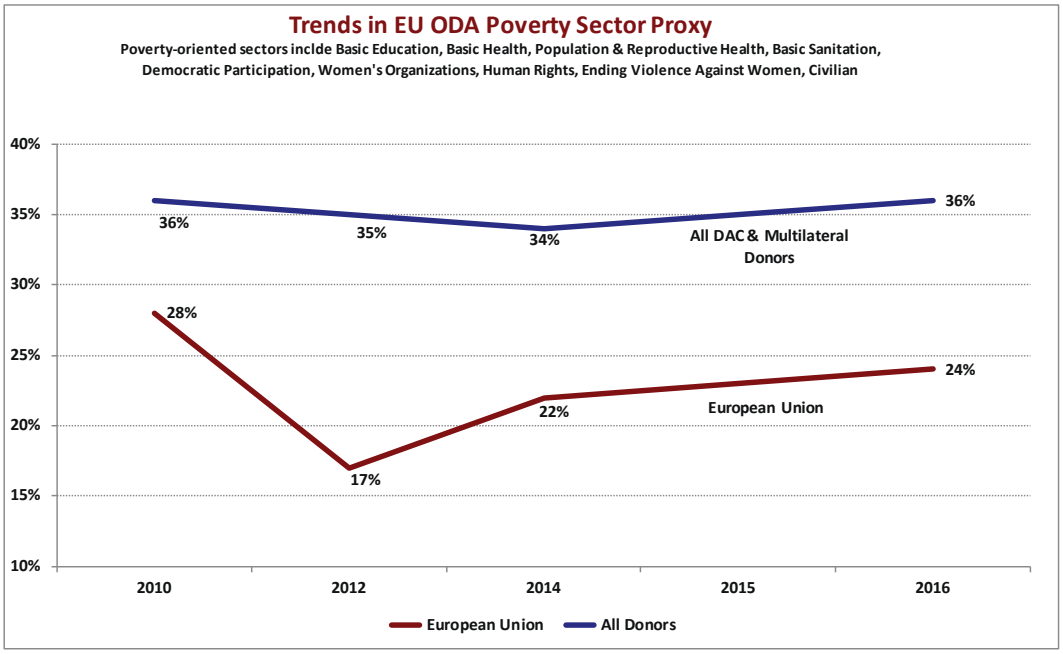


The EU's *Multiannual Financial Framework for 2021-2027* places a strong emphasis on private sector instruments in the EU's future development cooperation plans. Using various investment mechanisms there is an expectation that 60 billion euros from the EU could mobilize up to half a trillion euros from the private sector in this period.[22] European CSOs have raised a number of concerns relating to the sectoral focus of these investments in the context of the SDG priority to "leave no one behind", as well as the growing phenomena of increased aid tied to European companies, and weakened human rights safeguards, transparency and accountability.[23]

Other indicators of ODA priorities and quality

- With respect to **gender equality and women's empowerment** (see Section 11 below), as a share of Real Bilateral ODA, a mere 1.7% of EU ODA was screened for the gender equality principal objective marker in 2015, compared to 5.9% of Real Bilateral ODA for all donors. Eighteen percent (17.5%) has been screened as having a gender equality significant objective (i.e. gender equality is one of several objectives), compared to 34.5% for all donors.
- With respect to the balance between **humanitarian assistance and long-term development** (see Section 4 above), the EU level of humanitarian assistance is on a par with the experience of DAC donors as a whole. It ranges between 11% (2010) and 14% (2016).
- With respect to **climate finance** (see Section 7 below), in 2016 the **EU allocated 12% of its ODA to climate finance** (compared to 14% for all DAC donors). More than 50% was allocated to adaptation (56%), compared to 38% for all DAC donors.

Chart 5.2



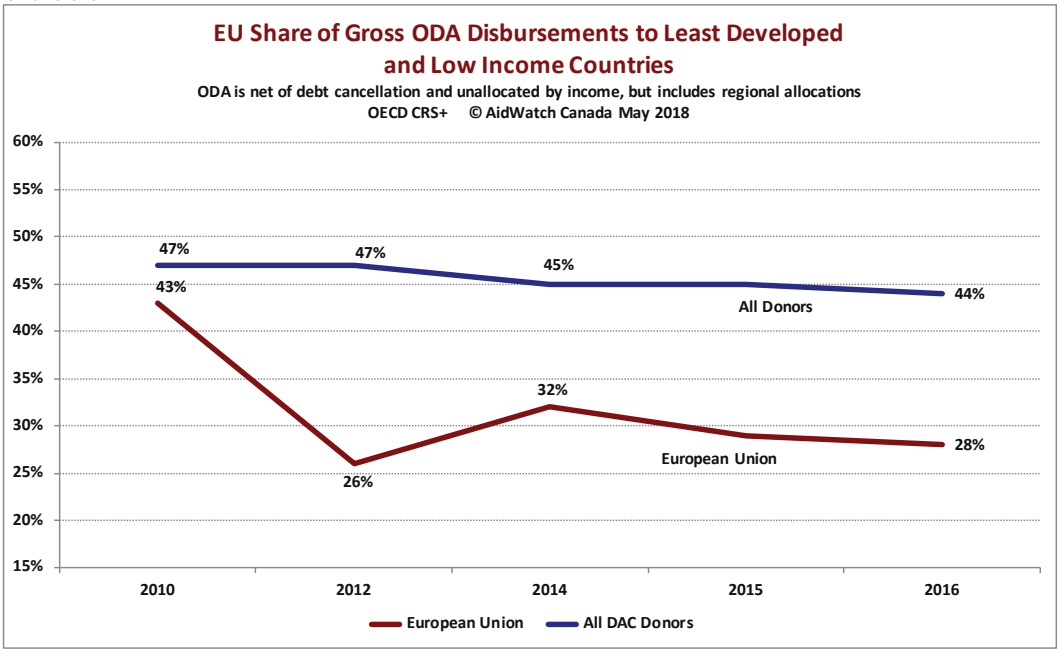
- With respect to EU aid to **Least Developed and Low-Income countries** (see Section 9 below), the EU's performance has **sharply deteriorated since 2010 from 43% of ODA allocated by income group to 28% in 2016** (compared to 44% for all donors). (Chart 5.3)
- **The EU's poor performance in relation to LDCs is a reflection of the changing balance in regional allocations of disbursements, consistent with EU foreign policy concerns.** Allocations to ODA-eligible countries in Europe increased from 18% to 29% between 2010 and 2016, while disbursements for Sub-Saharan Africa shrank from 42% to 27%. Disbursements to the Middle East increased from 7% to 10% and for North Africa, from 6% to 9%. **These shifts clearly represent an assertion of the EU's foreign policy interests in their border regions in Europe, the Middle East and North Africa. Together these regions accounted for 45% of EU aid in 2016.**

A Focus on EU Migration and Security

In 2015, the EU created the EU Emergency Trust Fund for Africa, with the purpose of encouraging African countries to cooperate with the EU on improving migration controls, migrant returns and readmissions. This Fund was allocated 3.1 billion euros ($3.6 billion), of which 90% is ODA financed through the European Development Fund.

European and African CSOs are deeply concerned about conditionalities for aid to African countries that are linked to European interests in migration control. They fear the Fund will focus on quick-fix border measures rather than longer-term development efforts that might address

Chart 5.3



the drivers of migration, respecting basic human rights and principles for effective aid. Many of the projects supported are, in fact, designed in member state countries, reflecting their national interests, with local partners consulted only after project decisions have been made.[24]

Beyond efforts to limit the movement of migrants to Europe, the EU has also been directing aid resources for the purposes of preventing extremism and terrorism, or controlling insurgency. In December 2017, member states committed $117 million until 2020 towards capacity building for security and development of military actors in partner countries. [25]

This funding will augment the EU *Instrument contributing to Peace and Security*. While the new funds will not be allocated from the Development Cooperation Instrument, as first promoted by Germany and resisted by Sweden, it is a worrying trend. It is a sign that the EU and some of its members may be taking advantage of recent changes to the DAC rules governing the use of ODA to support military actors. These revised DAC rules, agreed to at its High Level Meeting in December 2016, will allow such activities to be counted as ODA in "exceptional circumstances" when non-military actors may not be sufficient.[26] The definition of "exceptional circumstances" is unclear.

The use of aid by military and security forces for reconstruction of infrastructure, mine clearing, or water infrastructure may align European aid actors with problematic developing country institutions. Many have records of deeply embedded impunity for serious human rights violations, and such aid is deemed to have little impact on conditions for peoples' security. A report by Concord, the European CSO platform, stated that:

> "improvements in the peace and security sector activities often lie less in funding top-down security sector capacity building, and rather more in fostering CSOs, local reconciliation or political and legal environments in which active citizens can promote access to security and justice."[27]

The latter is not the main orientation of this EU 'aid for security' funds.

C. Distorting the Levels of ODA

6. ODA has been dramatically inflated through in-donor refugee costs

Since 2010, donors have used various methods to inflate ODA through DAC-allowable budgetary additions to ODA, beyond aid transfers for the benefit of developing countries. These charges have increased from 9.5% of ODA in 2010 to 13% in 2017, representing $18.7 billion in that year, with higher in-donor country expenditures for refugees responsible for most of this increase.

The inflation and distortion of the actual amount of ODA provided for poverty reduction and supporting development has been a persistent issue for the past two decades.

In the early 2000s, the inclusion of the full value of debt cancellation in ODA was the issue. In 2005, $24.8 billion in debt cancellation (2016 dollars) was a fifth of all ODA reported in that year. **In 2016 and 2017, the use of the DAC rule permitting the inclusion in ODA of expenditures for refugees for their first year in a donor country resulted in almost $14 billion**

(2016 dollars) in ODA, representing 10% of ODA in 2017. (Chart 6.1)

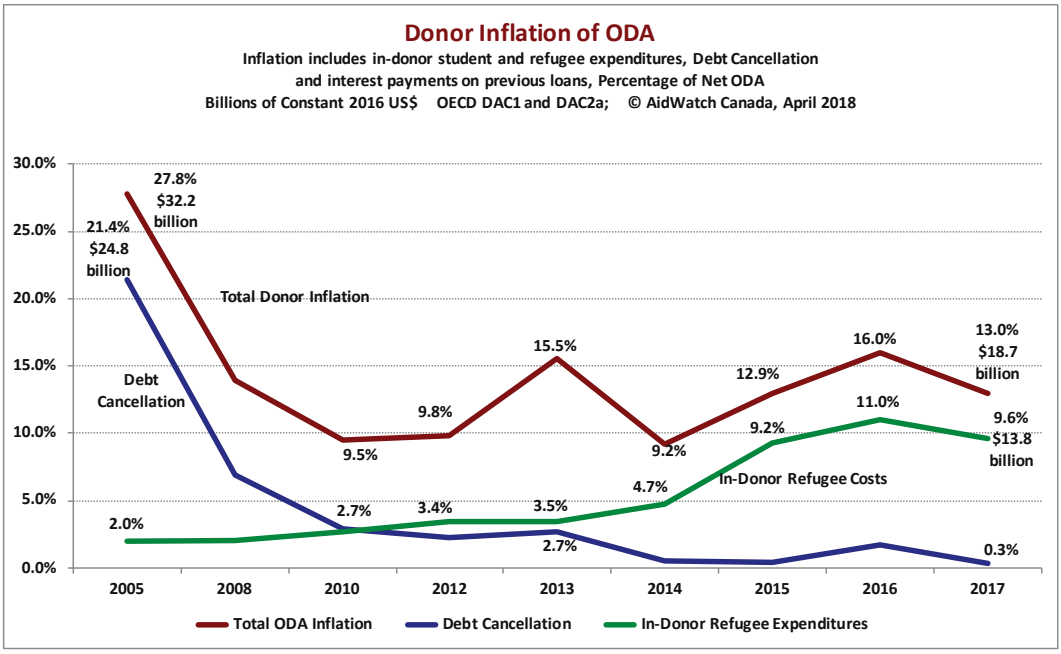
There is no longer a refugee "crisis" in Europe, yet its politics and public reaction are likely to affect European ODA for years to come. Globally, the number of people displaced from their home has reached 65.6 million of which 22.5 million are refugees. More than half are under the age of 18.[28] Those arriving in Europe have fallen from 1.2 million in 2016 to 650,000 in 2017, comparable to the level in 2014.[29]

With the number of asylum seekers in Europe falling by half between 2016 and 2017, there should be a corresponding decrease in in-donor refugee expenditures in future ODA reports. Yet, as noted in Section 5, several European countries, as well as the European Union, have entered into agreements with countries such as Ethiopia, Senegal, Mali and Nigeria to condition future ODA on the reduction of the flow of migrants from these countries.

7. The inclusion of climate finance as ODA, breaking the promise that climate finance is additional

Despite the 2007 promise to provide "new and additional resources, including official and concessional funding for developing country Parties," climate finance is buried within reported ODA. In the absence of an explicit target for non-climate finance ODA or separate donor funding mechanisms for climate finance, the degree to which climate finance is "new and additional" to existing ODA cannot be determined. The promised balance between adaptation and mitigation is far from being realized, as little over a third (36%) was devoted to adaptation in 2016.

Chart 6.1



Total ODA-reported climate finance commitments averaged $17.6 billion per year from 2012 to 2016. It has largely been flat-lined at $18.7 billion in 2016 (based on the author's assumptions for counting different forms of finance). DAC members have estimated that bilateral contributions to the 2020 target of $100 in total climate finance should be $37.3 billion. While not inclusive of donors' non-concessional DFI finance, $18.7 billion is just half of the required $37.3 billion that the DAC Roadmap requires from such sources to achieve the $100 billion target by 2020. Climate finance comprises a significant part of Real ODA for Germany (20%), France (9%) and Japan (18%), the donors that have exhibited large increases in their ODA since 2014. As a result climate finance has included a large proportion of loans versus grants in its delivery.

An analysis of international, public-sourced climate finance is very complex and fraught with uncertainties and confusion. There are a wide range and a growing number of channels for this finance, including specialized multilateral funds such as the Global Climate Fund with the United Nations Framework Convention for Climate Change (UNFCCC), International Financial Institutions, bilateral development finance institutions and bilateral aid finance.

Compounding this fractured institutional reality is the fact that there is no agreed definition of climate finance within the UNFCCC or otherwise, and donors and institutions currently use different accounting rules in determining the value of their contributions to climate finance.[30] There is also no overarching commitment to transparency nor rules on concessionality in the reporting of loans as climate finance.

The UNFCCC's Standing Committee on Finance, the International Finance Institutions, and the DAC's Climate Change Experts Group have been working, both separately and together, to resolve these outstanding issues and to come to an agreement on standards for reporting climate finance.[31] But almost nine years after the 2009 Copenhagen Climate Summit, no agreement is yet in sight.

Climate finance as "new and additional"

More than a decade ago, at the 2007 UNFCCC Conference of the Parties (COP13) in Bali, parties agreed to the principle of new and additional resources for climate finance. Developed countries agreed to work towards "improved access to adequate, predictable and sustainable financial resources and financial and technical support, and the provision of new and additional resources, including official and concessional funding for developing country Parties" [Bali Action Plan, 1(e)(i)]. But since the Bali commitment, almost all donor international public finance for climate change has been included in ODA if these resources have been concessional and targeting developing countries.

Several years later, at the 2009 COP15, the Copenhagen Accord was agreed whereby developed countries agreed to urgently ramp up climate finance, promising "scaled up, new and additional, predictable and adequate funding as well as improved access … to developing countries." Developed countries committed to a Fast Track Initiative for climate finance totalling $30 billion, which was to be disbursed between 2010 and 2012, and

the achievement of $100 billion goal in annual climate finance (all sources, public and private) by 2020. At COP21 in Paris, 2016, this commitment of $100 billion was extended to 2025.

Have concessional climate funds from donor countries lived up to the "new and additional" commitment? This issue has been obfuscated by the lack of a definition of "new and additional." The question was further obscured at the Paris COP21 in 2016, where the language of "new and additional resources" was removed and the commitment weakened. The Paris Agreement vaguely calls on developed countries to maximize the mobilization of resources from all sources, "noting the significant role of public funds," whereby "such mobilization of climate finance should represent a progression beyond previous efforts. [emphasis added]" [Annex, Article 9]

Under DAC rules for ODA, public concessional climate finance for developing countries is an eligible aid resource transfer. All donors count it as such. But without an explicit target for non-climate finance ODA, or separate donor funding mechanisms for climate finance, the degree to which climate finance is "new and additional" to existing ODA is virtually impossible to determine.

The analysis that follows focuses on climate finance that has been reported as ODA. It does not include analysis of investments from multilateral institutions that are non-concessional or from their internally generated resources.[32] It also does not examine public investments from bilateral Development Finance Institutions or national investments, where these public resources do not qualify as ODA.[33] There is insufficient information to analyze private sector funds dedicated to climate mitigation or adaptation.

Given its importance for future climate finance, there is a short summary of the current state of the Green Climate Fund, established under the UNFCCC, and financed mainly with ODA resources (see Box One below).

A donor roadmap for meeting the $100 billion target

In 2016, DAC donors realized their commitment in the UNFCCC process by developing a *Roadmap* for achieving $100 billion in annual climate finance, including both private sector and official public sources. **The *Roadmap to US$100 billion* estimates that by 2020 approximately $37.3 billion will come from bilateral donor sources,** $29.5 billion will come from internal resources of the Multilateral Development Banks, and at least $33.2 billion will come from private sector investments.[34]

In practice, most donors use the DAC data as the foundation for their biannual report to the UNFCCC on their climate finance (albeit with differing methodologies for projects that are said to be "main-streamed climate finance").

Donors report to the DAC using the following DAC climate finance policy marker:

1. Projects that have a sole focus on climate change are marked 'principal objective';
2. Projects with an identifiable objective for climate adaptation or mitigation are marked 'significant objective' where this is only one of the project's objectives (mainstreamed climate finance);

3. Projects that are screened but with no climate change objective are marked zero.

Both principal objective and significant objective projects are counted in the DAC database at their full value.[35] As noted above, donors have different policies in reporting significant objective projects to the UNFCCC – some report their full value, while others report only a percentage.

This chapter focuses on climate finance that has been reported to the DAC as concessional ODA in its Creditor Reporting System (CRS) database. The analysis uses the 'provider perspective' for annual aid commitments (the full budget in the year that the commitment is made) to climate adaptation and mitigation, for the years 2012 to 2016.[36]

The 'provider perspective' includes all donor bilateral commitments for climate finance, plus pro-rated donor non-earmarked (core) contributions to international financial institutions, which can be related to climate finance. The latter is calculated by the DAC based on the share of disbursements by these institutions for climate finance. These imputed multilateral allocations are attributed to each donor, but are not assigned to adaptation or mitigation through the Rio Marker.

Given the absence of officially-agreed upon accounting rules for climate finance, this analysis adapts the DAC database by removing double counting for both adaptation and mitigation. It does this by discounting to 30% for projects with inflated finance attributed to climate purposes in significant purpose projects, where only one objective of an activity budget relates to climate mitigation or adaptation. It also only includes the grant equivalency of concessional loans.[37]

Climate finance and ODA: Should it be considered a development resource?

There has been debate among CSOs about the relevance of climate finance to ODA and its purpose to support transformative development, with a general agreement that priority should be given to the rights of vulnerable populations and those living in poverty (which continues to be deep and widespread across developing countries – see Section 8). This issue, particularly as it relates to adaptation, has shaped earlier debates within the UNFCCC Green Climate Fund.

In 2017, developed country Board members of the Fund pushed to reject submitted projects from LDCs (from Bangladesh and Ethiopia) claiming that they addressed wider development objectives and were insufficiently focused on climate change.

In a letter to the Green Climate Fund Board, 83 NGOs from both the North and the South protested this narrow interpretation of its mandate. The letter states that the distinction between development and adaptation is "largely artificial" and suggests "vulnerability to climate change impacts is highly correlated with development deficits and capacity of people to build resilience." It goes on to argue that "adaptation funding at its best should be transformative, in line with the GCF mandate, and as such must go well beyond addressing the most immediate climate-related impacts."[38] Relations with CSOs have subsequently improved.

While recognizing the importance of climate finance as new and additional resources beyond existing ODA targets, this chapter maintains that effective concessional climate finance should be eligible to be considered ODA, and like other forms of aid it must also respond to the real localized, context-specific development needs of vulnerable people.

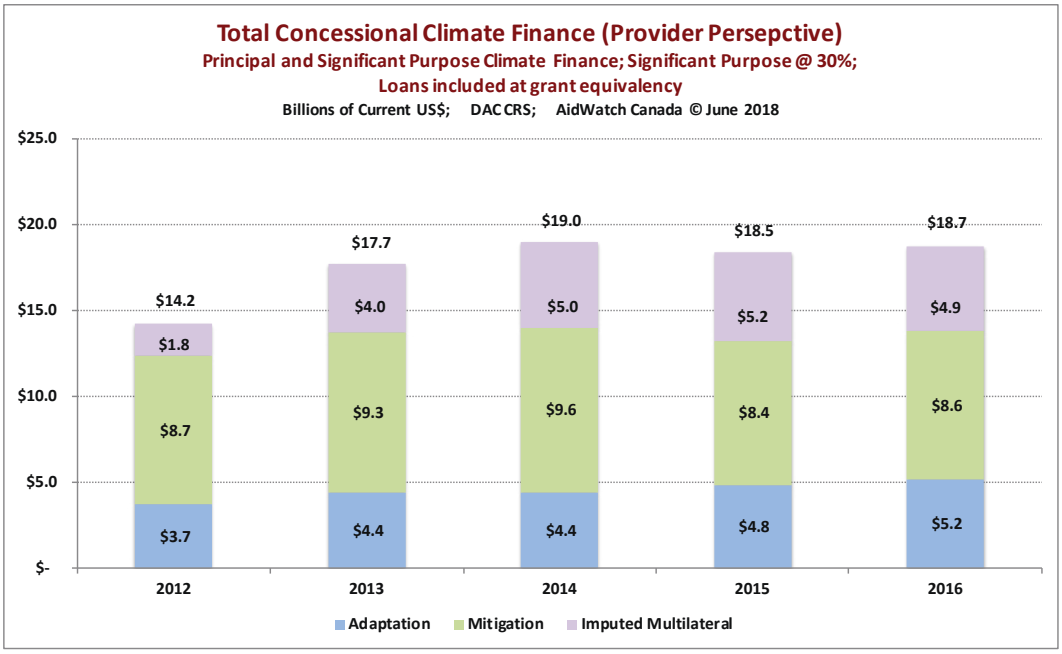
The value of ODA-reported climate finance

Total adjusted climate finance commitments averaged $17.6 billion per year from 2012 to 2016, and was largely flat-lined at $18.7 billion in 2016[39](Chart 7.1). While not inclusive of donors' non-concessional DFI finance, $18.7 billion is just half of the required $37.3 billion that the DAC Roadmap expects from such sources to achieve the $100 billion target by 2020.[40]

Global international finance institutions (IFIs) have been assuming a larger role in climate finance. According to the latest joint report by the multilateral development banks, **in 2017, these institutions put $33 billion towards climate finance projects from their own account** (resources raised by the banks themselves). This represented 25% of all resources from their own account[41] and already exceeds the $29.5 billion predicted in the donor *Roadmap* noted above. However, more than 80% of these IFI climate resources were provided on a loan basis, compounding developing country debt for purposes largely driven by the high carbon practices of the developed world over the past century.

At its spring 2018 meetings, the World Bank announced that climate finance, as a share of its portfolio, would rise to 30% (and for the International Finance Corporation to 35%). This is a significant increase

Chart 7.1



compared to the 2017 level of 22%. All projects will be screened for climate risk.[42] Given the Bank's drive to promote private sector solutions to development issues, it is likely there will be a high reliance on the private sector in its climate finance. Meanwhile, replenishments for the Global Environment Fund, also a major actor in climate finance, were less than expected at US$4.1 billion. This pledged amount was less than the previous GEF-6 ($4.4 billion and GEF-5 ($4.3 billion).[43]

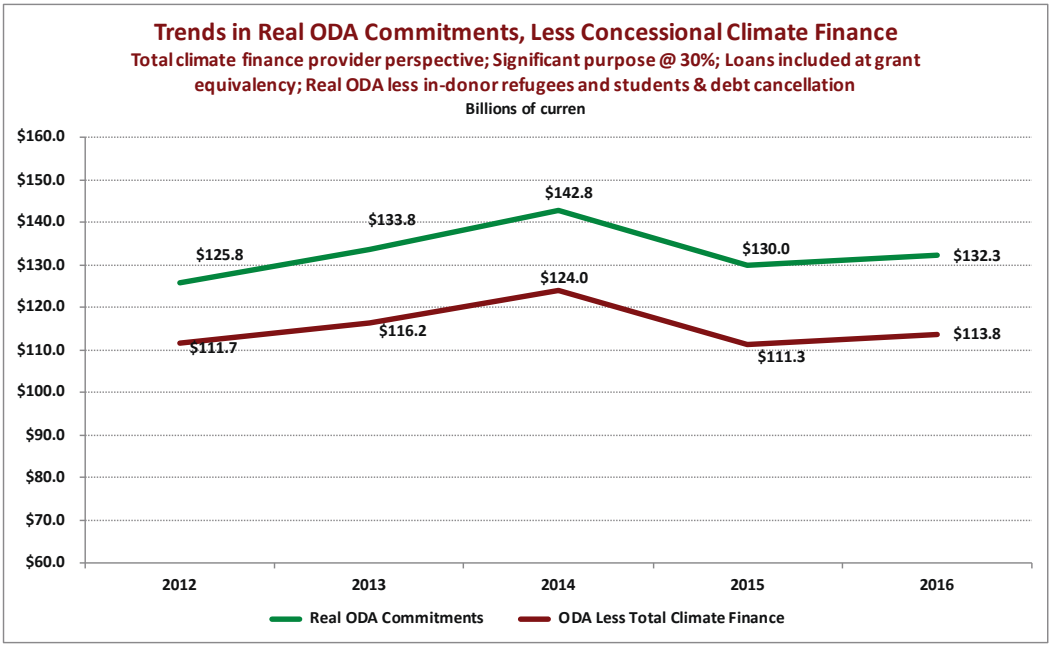
What has been the impact on ODA with the inclusion of climate finance?

Chart 7.2 suggests that climate finance has been slowly increasing as a share of total Real ODA commitments, from 11% in 2012 to 14% in 2016. **Climate finance has accounted for between $15 billion and $20 billion in reported ODA disbursements for all DAC donors each year since 2012.** On the assumption that climate finance should be additional to ODA (Bali and Copenhagen commitments), total ODA commitments available for other purposes were $111 billion in 2015 and $114 billion in 2016.

Three donors – Germany, France, and Japan – contributed more than 50% of all climate finance between 2012 and 2016. These donors were also among the largest donors to have significant increases in their ODA during this period (See Table 2.1), with climate finance likely representing a large part of this increase. **In 2016, climate finance made up 9% of French Real ODA commitments, 20% of Germany's Real ODA commitments and 18% of Japanese Real ODA commitments.** (Chart 7.3)

The influence of these three donors has also affected the quality of the modalities for ODA climate finance, resulting in a very high level of ODA loans relating to climate

Chart 7.2



finance from 2012 to 2016. **Fifty-seven percent (57%) of all climate finance is delivered through loans, including 33% for adaptation finance intended for low income and vulnerable countries.** France uses loans for 97% of its climate finance, Japan 93%, and Germany 64%.

Balancing adaptation and mitigation

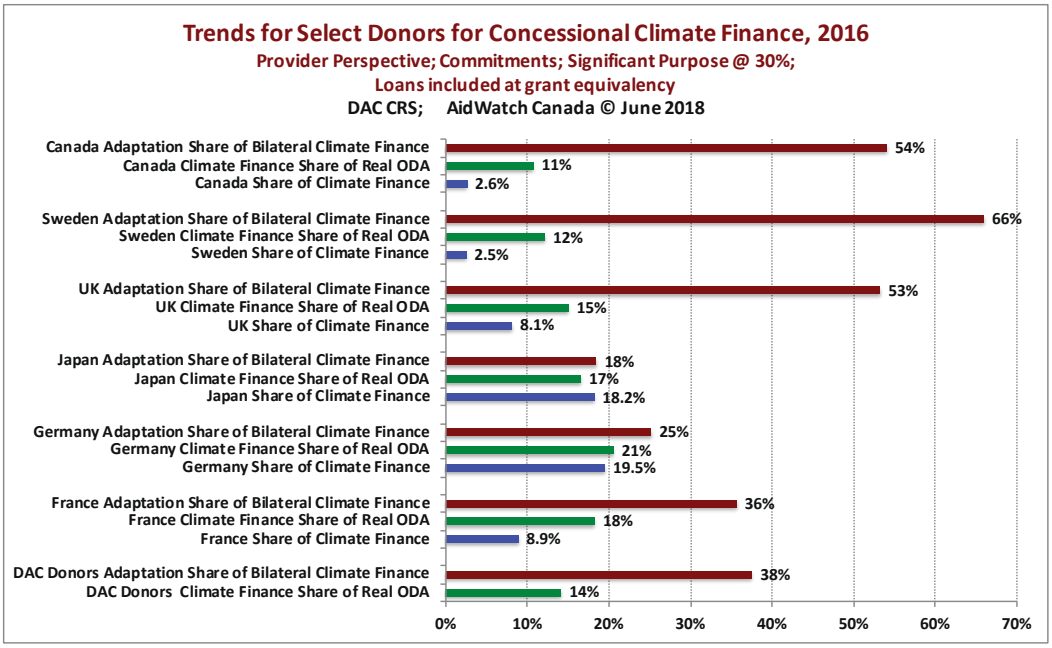
The Paris Agreement draws attention to significant imbalances in donor priorities between finance for mitigation (most of the finance to date) and adaptation (a much smaller proportion, but of significant value to vulnerable people living in poverty). The Agreement supports:

> "the provision of scaled-up financial resources, [which] should aim to achieve *a balance between adaptation and mitigation*, taking into account … the priorities and needs of … the least developed countries and small island developing States, considering the need for public and grant-based resources for adaptation [emphasis added]." [Article 9, 4]

However, the Agreement gives no definition of a "balanced" allocation.

Since 2012, the balance between adaptation and mitigation for DAC countries as a whole has improved slightly, from 30% in 2012 for adaptation to 36% in 2016 Chart 7.4). The allocation of climate finance to Sub-Saharan Africa and Least Developed and Small Island States has been significant (see Chart 7.5 and Chart 7.6 below), though greater effort is needed to realize a more equal allocation between mitigation and adaptation. The United Nations Environment Program estimates that adaptation costs for Africa alone will be close to $50 billion a year by 2025/2030.[44] Sub-Saharan Africa received a mere $1.6 billion per year in adaptation ODA finance between 2012 and 2016.

Chart 7.3



The Green Climate Fund[1]

In 2010 parties to the United Nations Framework Convention on Climate Change (UNFCCC) established the Green Climate Fund as its core funding mechanism. It has been designated to implement the Paris Agreement.

As of May 2018, the Fund has raised $10.3 billion from 43 governments, including 9 developing countries. These pledges include $3 billion from the United States, of which only $1 billion is likely to be delivered, given the impending withdrawal of the United States from the Paris Climate Agreement. But at its meeting in early 2018, the Board was deadlocked on a new call for replenishment of resources.

By February 2018, the Fund had committed approximately half of its $8.3 billion budget. But projects under implementation (May 2018) totalled only $651 million, with $158 million disbursed to date. While CSOs have praised the management of the Fund for its openness to CSO comments on projects and policies prior to their approval, they have been critical of the very slow implementation and dispersal of funds. Part of the delay is due to the fact that it took the World Bank more than a year to sign a master agreement to administer the finances for the Fund.

Of the project approved,

- 57% focus on mitigation and 43% on adaptation (dividing 28% cross cutting between these two purposes);
- 60% are directed to the public sector and 40% to the private sector, with no funding of public/private projects;
- 43% are disbursed through loans and 43% grants;
- 17% were allocated to national projects; and
- 75% were allocated to international projects.

The Fund has been operating for about three years and is still establishing its major guidance policies. It recently adopted an Indigenous Peoples Policy, recognizing that a significant number of projects will be implemented in indigenous peoples' territories, as well as an Environment and Social Policy. The latter was adopted from the World Bank's International Finance Corporation. The Fund has also adopted a Gender Mainstreaming Policy.

1 See Arkin, F., "The Green Climate Fund commits billions, but falls short on disbursements," DevEx, May 9, 2018, accessed May 2018 at https://www.devex.com/news/the-green-climate-fund-commits-billions-but-falls-short-on-disbursements-92648. See the Green Climate Fund at https://www.greenclimate.fund/home. See the Indigenous Peoples Policy at https://www.greenclimate.fund/safeguards/indigenous-peoples. See the Environment and Social Policy at https://www.greenclimate.fund/safeguards/environment-social. See the Gender Mainstreaming Policy at https://www.greenclimate.fund/how-we-work/mainstreaming-gender.

What has been the geographic focus for ODA climate finance?

Between 2012 and 2016 bilateral ODA climate finance commitments have been heavily concentrated in Asia. This region received 47% of mitigation finance and 30% of adaptation finance. (Chart 7.5 and Chart 7.6)

Chart 7.4

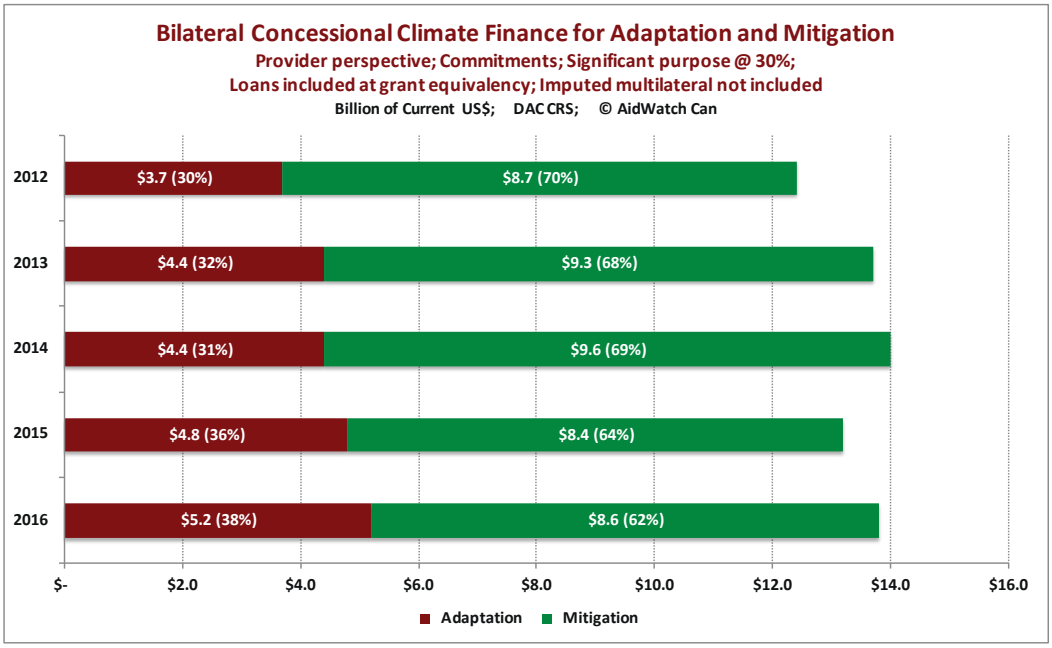
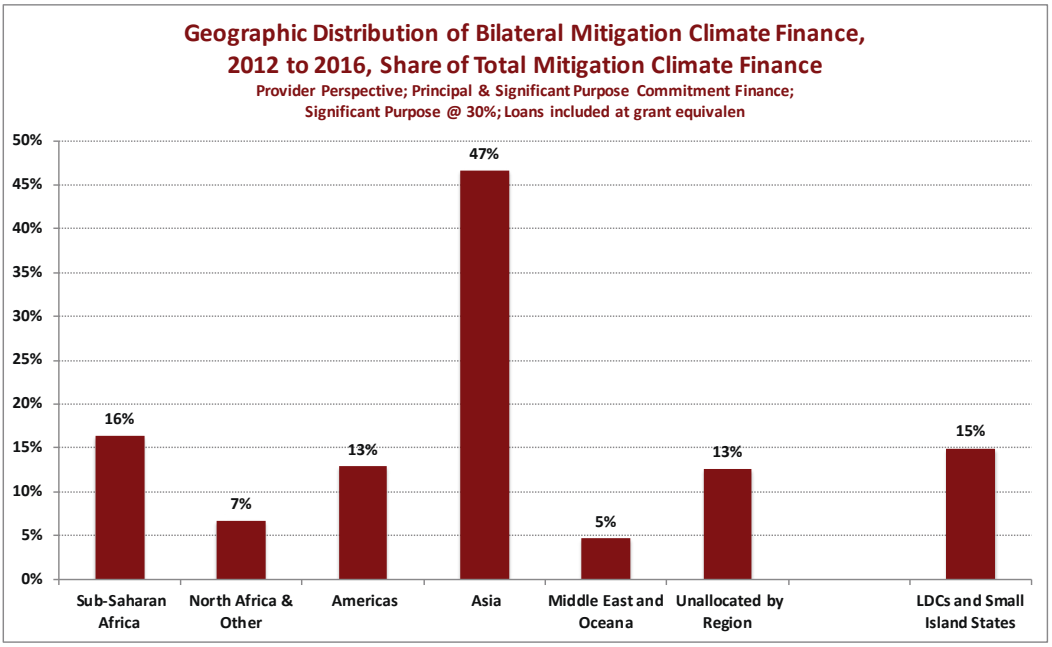


Chart 7.5



The 2016 Paris Agreement gave special attention to **Sub-Saharan Africa, Least Developed Countries and Small Island States** for climate finance, recognizing that these countries are highly vulnerable to the impact of climate change. The quality of climate finance in relation to these country priorities steadily improved between 2012 and 2016. Over the five years, **Sub-Saharan Africa received only 16% of bilateral mitigation finance, but it received 37% of adaptation finance. LDCs and Small Island States had a similar experience, with 15% and 34% respectively.** (Chart 7.5 and Chart 7.6)

In terms of country income groups, the share of Least Developed and Low Income Countries in Bilateral ODA Adaptation Finance has increased significantly from 39% in 2012 to 56% in 2016. Lower Middle-Income and Upper Middle-Income countries both experienced a declining share of Bilateral ODA Adaptation Finance. (Chart 7.8)

Least Developed and Low Income countries increased their share of Mitigation ODA Finance from 8% to 26% between 2012 and 2016. The share of Lower Middle-Income countries decreased from 66% to 42% during this same period. Upper Middle Income Countries received almost one-third of mitigation finance in 2016. (Chart 7.7)

Sectoral allocation of ODA Climate Finance

As might be expected, the priority sectors for mitigation finance focus on energy and infrastructure. Energy allocations are slanted towards renewable energy sources, power transmission and policy. Still, non-renewables make up 16% of the sector allocation of mitigation to energy. (Chart 7.8)

Chart 7.6

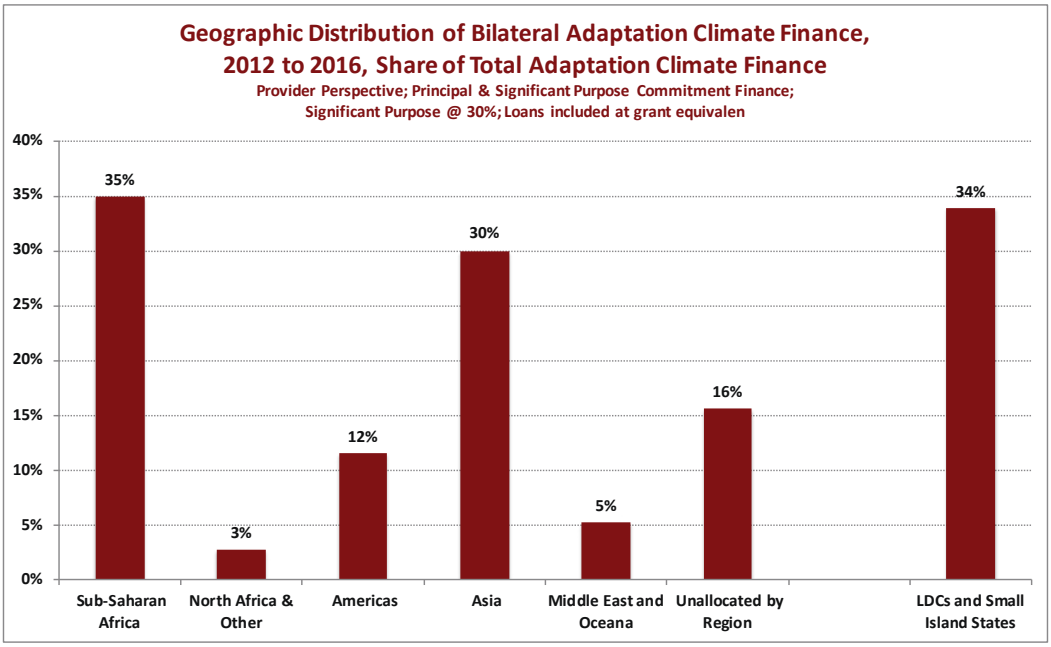
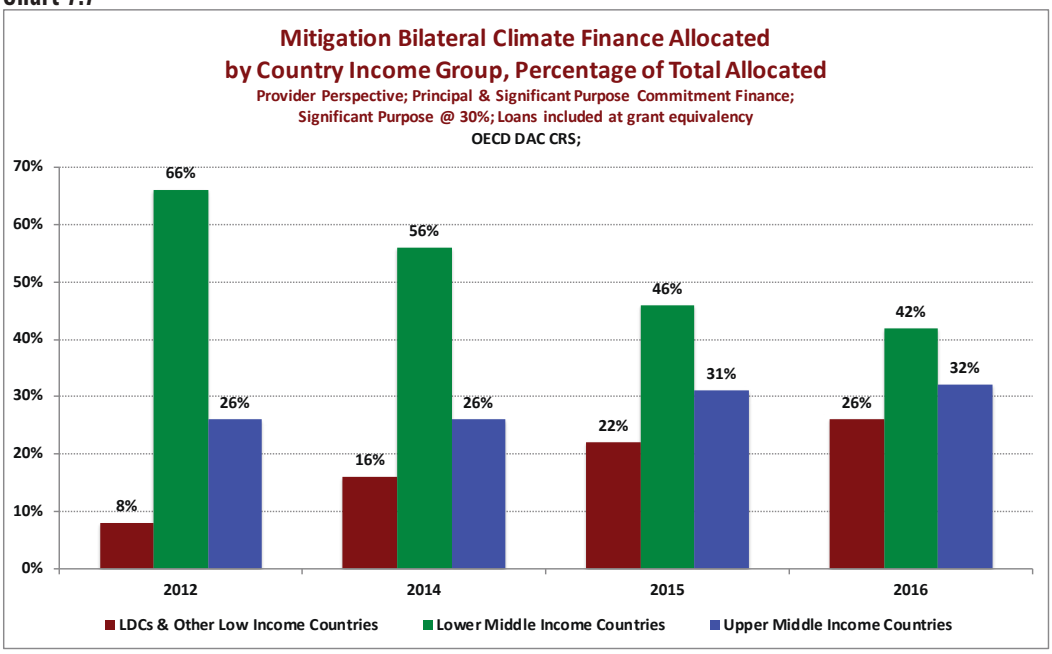


Chart 7.7



The sector allocation of adaptation finance is spread among water and sanitation (22%), environmental protection (21%), agriculture (18%) and humanitarian assistance (12%).

D. The Purpose of ODA and Poverty Reduction

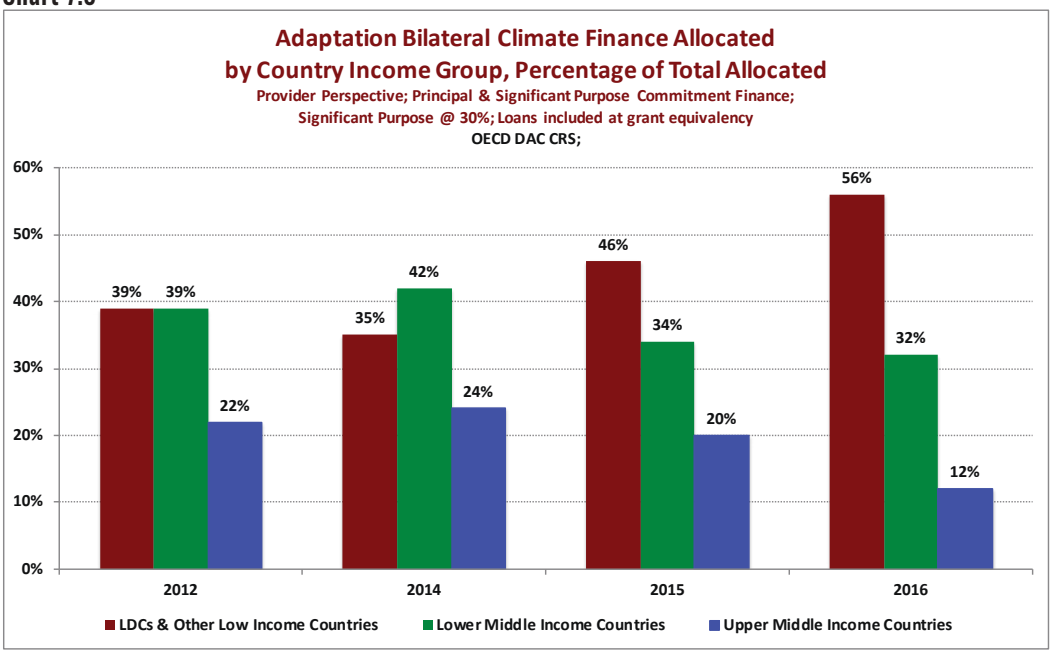
8. ODA as a dedicated resource for Agenda 2030 – But what constitutes the extent and depth of poverty in developing countries?

The setting of international and national poverty lines is a highly politicized exercise. Current poverty lines leave hundreds of millions of people uncounted who nevertheless are living the reality of poverty, vulnerability, and marginalization in Low Income, Lower-Middle Income and Upper-Middle Income countries. Their needs and interests should not be sidelined in donor priorities for ODA in responding to SDG One, whose target is eliminating and substantially reducing poverty, particularly in the poorest countries.

Using the World Bank's differentiated poverty lines by country income groups, an estimated 2.5 billion people are living in poverty, more than 40% of the population of developing countries as a whole. Approximately 800 million of these 2.5 billion live in extreme poverty.

The 2016 Reality of Aid Report argued that the setting of international and national poverty lines and their expression as SDG1, to end poverty in all its forms everywhere, is highly political and contentious.[45]

Chart 7.8



The imperative to address extreme poverty

There is no reason why the global community cannot work together to eradicate extreme poverty by 2030. Conditions of absolute destitution are morally reprehensible and development cooperation can play a major role in its elimination. Over the past two decades, progress has been made on reducing extreme poverty, particularly in China, India and Indonesia. But it is not clear that continuing this progress is sustainable, as extreme poverty has become more dispersed among countries, requiring significant efforts to reduce poverty in fragile states.[46]

However, a critical question is whether an exclusive concentrated focus on extreme poverty in aid allocations will reduce donor potential to strengthen broader national anti-poverty programs. It is necessary to also tackle conditions that sustain hundreds of millions who are very poor, but above $1.90 a day. These people are highly vulnerable to sudden conflict, damaging climate events, sexual violence, or family health calamities. Hundreds of millions of people who live on the edge of extreme poverty will be left behind if they are excluded from the development agenda, including the strategic choices in the allocation of aid.

Agenda's 2030's goal is ambitious – to end poverty in all its forms and "to leave no one behind." While 'leaving no one behind' relates to many of the SDGs, including reducing inequality, it also acknowledges that poverty is multi-dimensional and inter-dependent with other forms of marginalization. Poverty cannot be reduced to a minimum standard of absolute depravation implied by the poverty line of $1.90 a day income. But what measure provides an adequate

assessment of national situations and determines the appropriate allocation of domestic government support and aid priorities? Unfortunately, there is currently only one specific indicator for SDG1: [the] proportion of population below the international poverty line [$1.90 a day], by sex, age, employment status and geographical location (urban/rural)."

Donors that make poverty a priority have often focused on the objective of eliminating extreme poverty as outlined in SDG1. For example, a recent UK aid review situated "tackling extreme poverty" within the context of four overarching goals for its ODA – (a) global peace, security and governance; (b) resilience and response to crisis; (c) global prosperity; and (d) tackling extreme poverty.[47]

All four goals are important and are reflected in many recent statements by other donors on ODA priorities. But such an approach potentially ignores the needs and interests of hundreds of millions of people, albeit not destitute, but who are living in extreme conditions of poverty and vulnerability. There is an underlying assumption that "pro-poor" markets and economic growth initiatives, supported by private sector partnerships, will address these conditions. To date there is little evidence that this is the case. This chapter also challenges this assumption.

Establishing poverty lines

Recent research has confirmed that the universal application of $1.90 a day as the poverty line makes invisible the experience of poverty in many countries beyond Sub-Saharan Africa. A more country specific approach is required.[48]

The World Bank has also recently acknowledged that separate international poverty lines are required to assess the condition of poverty in countries with different economic circumstances. It has consequently fixed $1.90 a day for extreme poverty in Low Income Countries, principally in Sub-Saharan Africa and South Asia; $3.10 a day for poverty in Lower Middle Income countries, and $5.50 a day for poverty in Upper Middle Income countries.

The OECD's DAC 2017 *Development Cooperation Report* analyzed the weaknesses and limitations of current country statistics on poverty.[49] The 2016 Reality of Aid Report pointed out that national poverty lines are highly politicized and may be set artificially low to exclude millions of people from social benefits and other initiatives. One can be "lifted out of poverty" by crossing an arbitrarily low benchmark for income or purchasing power of a basket of goods without a significant change in life circumstances.

In a study for the Overseas Development Institute, Clair Hoy pointed out the importance of poverty lines in China, India and Indonesia for re-assessing the breadth of global poverty. In his words,

> "These countries would have a much higher national poverty line today, given their mean consumption, if they were consistent with the cross country trend. The national poverty line would be almost four times higher in China, around 2.5 times higher in Indonesia and more than 50% higher in India. This would result in around two thirds of the population in these countries being defined as living in poverty."[50]

The World Bank poverty line of $1.90 a day put 325 million people in these three countries currently living in conditions of extreme. But using Clair Hoy's rough estimate that two-thirds of the population are living in poverty, this would imply that approximately 1,950 million people live under these broader conditions of poverty. As middle-income countries, at the World Bank's $3.10 and $5.50 a day poverty lines, the Bank calculates that 1,390 million people are affected by poverty. Clearly international poverty lines are at best a vague approximation of poverty, and likely capture only the minimum population affected by poverty and marginalization.

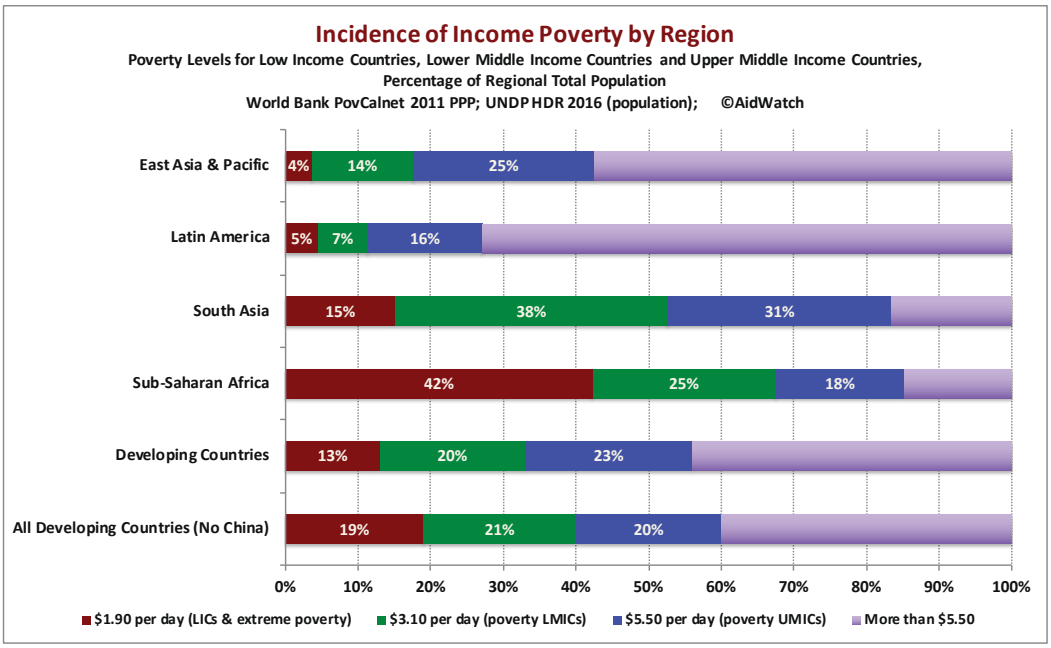
Considerations of the extent and depth of poverty can have profound implications for country allocations of ODA. Not only does an acknowledgement of a broader range of poverty mean that significantly more aid is required. It also confirms that this aid must be programmed through partnerships that address the complexity of the conditions shaping and sustaining poverty in middle-income countries.

Levels of global poverty

The World Bank calculates that 13% of the population of developing countries live in extreme poverty on less than $1.90 a day. The highest concentrations are in Sub-Saharan Africa (42% of its population) and South Asia (15% of its population). Excluding China, almost a fifth (19%) of the population of developing countries live in conditions of destitution. (Chart 8.1)

An additional 20% of developing countries' populations live on less than $3.10 a day, many of them functioning inside the informal economy where they are very vulnerable to falling back into extreme poverty. Another fifth (23%) live on a daily income between $3.10 a day and $5.50 a day, which is considered to be a measure of poverty in Upper Middle-Income countries. (Chart 8.1)

Chart 8.1



According to World Bank poverty lines for Low-Income, Lower-Middle Income, and Upper-Middle Income countries, people living in poverty make up 46%, 47% and 31% of populations, respectively. Using the latest population figures for World Bank income groups, 2.5 billion people were living in poverty or more than 40% of the population of developing countries as a whole. Approximately 800 million of these 2.5 billion live in extreme poverty. (Chart 8.2)

The reach of poverty conditions in developing countries is further confirmed by statistics on poverty among the working population, which have been collected by the International Labour Organization (ILO).

According to ILO statistics, close to 70% of working people in developing countries live highly precarious lives, existing on less than $3.10 a day. These people, approximately 2 billion, earn their living mainly in the informal economy. The majority lack decent working conditions or basic rights or social protection. Informal work is widespread, making up 85% of all employment in Africa, 68% in Asia/Pacific, and 69% in Arab countries.[51]

For emerging market countries fully one-quarter of those who are employed live on less than $3.10 a day. (Chart 8.3)

The ILO also calculates an index of vulnerability based on a strong correlation between the informal economy and vulnerability. In 2016, 79% of the working population were considered to be vulnerable (to unexpected economic, health or climatic shocks) in developing countries and 47% in emerging market countries.

If the primary purpose of ODA is to be a catalyst for the reduction of poverty and inequality, comprehensive donor strategies for tackling poverty should be established across the spectrum of developing countries, not only in the poorest and least developed. Aid to people living in least

Chart 8.2

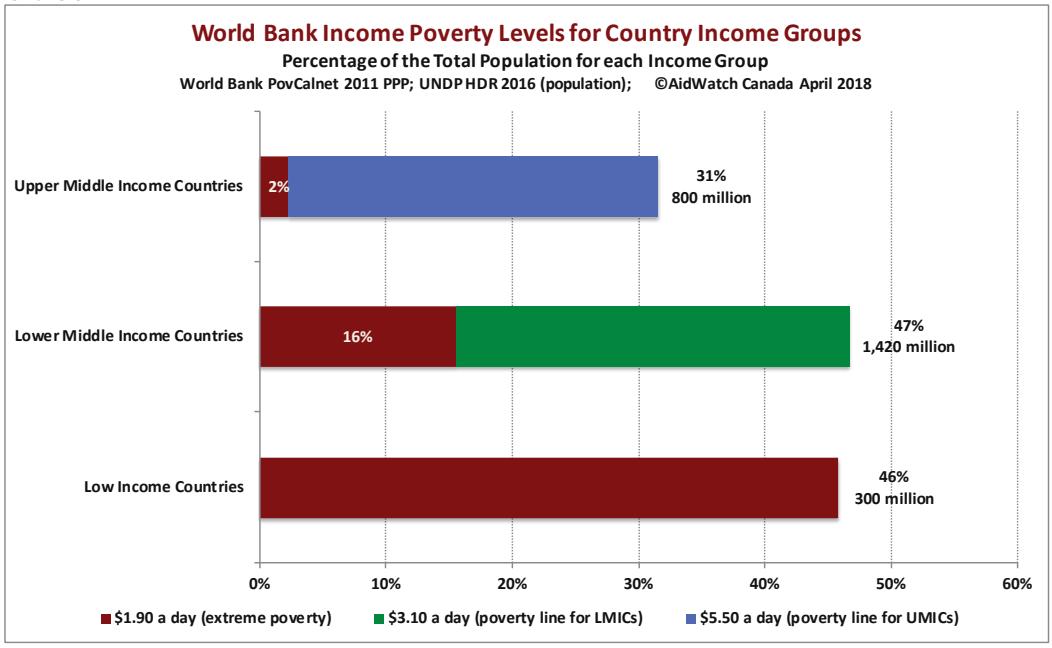
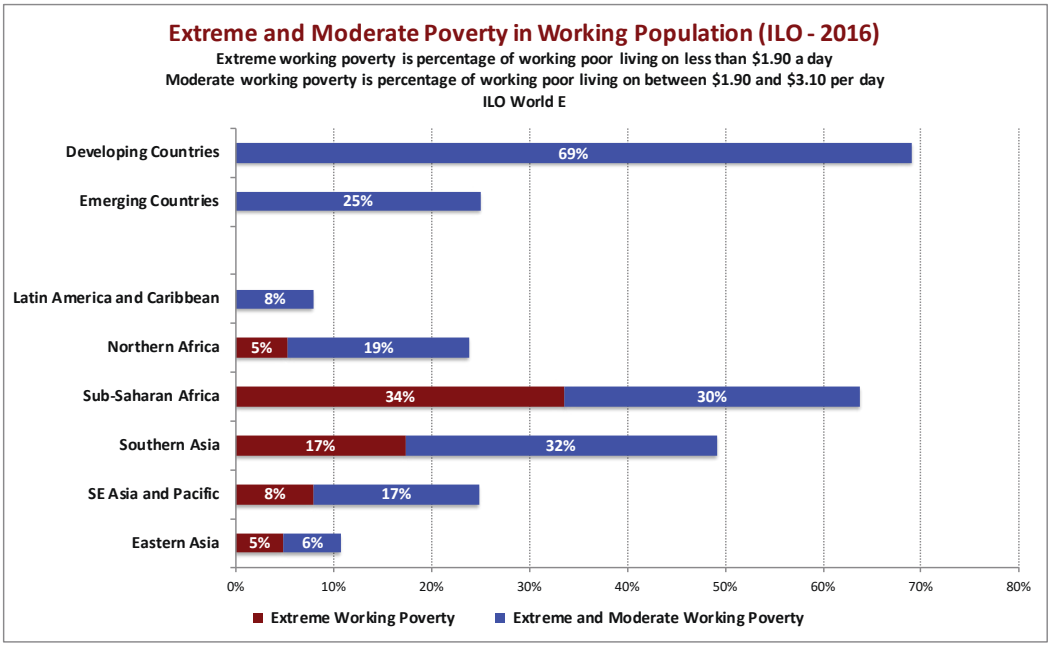


Chart 8.3



developed countries is essential. But donors should not ignore the fact that an estimated 1.4 billion people are living in poverty in Lower-Middle Income countries and 800 million in Upper-Middle Income countries. ODA, as well as other cross-boarder flows, should also be allocated in ways that contribute to transforming the lives of these people.

E. Is Aid actually being allocated for poverty reduction?

9. The amount of aid directed to Least Developed Countries for long-term development is relatively small?

In 2016, 44% of Real ODA was allocated to Least Developed (LDCs) and Low-Income Countries (LICs). As a proportion of allocated ODA, the share of Real ODA directed to these countries has declined since the high in 2010 (47%). ODA allocated to Upper-Middle Income Countries (UMICs) increased from 14% of Real ODA in 2010 to 17% in 2016. This share increased from 2014 when it was 15% of Real ODA.

In recent years, changing country allocations for humanitarian assistance has mainly driven these changing allocations to income groups. When humanitarian assistance is excluded (looking at aid for long-term development) regional programming expands dramatically from 11% to 39%. Aid for long-term development to LDCs and LICs has declined from 34% in 2010 to 30% in 2016 (compared to 44% including humanitarian assistance). ODA for long-term development in Lower-Middle Income Countries has also declined from 24% in 2010

to 20% in 2016. Aid to Upper-Middle Income Countries was relatively constant, at 11%, during these seven years.

ODA to Least Developed and Low Income Countries

Excluding debt cancellation and ODA unallocated by income group (in-donor refugees and student costs), **in 2016, 44% of Real ODA was allocated to Least Developed (LDCs) and Low-Income Countries (LICs). As a proportion of allocated Real ODA, the share of ODA directed to these countries has declined from 2010 when it stood at 47% but has not changed substantially since 2014.** (Chart 9.1)

Aid to Afghanistan was $4.0 billion in 2016, or 9% of total donor aid to LDCs. This aid is largely motivated by donor foreign policy interests and the war against the Taliban. Aid to Afghanistan has declined from a high of $4.5 billion in 2014 when it encompassed 11% of donor support for LDCs.

In 2015, donors financing the SDGs reiterated their commitment to deliver 0.15% to 0.20% of their GNI as aid to the 48 least developed countries (LDCs) [*Transforming Our World*, 17.2, A/RES/70/1,26/35]. This promise has not yet been fulfilled. **DAC donors' LDC ODA/GNI ratio reached 0.10% in 2010, but since then has fallen back to 0.09% and that ratio has remained unchanged since 2012.** (Chart 9.5)

The value of Real ODA for LDCs (in 2016 dollars) has increased by 5% since 2014 moving from $42.1 billion, just prior to the 2015 launch of Agenda 2030, to $44.3 billion in 2016. (Chart 9.2) This modest increase is overshadowed by the fact that Real ODA increased by 12% between these years. (Chart 1.1) In practice, donors have ignored their commitment to substantially increase aid to LDCs.

Chart 9.1

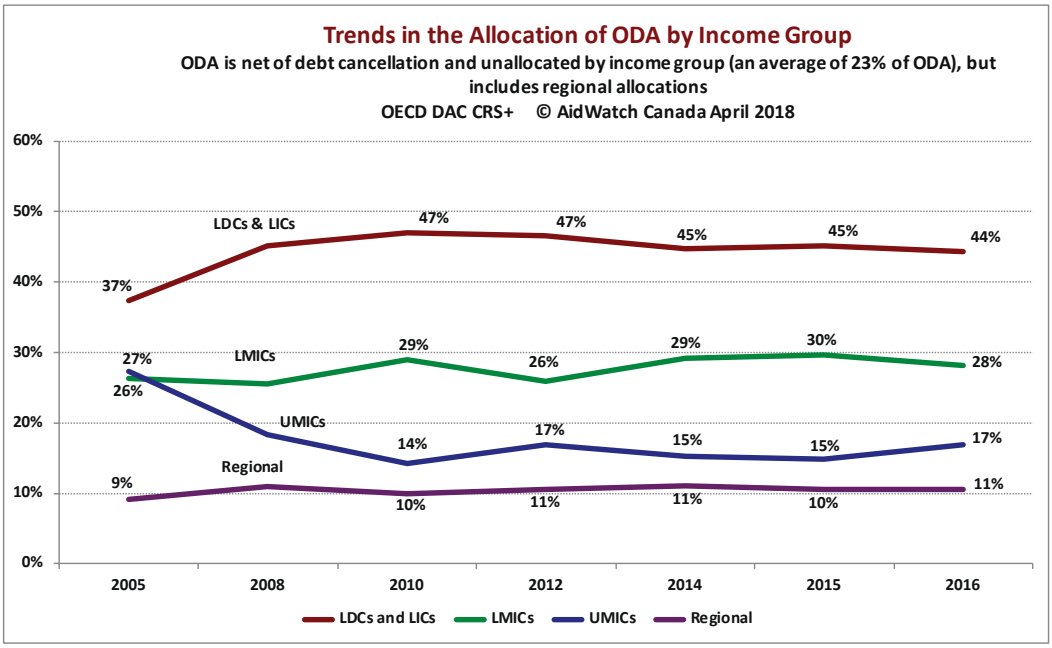


Chart 9.2

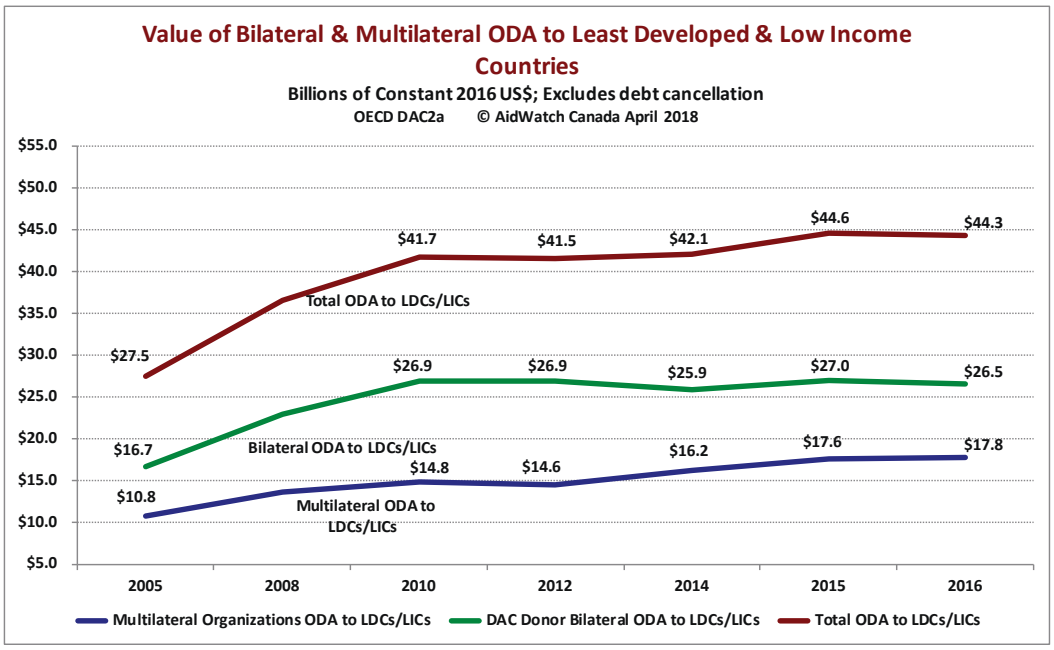
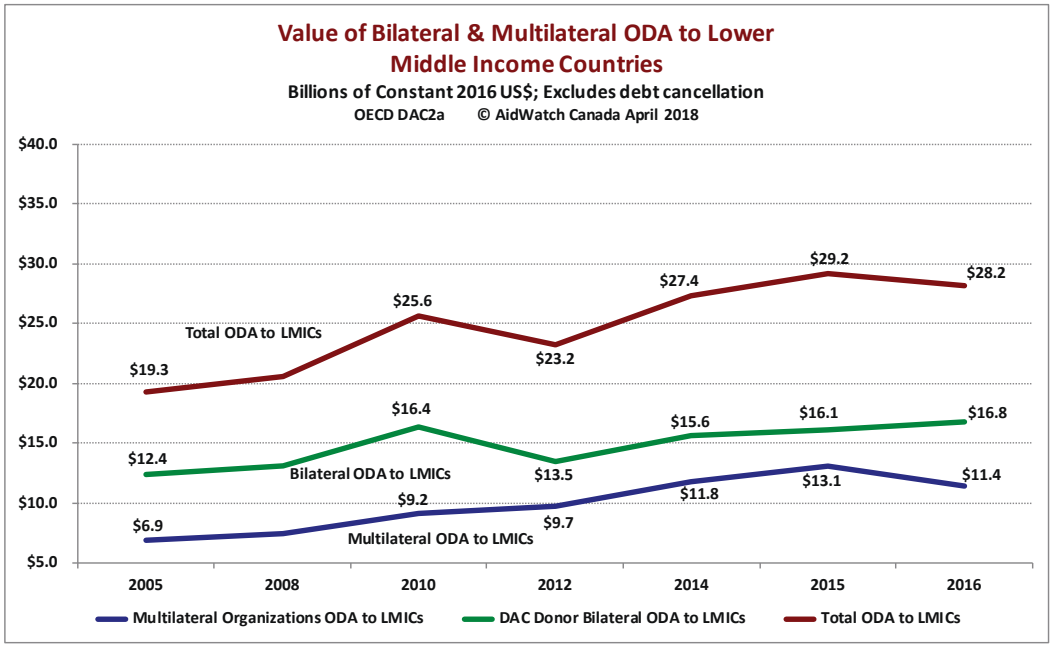


Chart 9.3



ODA to Lower-Middle Income Countries

ODA to Lower-Middle Income Countries (LMICs) has remained largely unchanged from 2010 to 2016, standing at 29% of allocated Real ODA. (Chart 9.1) **This aid amounted to $16.8 billion in 2016 (2016 dollars) and $16.4 billion in 2010.** (Chart 9.3)

Chart 9.4

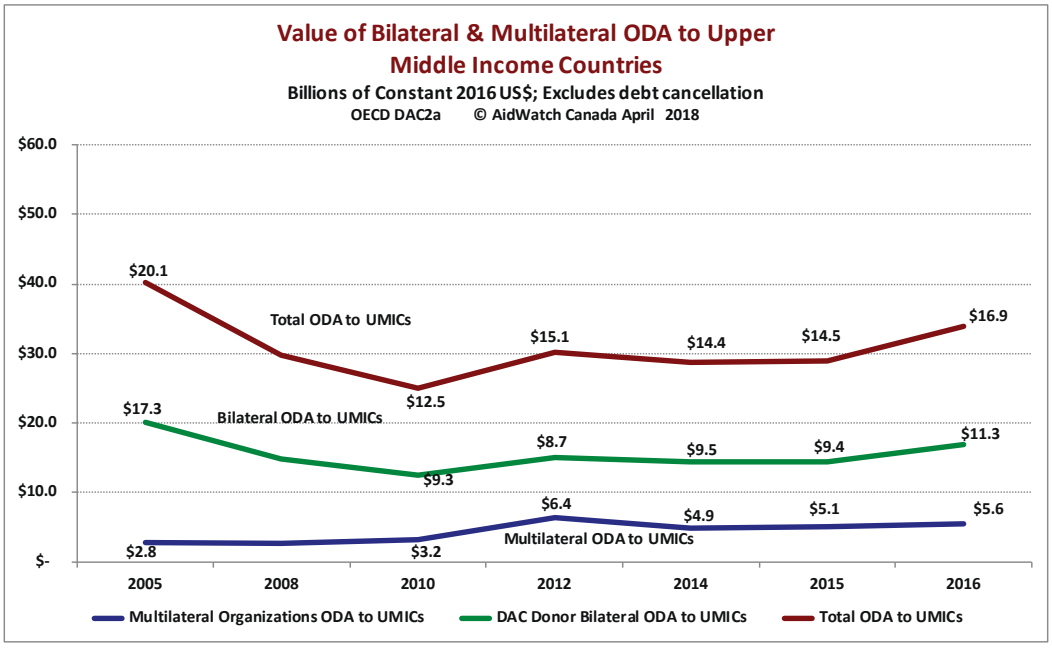
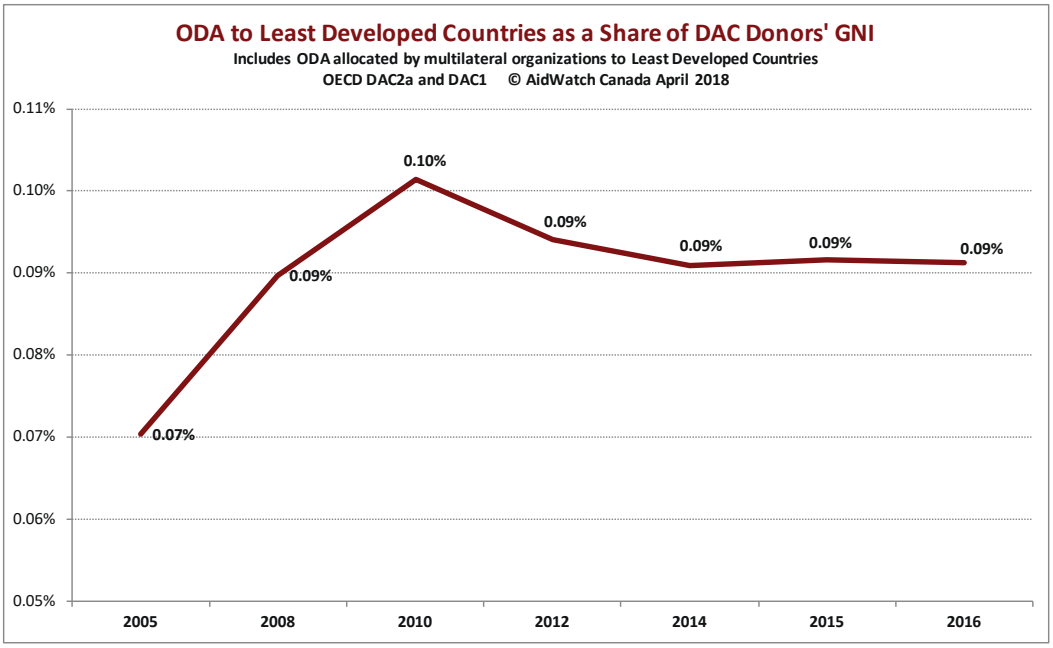


Chart 9.5



However, in 2016 this aid was concentrated in fewer countries. Lower-Middle Income Countries numbered 36 in 2016, down from 48 in 2010. The 12 countries that graduated to Upper-Middle Income status received $7 billion in ODA in 2010 (56% of aid to UMICs in that year) and $9.1 billion in 2016 (54% of aid to UMICs in

that year). (Chart 9.4) However, Iraq and Jordan (countries with high humanitarian assistance needs) accounted for 44% of this $7 billion and 47% of the $9.1 billion in 2016.

ODA to Upper Middle Income Countries

Section eight (8) documented that significant numbers of people live in poverty in middle-income countries, particularly in lower Middle-Income countries.

ODA allocated to Upper-Middle Income Countries (UMICs) increased from 14% of Real ODA in 2010 to 17% in 2016. This share also increased from 2014 when it was 15% of Real ODA. (Chart 9.1)

The value of ODA to Upper-Middle Income countries increased by 35% between 2010 and 2016, from $12.5 billion to $16.9 billion (2016 dollars). The increase in value of this ODA between 2014 and 2016 was 17%. (Chart 9.4)

Some of these increases are the result of humanitarian crises in the Middle East. Aid allocations related to the Syrian crisis have had a significant share of ODA to UMICs in recent years. In 2016, of the 58 UMICs, three countries – Turkey, Jordan and Lebanon – accounted for $3.5 billion or 21% of all aid allocated to UMICs in that year. If Iraq is included, this share rises to 32%.

Allocation of ODA for long-term development by income group

As noted in section four (4) above, humanitarian assistance has been an increasing share of ODA. Excluding humanitarian assistance in the calculations has a significant impact on the share of ODA provided for long-term development to the different country income groups.

Chart 9.6

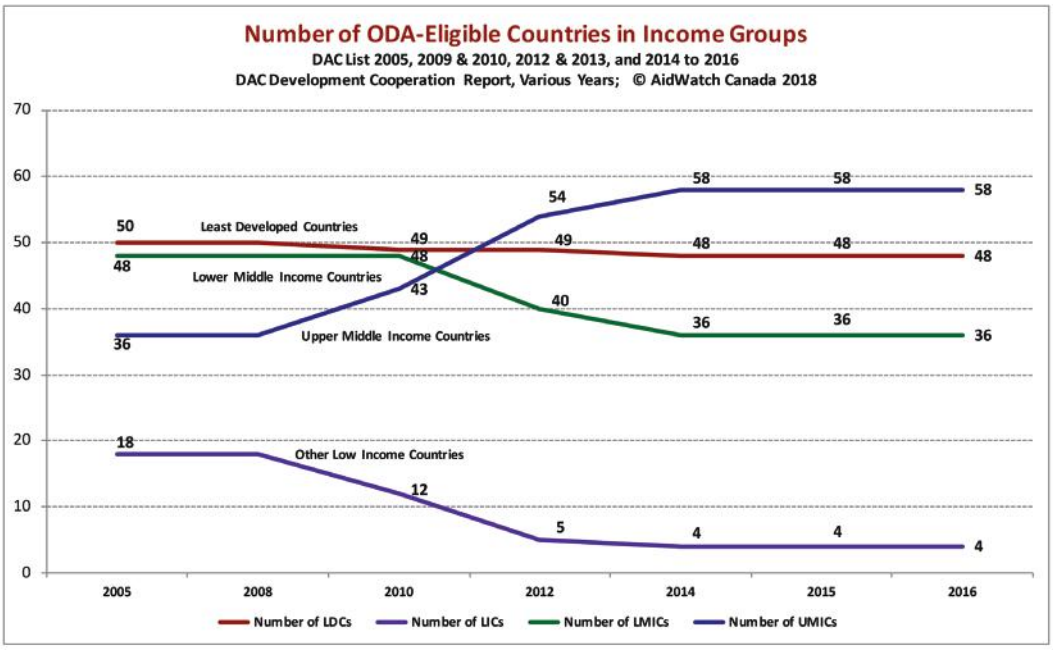


Chart 9.7

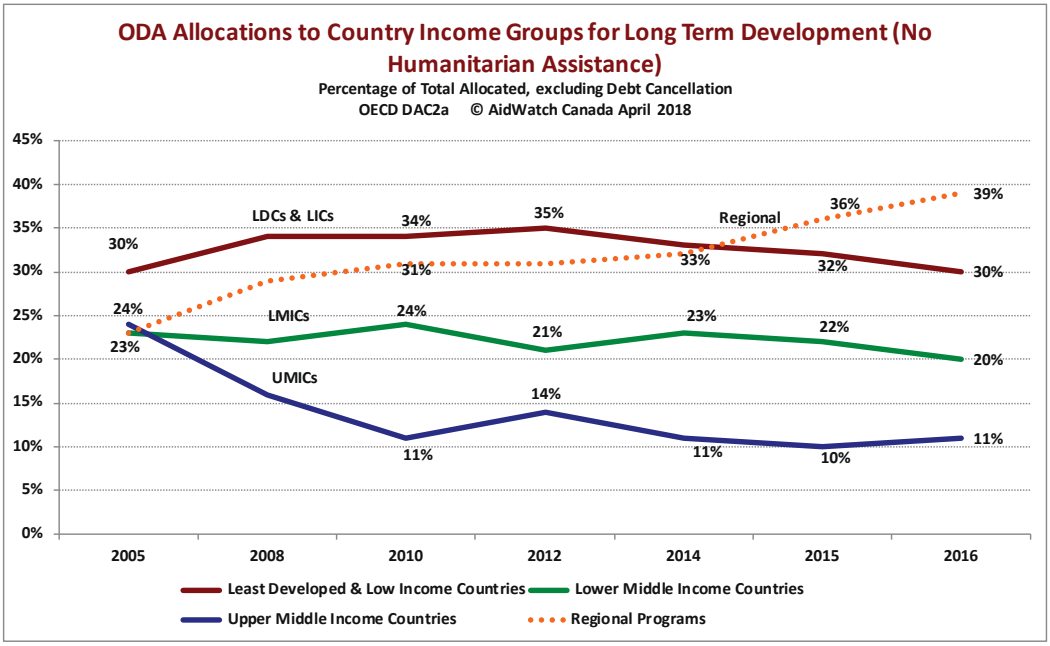
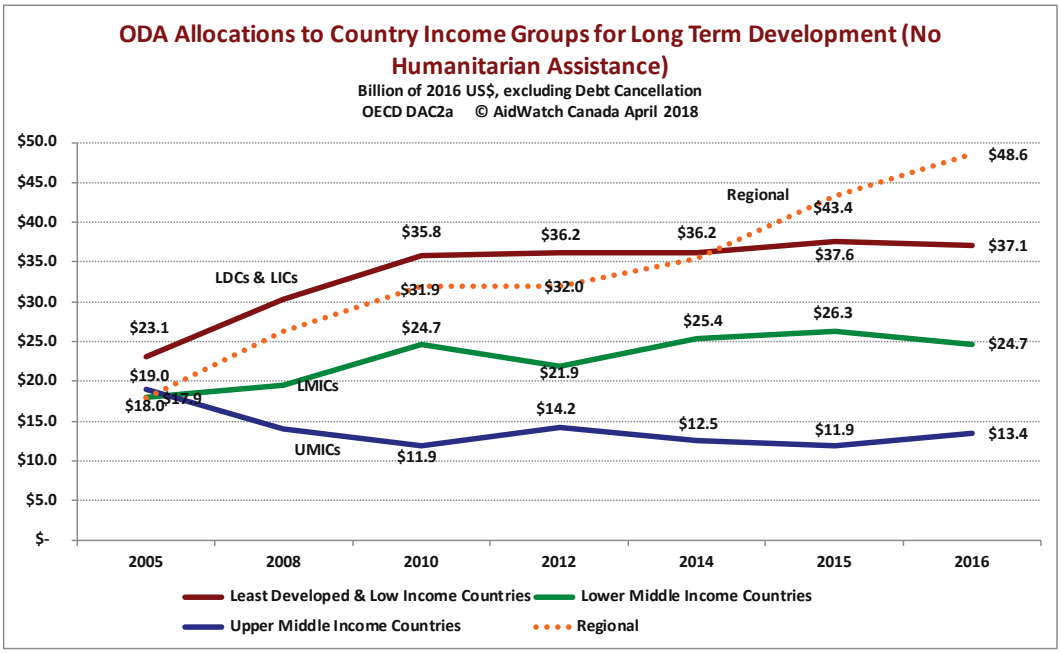


Chart 9.8



Notably, the share of ODA devoted to regional programs rises dramatically to 39% in 2016 (compared to 11% if humanitarian assistance is included). (Chart 9.7 and Chart 9.1) Regional allocations have been increasing significantly in dollar terms (2016 dollars) from $31.9 billion in 2010 to $48.6 billion in 2016. (Chart 9.8)

ODA for long-term development in Least Developed and Low-Income Countries has been declining since 2010, from 34% of long-term development ODA in that year to 30% in 2016. (Chart 9.7) This share compares to 44% for ODA if humanitarian assistance is included. In 2016-dollar terms long-term development assistance for LDCs and LICs has been flat over these seven years. (Chart 9.8 and Chart 9.1)

ODA for long-term development in Lower-Middle Income Countries has also declined from 24% in 2010 to 20% in 2016 (compared to 28% including humanitarian assistance in 2016). In the case of Upper-Middle Income Countries, this share has remained constant at approximately 11% (compared to 17% including humanitarian assistance in 2016). (Chart 9.7 and Chart 9.1)

Noting the large differences if humanitarian assistance is or is not included, it is clear that changing allocations for humanitarian assistance have been a main driver for changes in overall ODA allocations to income groups.

Graduation of Countries to Middle Income Status

Chart 9.6 summarizes the changing status for countries graduating upwards to a new income level. There has been a significant decline in the number of Low-Income Countries outside of Least Developed Countries, from 18 in 2005 to 4 in 2016. At the other end, there has been a dramatic increase in Upper Middle-Income Countries from 36 in 2005, to 43 in 2010, and 58 in 2016. Notably, the number of Least Developed Countries is largely unchanged – 50 countries in 2005 and 48 countries in 2016. Similarly, while countries have changed, the actual number of Lower Middle-Income Countries has remained constant.

Changing income status affects the eligibility for concessional finance from the World Bank's International Development Association (IDA) as well as other programs such as GAVI, the Vaccine Alliance. It is expected that a further 9 countries, including Pakistan, Sudan and PNG will be graduating from IDA in the next cohort. Concerns have been raised about the high level of debt servicing obligations in this cohort as well as the quality of governance to manage impacts on health systems and programs that address continued levels of poverty in these countries.[52]

10. Aid directed to Sub-Saharan Africa for long-term development is also low.

Sub-Saharan Africa has the largest proportion of people (42%) living in destitution, at less than $1.90 a day. An additional 25% live in poverty with between $1.90 a day and $3.10 a day, many of whom are highly vulnerable to slipping back into extreme poverty.

11. Aid directed to gender equality and women's empowerment shows modest improvement, but is unacceptably low.

Given the centrality of women's rights and gender equality for making progress in the SDGs, it is alarming that 65% of all Real ODA in 2015 still does not have any objectives relating to these purposes. In 2015, as a share of Real Bilateral ODA, only 6% of projects had gender equality as their primary objective.

Chart 10.1

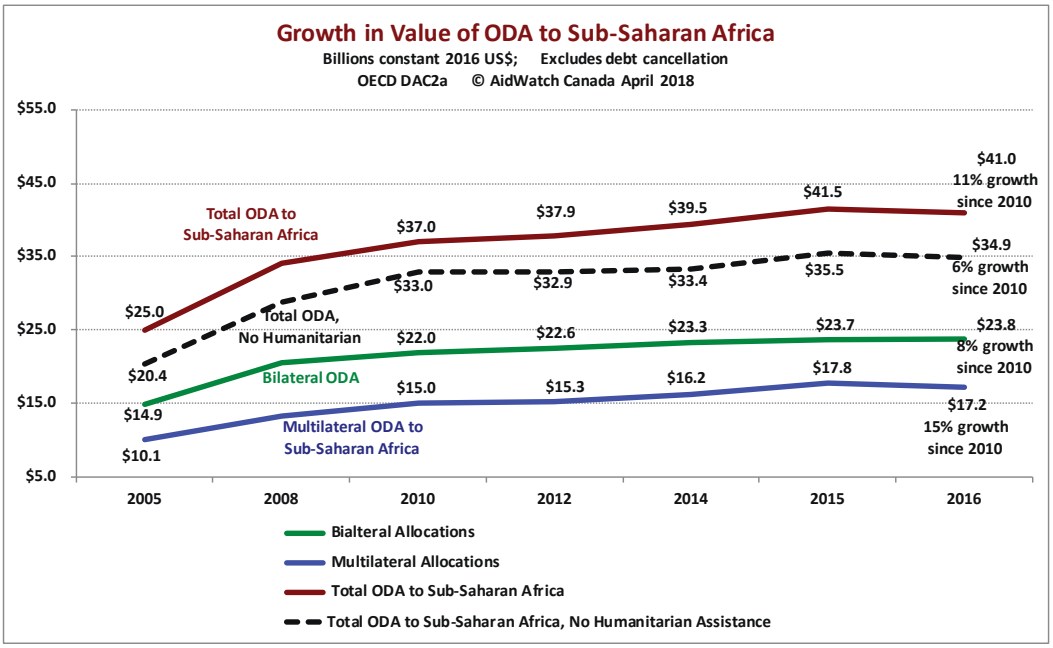
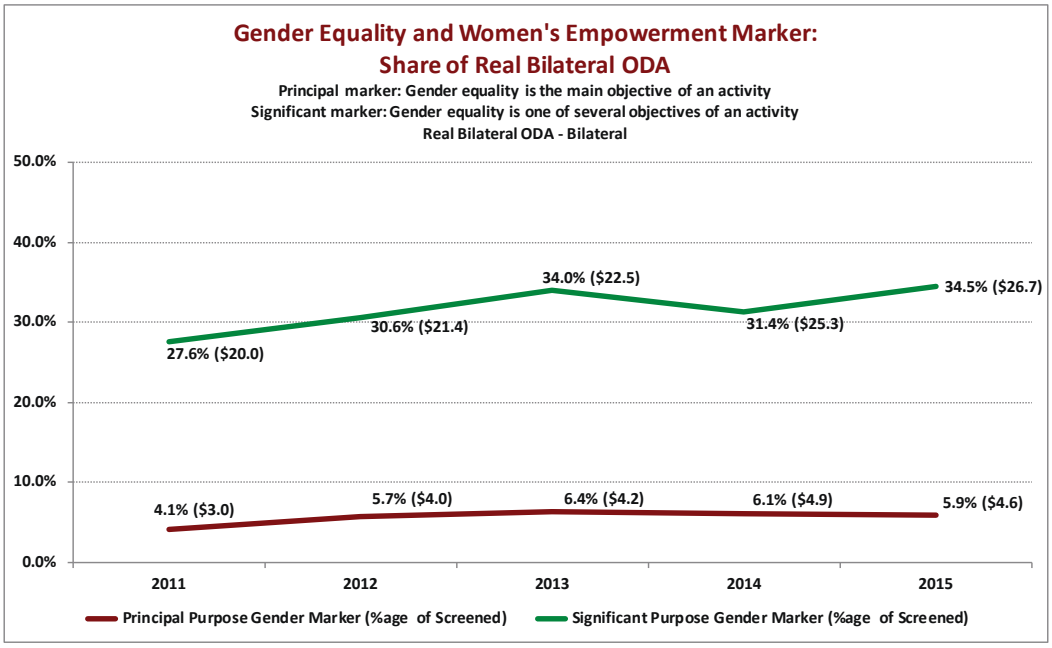


Chart 11.1



Donor support for women's rights organizations is a key catalyst for sustainable progress in gender equality and women's empowerment. While the value of this support (in 2016 dollars) has increased by more than 50% since 2011 reaching a total of $479

million in 2016 (Chart 11.2), as a share of ODA marked "principal gender purpose," it declined from 11% to 9% between 2011 and 2015.

The DAC monitors donor intentions and commitment to gender equality and women's empowerment through its gender policy marker. Donors screen and score their projects according to three criteria: 1) Gender equality is the *principal* objective of the project (gender equality is the stated primary goal); 2) Gender equality is a *significant* objective (gender equality is one of several objectives of the activity); or 3) There are no gender equality objectives in the activity. The DAC produces an annual report on progress using this marker as its reference point.[53]

Projects with gender equality as *principal* and *significant* objectives have demonstrated modest improvement over the past five years (between 2010 and 2015). Nonetheless, in 2015 **only 6% of projects by value had gender equality as their primary objective, as a share of Real Bilateral ODA**. Projects, where gender equality was one of several explicit objectives were 35% of Real Bilateral ODA in that year. (Chart 11.1)

Most donors have set out explicit policies relating to gender equality in development cooperation. Canada recently adopted a feminist international assistance policy and Sweden has set out a feminist foreign policy.[54] Other donor countries have put some emphasis on gender equality in development cooperation, but have resisted the implications of feminist policies.[55] A feminist international assistance policy implies not only strong commitments to gender equality as a cross-cutting concern, but also implementation of a gender analysis for all program areas, as the basis for determining funding priorities.

Chart 11.2

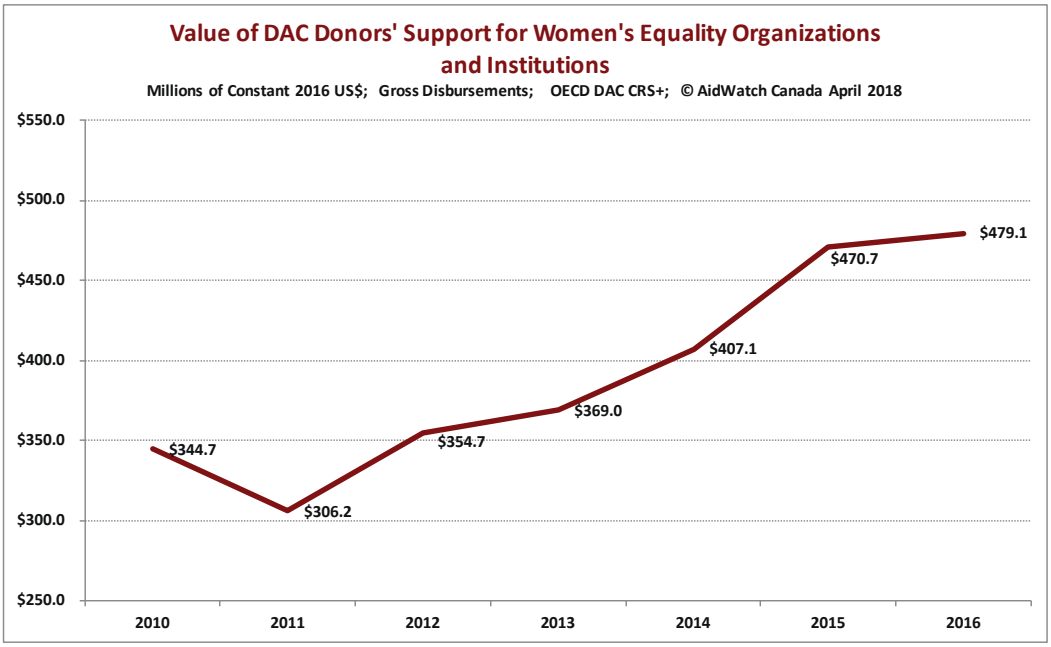
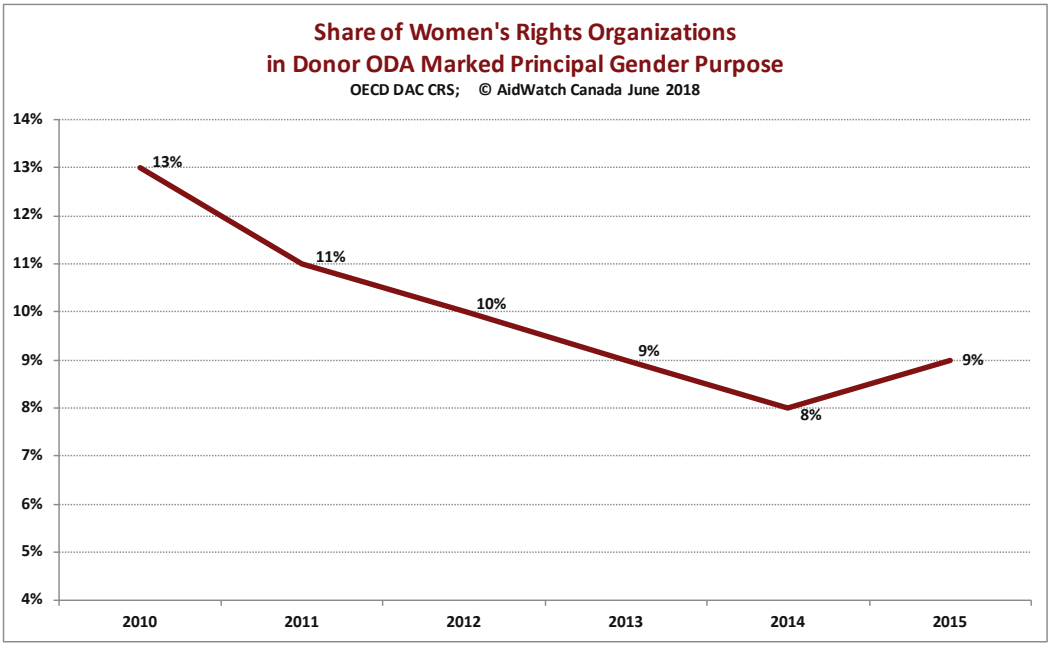


Chart 11.3



In 2015 several donors committed significant resources to projects and programs with gender equality as a principal objective(Sweden – 17% of screened projects; Spain – 12%; Belgium – 12%; Netherlands – 11%; Norway – 9%; United Kingdom – 9%.) As part of its Feminist International Assistance Policy, Canada has set a target, whereby 15% of its bilateral programs are to have gender equality as a principal objective by 2020. In 2015 only 3% of its screened projects were designated with this marker.

In terms of sector priorities, in 2015 health and population/reproductive health made up 42% of all projects marked gender equality principal purpose, democratic participation and civil society, 10%, and education, 9%. Given the importance of women in agricultural production, it is surprising that only 4% of all projects were marked gender equality principal purpose. Similarly, humanitarian assistance projects accounted for only 2% of these projects.

Donor support for women's rights organizations is a key catalyst for sustaining progress in gender equality and women's empowerment. This support made up only a small proportion of donor aid and donor commitments to gender equality. **While its value (in 2016 dollars) has increased since 2011 by more than 50% to a total of $479 million in 2016 (Chart 11.2), as a share of ODA marked "principal gender purpose," it has declined from 11% to 9%**. (Chart 11.2 and Chart 11.3)

In 2015, almost half (44%) of ODA to women's rights organizations was channelled through NGOs/CSOs. Another 33% was channelled through multilateral organizations (including contributions to UN Women) and only 8% through the public sector.

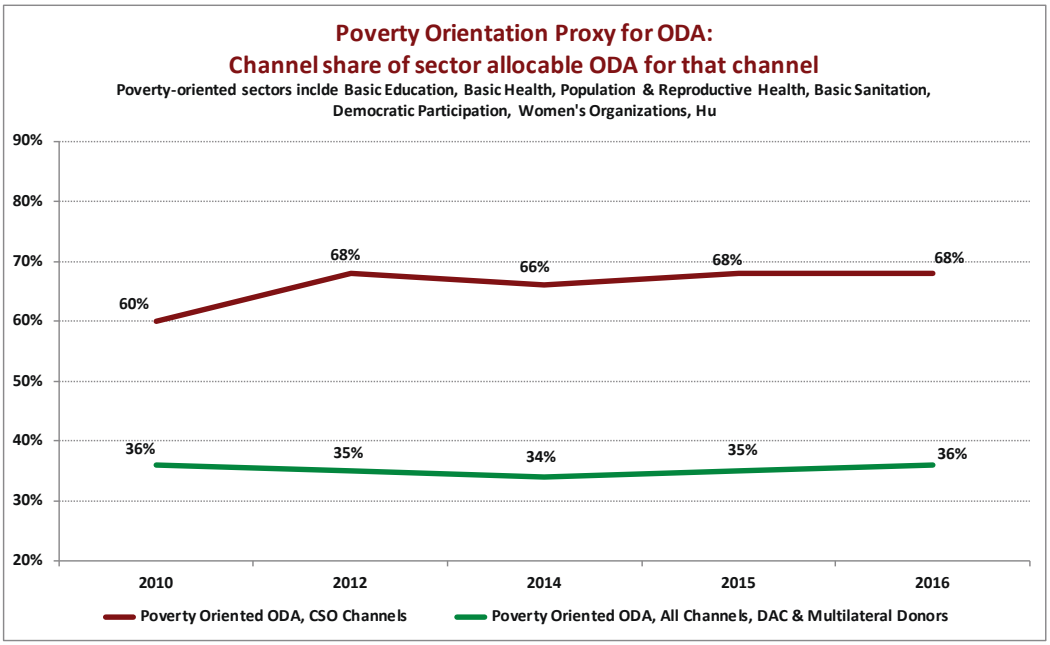
Given the centrality of women's rights and gender equality for the SDGs, the overall weakness apparent in donor performance on the gender marker is troubling. Combined with other trends, such as increased attention to engagement of private sector actors through blended finance (see section sixteen [16] below), this performance may worsen. Recent analysis of blended finance demonstrates weak targeting of gender equality and the potential to exacerbate other forms of inequalities such as conditions for people living with disabilities.[56]

12. Proportion of aid directed to sectors important for poverty reduction is largely unchanged.

A review of DAC donors' disbursements, including multilateral disbursements, indicates a modest priority for sectors of importance to poverty reduction. This is largely unchanged since 2010, at 36% of sector allocable ODA in 2016. Significantly less than half of donor ODA that has been allocated by sector is devoted directly to sectors of primary importance for people living in poverty. This proportion has been unaffected by the rhetoric of Agenda 2030 with the commitment to "leave no one behind." Several of the largest donors, the EU (24%), France (15%), Germany (21%) and Japan (13%) have poor performance on this indicator.

The DAC does not measure the degree to which poverty reduction is a focus in the allocation of DAC ODA. Given the importance of several key sectoral areas that directly affect the prospects for people living in poverty, it is possible to create a proxy indicator and apply it to donor aid disbursement. These twelve

Chart 12.1



(12) DAC sectors for this poverty-focused ODA proxy include:

- Basic Education (DAC sector 112: I.1.b)
- Basic Health (122: I.2.b)
- Population and Reproductive Health (130: I.3)
- Basic Water and Sanitation (14030, 14031, 14032)
- Democratic Participation and Civil Society (15150)
- Women's Rights Organizations (15170)
- Ending Violence Against Women (15180)
- Civilian Peace-building (15220)
- Agriculture (310: III.1)
- Informal Finance (24040)
- Small and Medium Enterprises (32130)
- Cottage Industries (32140)

There has been a very modest priority for these sectors, largely unchanged since 2010, at 36% in 2016, including multilateral aid. (Chart 12.1) This proportion of donor ODA that has been allocated by sector has been largely unaffected by the rhetoric of Agenda 2030, with the commitment to poverty eradication, reducing inequality and "leave no one behind."

Civil society organizations are very important channels in the allocation of aid resources to these key sectors. As a share of aid delivered by CSOs, poverty sector allocations have increased from 60% in 2010 to more than two-thirds, or 68% in 2016. (Chart 12.1)

Donor bilateral disbursements for poverty-oriented sectors varied considerably, with large donors such as France, Germany and Japan, having a poor performance. In contrast, both the United States and the United Kingdom provided significant levels of aid to these sectors. Other (select) donors also tended to perform well with this indicator. (Table 12.1)

Despite the overall failure of donors to substantially improve their profile in poverty-oriented sectors, some of these sectors have exhibited modestly positive trends.

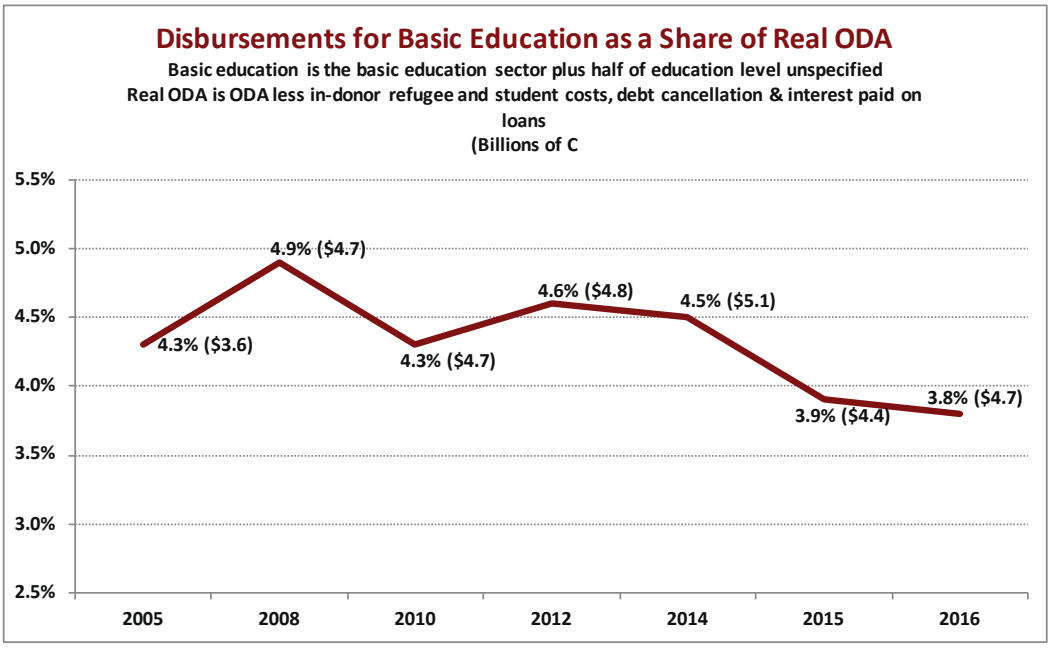
Table 12.1 Share of Sector-Allocable Bilateral ODA to Poverty-Sector Proxy

Donor	2010	2014	2016
France	19%	16%	15%
Germany	23%	18%	21%
Japan	15%	11%	13%
United Kingdom	35%	41%	41%
United States	53%	58%	62%
Canada	55%	50%	54%
Denmark	48%	48%	48%
Netherlands	28%	54%	49%
Norway	39%	38%	45%
Sweden	47%	51%	50%
All Donors	35%	36%	37%

Specific Sector Allocations

While the value of ODA to the basic education sector remained constant at $4.7 billion (2016 dollars) between 2010 and 2016, its share of Real ODA has declined from 4.3% to 3.8%. (Chart 12.2) Global funding for basic education is woefully short of what is required. An estimated 260 million children are still not enrolled in school and 330 million face a school environment in which they learn very little. It is estimated that the funding gap to achieve the SDG for education is $39 billion (including domestic investments).[57] Nevertheless, donors only committed $2.3 billion for the replenishment of the Global

Chart 12.2



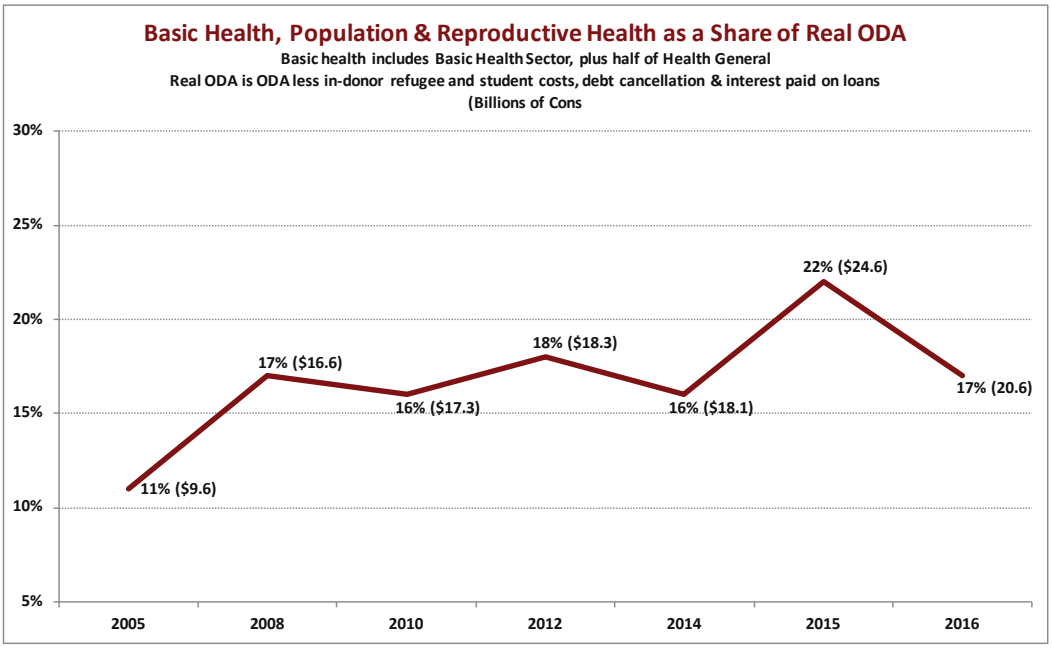
Partnership for Education, in relation to a target of $3.1 billion for the 2018 – 2020 period.[58]

Since 2005, donors have made basic health and reproductive health sectors a priority. The value of investments in these sectors doubled from $9.6 billion (2016 dollars) in 2005 to $20.6 billion in 2016. **However, with the exception of 2015, as a share of Real ODA, disbursements to these sectors have changed little since 2010, remaining more or less at 17%.** (Chart 12.3) In 2015, a large disbursement by the Global Fund to Fight AIDS, Tuberculosis and Malaria accounted for the significant increases in2015. Unfortunately, this disbursement was an anomaly. Levels increased from $2.6 billion in 2014 to $6.7 billion in 2015, but then returned to $2.8 billion in 2016.

Recent developments in the US political scene have had major consequences for women's reproductive health programs. In 2017 the Trump administration re-instated and expanded the "Global Gag Rule," which effectively bans US funding to any family planning institution or CSO that promotes or performs abortions using funding from any source, not just the United States government. Human Rights Watch has estimated that the implementation of this broad financing criterion by the United States has expanded the impact on international funding for family planning from $575 million (with just US financing) to an estimated $8.8 billion in global health assistance.[59]

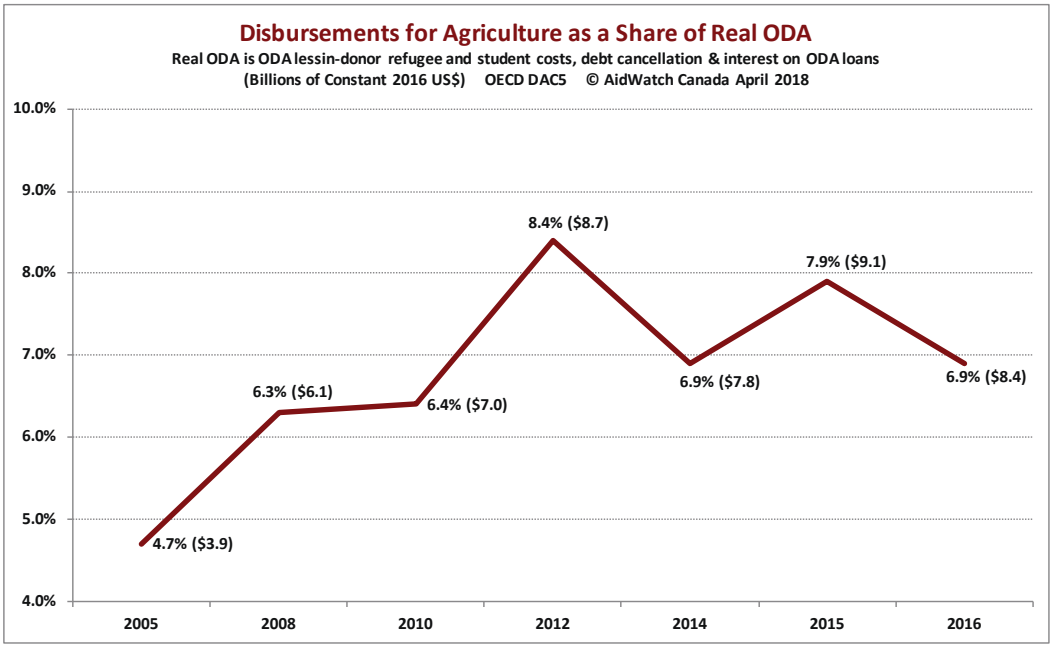
In addition, the US Center for Disease Control is expected to implement massive cuts to its overseas operations in 2019. The Centre plays a critical role in global disease surveillance and early identification of illnesses such as HIV, TB or Zika virus. The cutbacks will severely limit its work as a result of plans to reduce country offices from 124 to 10.[60]

Chart 12.3



Sustained investments of ODA in agriculture, a key sector for marginalized women and people living in poverty has grown by only 0.5% as a share of Real ODA since 2010. While amounts (in 2016 dollars) varied between 2010 and 2016, the value of ODA for this sector is $1.4 billion higher in 2016 than 2010. (Chart 12.4)

Chart 12.4



F. Undermining the Quality of ODA

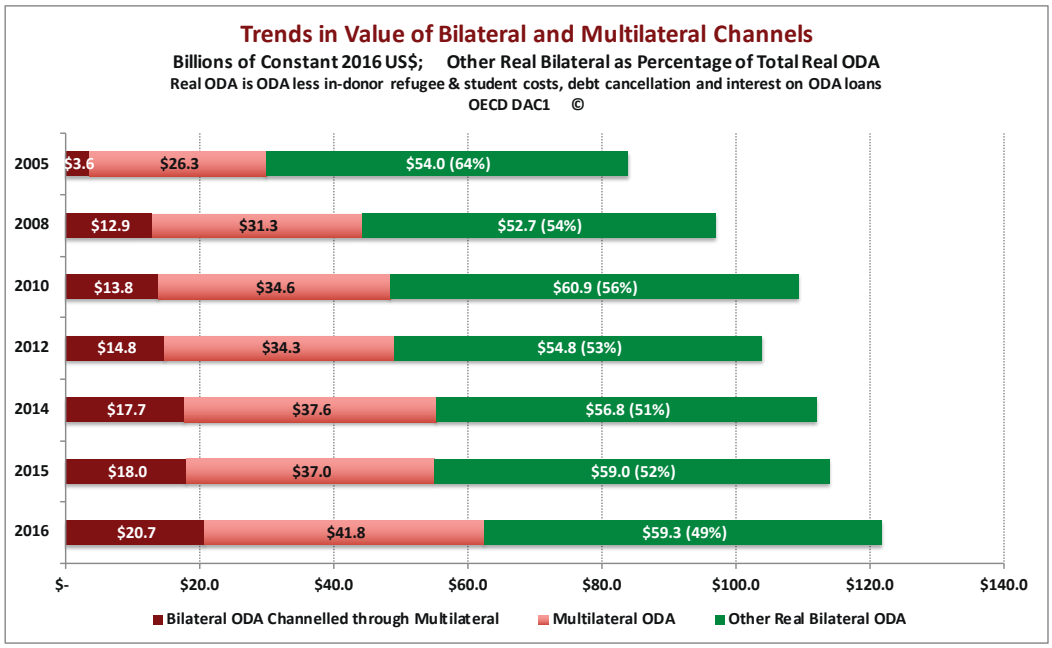
13. Instrumentalizing the United Nations multilateral system

Donor support for the core budgets of multilateral organizations has been relative constant at 33% of Real ODA. But donors have increasingly relied upon donor-controlled special purpose funds within multilateral organizations to reduce their own transaction costs. In 2016 these funds amounted to $20.7 billion. The multilateral system administered more than 50% of Real ODA in 2016, up from 36% in 2005. The proliferation of dedicated funds, with their own separate and different governance and policies for allocation, have a significant effect on the capacities of these organizations to mount a coherent and sustained program.

Donor support for the core budgets and programs of multilateral organizations, particularly within the UN system, can be a quality development resource. These organizations, which are governed by UN members, tend to allocate their development resources in response to the expressed needs of developing country governments (country ownership). They are often able to rise above individual donor political and foreign policy interests that can drive the allocation of bilateral assistance.[61]

Donor support for core budgets of multilateral institutions has been relatively constant at 33% of Real ODA since 2010. But, in 2016, donors also channelled an additional $20.7 billion in bilateral aid through these multilateral organizations, in addition to $41.8 billion in

Chart 13.1



assessed core contributions. **Together, the multilateral system administered more than 50% of Real ODA in 2016, up from 44% in 2010 and 36% in 2005.** (Chart 13.1)

Bilateral ODA channelled through multilateral organizations is generally directed to special-purpose donor funds. These funds are administered by UN organizations, but the donors retain degrees of control over the terms and conditions for their allocation. Examples of non-core funding mechanisms include multi-donor trust funds (e.g. UNDP's South Sudan Humanitarian Fund), special thematic funds (e.g. support for victims of sexual abuse by UN peacekeepers), or donor earmarked funds dedicated to specific projects.[62]

These bilateral/multilateral non-core funds have grown by more than 50% since 2010, from $13.8 billion to $20.7 billion in 2016. Many donors are taking advantage of the capacities of the various multilateral organizations to manage development resources, while significantly reducing their own administration and transaction costs. Essentially they make one electronic transfer in order to declare a large fund spent by the donor, but then they still maintain a high degree of control over the policies that govern their delegated funds.

These non-core funds have grown quickly for the UN system, and less so with multilateral banks. In 2016, assessed core contributions to the UN system (over which the UN system controls their allocation) were $5.9 billion, while special bilateral funds administered by the UN system totalled $13.5 billion. By comparison, assessed contributions to the World Bank Group were $8.8 billion, but delegated donor funds only totalled $2.6 billion. As noted above, this trend has profoundly affected the capacities of multilateral organizations to mount a coherent and sustained program.[63]

14. Declining commitment to developing country ownership in development cooperation

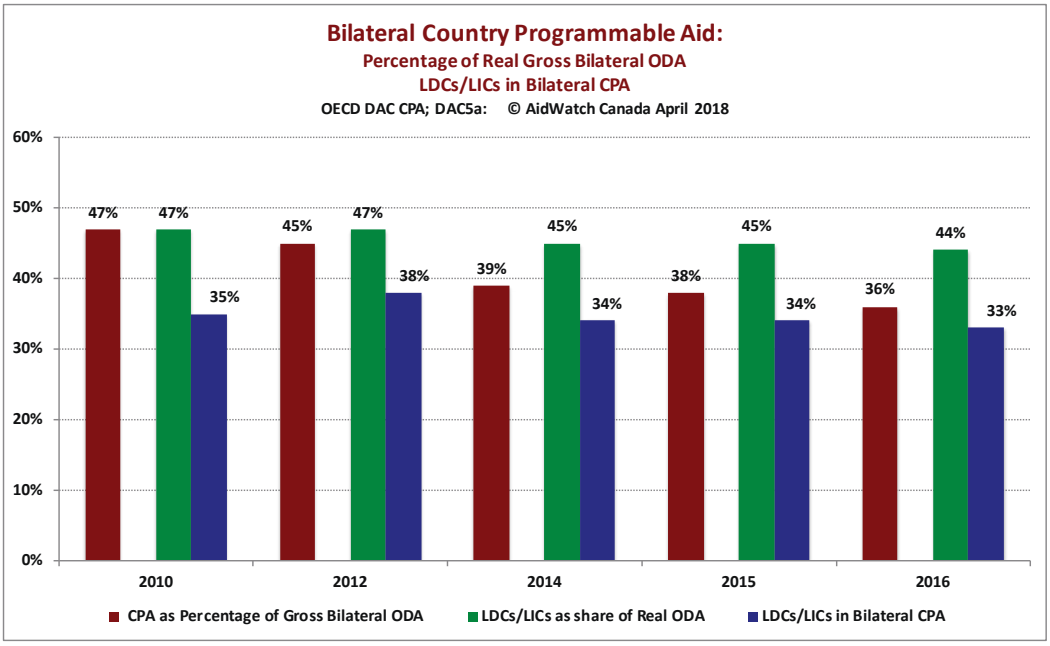
Despite repeated commitments to the importance of developing countries "owning" their own development priorities, aid that is available to support these purposes is declining. Country Programmable Aid (CPA) was 36% of Gross Bilateral ODA in 2016, down from 47% in 2010. Direct budget support or sector-wide programming with government ministries is also declining. Support for these mechanisms declined from a mere $5.2 billion in 2010 to $4.1 billion in 2016.

Declining Country Programmable Aid

The DAC has developed a measurement of aid that is available to be programmed by developing country partners. 'Country Programmable Aid' (CPA) is the proportion of bilateral aid disbursements where partner countries can have a significant say in defining the priorities for its use. As a concept it goes beyond the notion of 'Real Aid' and excluded donor administration, humanitarian assistance, and other forms of aid that is unavailable at the country level.[64]

Country Programmable Aid, as a share of Gross Bilateral ODA, was 36% in 2016, declining over the decade from 47% in 2010. (Chart 14.1) Less and less aid is actually available to developing countries

Chart 14.1



for partner-initiated programming (with the optimistic assumption that all CPA is available for this purpose and is not being programmed by the donor). For Least Developed and Low-Income Countries, much less CPA is available to partner countries than is apparent in LDCs/LICs share in Real Bilateral ODA – 33% (CPA) compared to 44% (share of Real ODA) in 2016.

Declining Budget Support Mechanisms

The provision of aid to developing countries as direct budget support or sector-wide programming (SWAP) has been an important mechanism for advancing a country's ownership of its development priorities through aid. With budget support, a developing country government have the authority to establish its budgetary framework for development initiatives within the national budget or a sector ministerial budget. Donors then agree, in the context of policy dialogue and capacity development, to support these budgetary priorities with either general budget support or support for line ministries.

While budget support and SWAPs were recognized as an important aid mechanism in the 2000s, donors have substantially reduced their commitment to this approach since 2010. **From a peak of $5.9 billion in 2011, aid through budget support and SWAPs reached a low of $4.1 billion in 2016 with the** EU providing half of this budget support ($2.1 billion).

Issues of fungibility have plagued general budget support, particularly where the recipient government was able to use general budget support intended for one area to offset higher expenditures in another. Sector-wide programs were understood to be more effective, as

it promoted collaboration with line ministries to build capacity and strengthen poverty-oriented expenditures.[65] Aid for sector-wide mechanisms has remained constant over this decade, albeit at a modest level. A recent German review of budget support evaluations concluded that there was strong evidence for the positive impacts of budget support as a funding modality. It called on donors to reassess their withdrawal from this modality of support.[66]

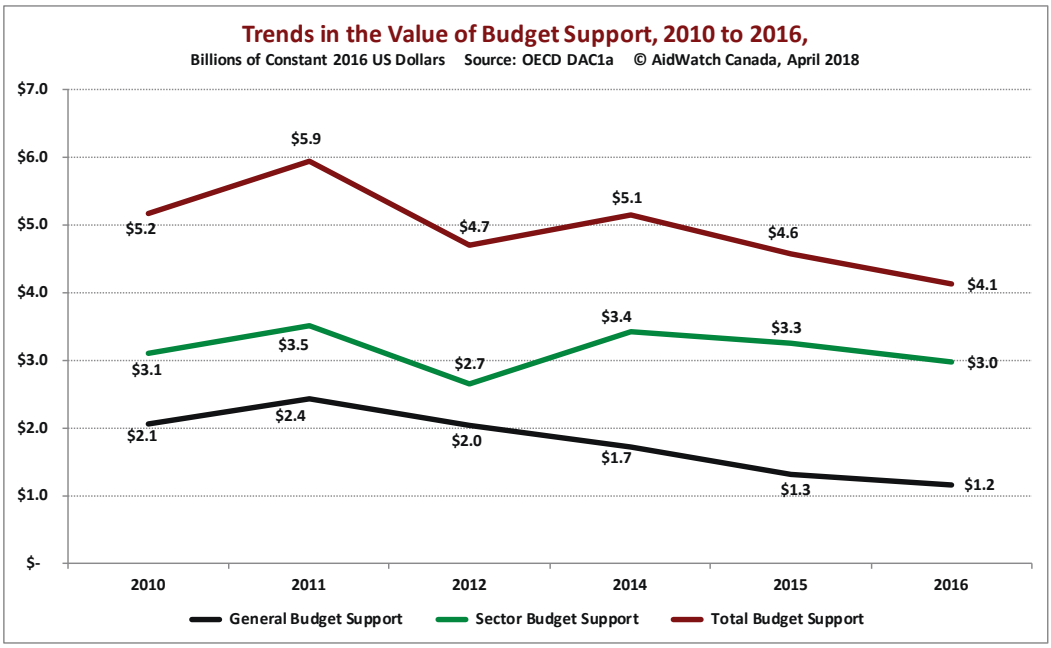
The project modality for aid delivery is still the dominant form of bilateral assistance. In 2016, $58.4 billion of gross bilateral assistance, or 61% of Real Gross Bilateral Assistance, was in the form of projects. [DAC CRS+ Database] For developing country partners, particularly in the poorest countries, the proliferation of projects across many sectors is extremely difficult to manage within a coherent country development strategy.

15. Priority for loans increasing among some donors.

Concessional loans have been a growing form of aid delivery since 2010. In dollar value (2016 dollars), ODA loans have increased by almost 45%, from $28 billion in 2010 to $40.4 billion in 2016, with a large number of loans related to climate finance included as ODA. Growth in loans is also apparent for LDCs/LICs and LMICs, countries that are vulnerable to a return of a debt crisis that existed in previous decades.

While concessional loans have been a component of DAC bilateral and multilateral ODA for many decades, they have been growing in importance since 2010. **ODA loans have increased from $28 billion in 2010 to $40.4 billion in**

Chart 14.2



2016 (in 2016 dollars). (Chart 15.1) This represents an increase of almost 45%. As a percentage of Gross Real ODA, the share of loans grew from 26% in 2010 to 29% in 2016. (Chart 15.2) A very large part of this increase in loans is due to the extensive use of loans in climate finance by France Germany and Japan.

Chart 15.1

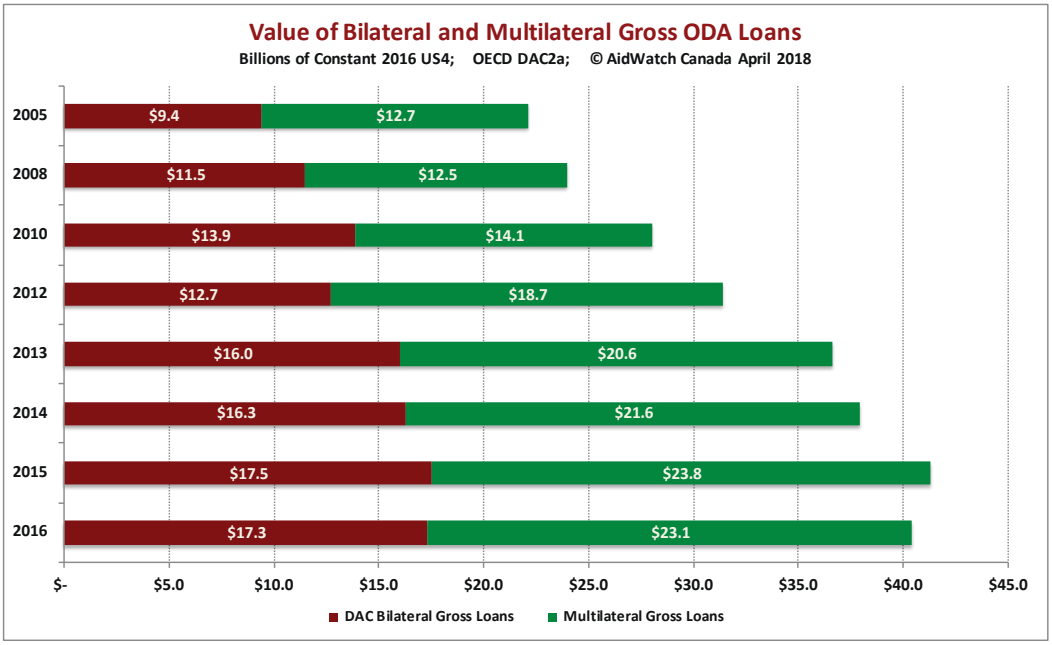
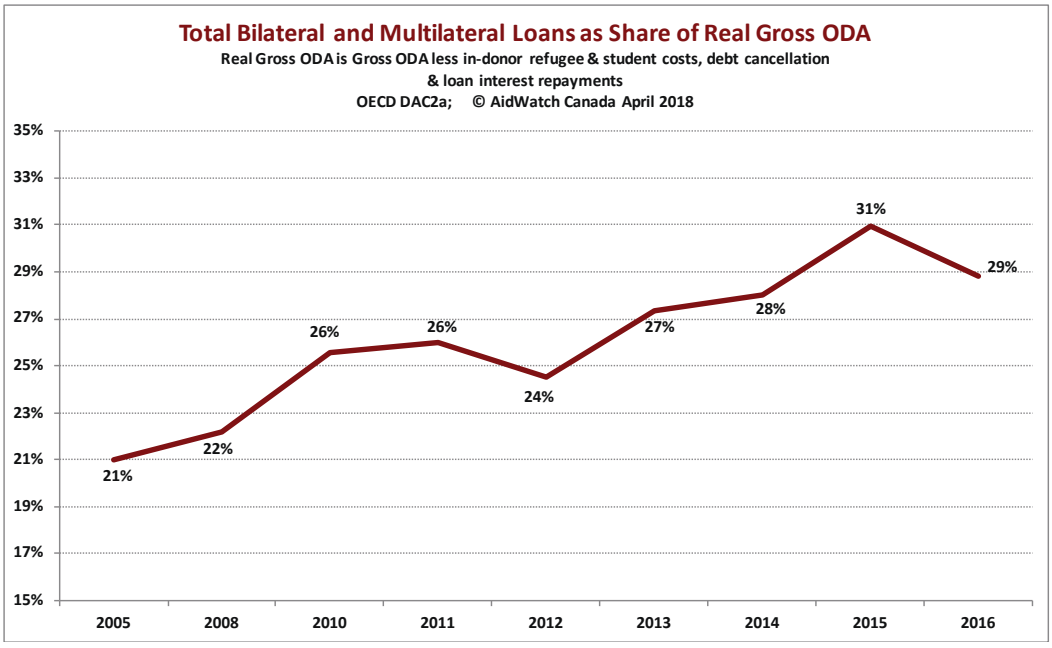


Chart 15.2



Japan, France, Germany, Korea and the European Union are responsible for almost all ODA loans. Chart 15.3 documents the current share of loans in their respective Real Gross Bilateral ODA for 2016, which range from 59% for Japan to 28% for the EU.

Somewhat surprisingly the share of loans for both Least Developed and Lower Middle-Income countries has also been growing since 2010 (Chart 15.4). For Lower Middle Income Countries, loans made up 46% of Gross ODA directed to these countries (up from 40% in 2010). Similarly, loans have grown from 14% in 2010 to 23% in 2016 as a share of Gross ODA to Least Developed and Low Income Countries. These are countries with very low government revenues and high vulnerability to economic shocks so they can ill-afford to take on substantial debt.

An emerging (renewed) debt crisis

Increasing use of ODA loans, particularly for LDCs and LMICs, is a worrying trend, particularly in light of evidence of the re-emergence of unsustainable debt levels in an increasing number of countries. The lingering effects of the 2008 financial crisis and the recent collapse in commodity prices have given rise to increased debt stress in some of the poorest countries. An official with the IMF recently pointed out, "our debt sustainability analyses indicate that 40% of Low-Income Countries are currently at high risk of or already in debt distress. It doubled in five years."[67] The expanded use of Development Finance Institutions for aid delivery and to catalyze the private sector may add to the debt burden of vulnerable countries.

While ODA loans have been provided at concessional rates, developing country

Chart 15.3

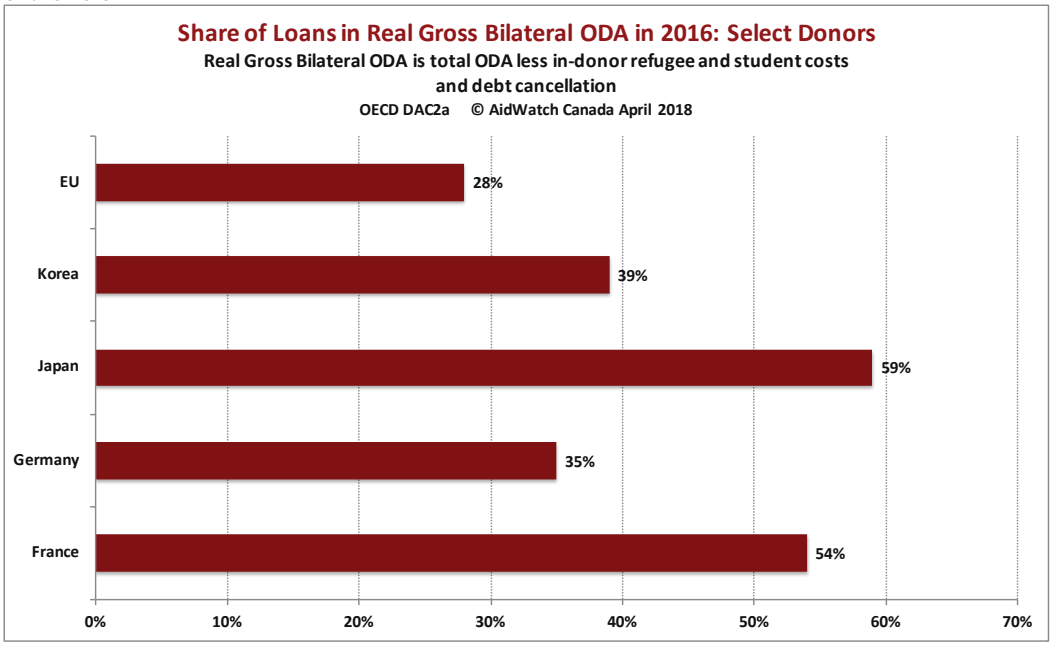
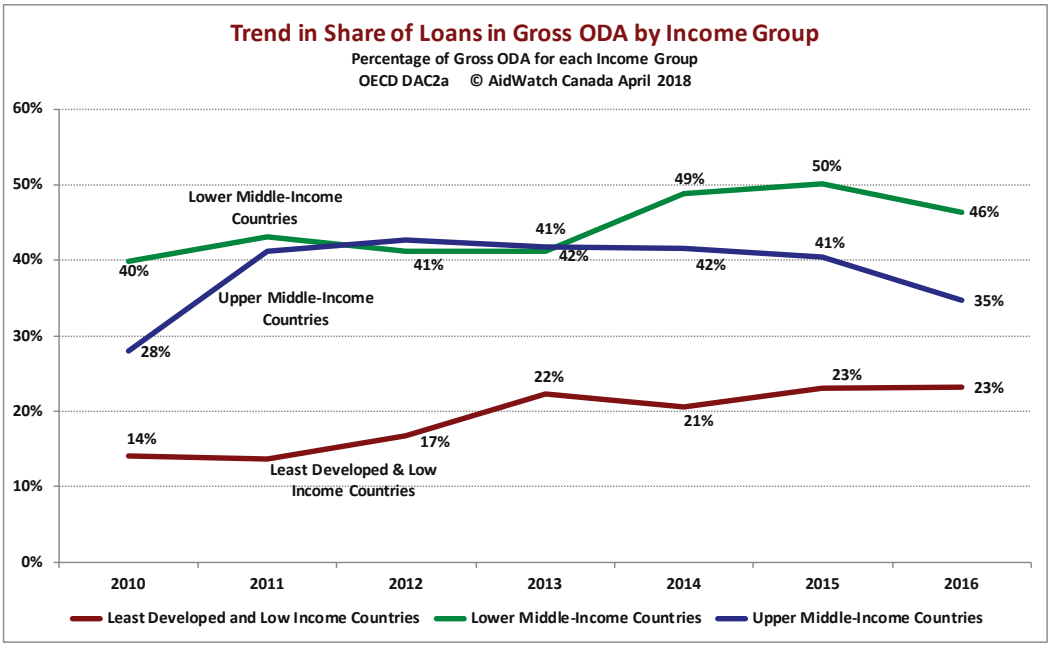


Chart 15.4



governments sent $25.6 billion back to donors in principal and interest payments on previous loans in 2016, up from $19.0 billion in 2010, an increase of 35% in 2016 dollars. Of this $25.6 billion in 2016, $16.9 billion was received from Least Developed and Low-Income and Lower Middle-Income Countries.

Changing the DAC rules for loans

DAC members have agreed to change the reporting rules relating to ODA loans after 2018. At that point only the grant element of a concessional loan will be included as ODA.[68] On the other side, the repayments of the principal from previous loans will no longer be deducted from nominal ODA, as is the current practice. In addition, there will be a differential discount rate for calculating concessionality of the loan based on a country's income status. For LDCs, the discount rate (which determines concessionality) has been set at 9%, for LMICs it is 7%, and for UMICs t 6%. The minimum reportable grant element for LDCs is 45%, for LMICs, 15%, and for UMICs it is 10%. This policy is intended to promote concessional lending to LDCs.[69]

Development Initiative calculates that the net effect of these rules, if applied to 2016 data, would have been a 1% increase in ODA for that year or $1.8 billion. However, for some donors there may be greater differences. Japanese aid would have been 33% higher in 2016 under the new rules, and Germany 7% lower (due to the different levels of consessionality in the current loan portfolio).[70]

16. Catalyzing or subsidizing the private sector?

All donors are calling for the increased use of ODA to mobilize private sector investment in the SDGs. An ODA private sector

proxy indicates that the share of sector-allocated ODA related to the private sector has increased from 21% in 2010 to 26% in 2016. Germany, France and Japan have a heavy concentration in these sectors. The promotion of public-private partnerships, particularly for infrastructure, ignores well-documented assessments that challenge the notion that they are an efficient and effective means of finance for the public sector. Equally, the recent emphasis on "blended finance" is fraught with issues relating to transparency, development effectiveness and additionality, the potential for increased tied aid, and a lack of agreement on rules to report ODA support for Private Sector Instruments (PSIs) to the OECD DAC.

Since the adoption of Agenda 2030 in 2015, there has been a seeming consensus among donors that the SDGs can only be realized if major private sector investments are attracted to fill a funding gap which the World Bank estimates is $2.5 trillion. Donor narratives are consumed by the challenge of moving from billions in aid to trillions in investments.[71] In the words of the OECD DAC,

> "Smart and strategic use of development finance to catalyse private capital is an emerging frontier and a growing priority for most the international development community. Development co-operation providers are increasingly working with the private sector to mobilise and target commercial finance ..."[72]

For both bilateral and multilateral aid actors the overwhelming focus is on instrumentalizing ODA to leverage private sector capital, often to the detriment of cost-effective public solutions or alternative finance. Much more attention should be put to ways for expanding cutting-edge innovative financing (such as taxes relating to private use of the global commons), which could be dedicated to the SDGs. In addition, effective measures to stop tax evasion and illicit private capital flows out of developing countries are urgently needed.

Private finance is allocated in ways that are guided by profit maximization, with rules and principles that are different, and cannot be assumed to serve the public interest. When donors engage with the private sector in development cooperation, these partnerships must be informed by human rights norms and development effectiveness principles. ODA, even when used to catalyze other development resources, should be preserved as a resource to advance bilateral and multilateral partnerships to reduce poverty and inequality and the realization of the SDGs. Instrumentalizing aid to mobilize private sector investment has the potential to divert aid in ways that undermine these core goals.

In October 2017, the Development Committee of the World Bank adopted a new private sector-centric approach to development finance, 'Maximizing Finance for Development' (MFD). Along with other development banks, they agreed, to increase private sector finance for SDGs by 25% to 35% by 2020. This approach is to be implemented through partnering with Bank projects, loan guarantees and equity finance. Through MFD, the Bank now intends to:

> "consistently [be] testing—and advising clients on—whether a project is best delivered through sustainable private sector solutions (private finance and/or private delivery) while limiting public liabilities, and if not, whether WBG [World Bank Group] support for an improved investment environment or risk mitigation could help achieve such solutions."[73]

The Bank is pursuing a so-called "cascade" approach in which public funding is the last resort:

> "When a project is presented, ask: "Is there a sustainable private sector solution that limits public debt and contingent liabilities?
>
> - If the answer is "Yes" – promote such private solutions.
> - If the answer is "No" – ask whether it is because of:
> - Policy or regulatory gaps or weaknesses? If so, provide WBG support for policy and regulatory reforms.
> - Risks? If so, assess the risks and see whether WBG instruments can address them.
> - If you conclude that the project requires public funding, pursue that option."[74]

With this approach, developing countries may be facing the emergence of new 1990s-style aid conditionality pushing uncritically broad privatization across essential development areas for aid-dependent countries.

Growth of sectors with implicating private sector partnerships

The OECD DAC does not track private sector partnerships in the implementation of ODA across all sectors. In order to estimate trends in the engagement of the private sector, a "private sector proxy indicator" has been developed, which aggregates ODA in a number of DAC sectors in which the private sector plays a major role and/or aligns with private sector interests in development (see the list of sectors in Chart 16.1).[75] **The long-term trend for this proxy is clearly an increasing share of sector-allocated ODA, from 21% in 2005 to 26% in 2016.** But this share has declined from a high of 28% in 2014.

Table 16.1: Share of Private Sector Proxy (see Chart 16.1) in Donor Sector-Allocated ODA

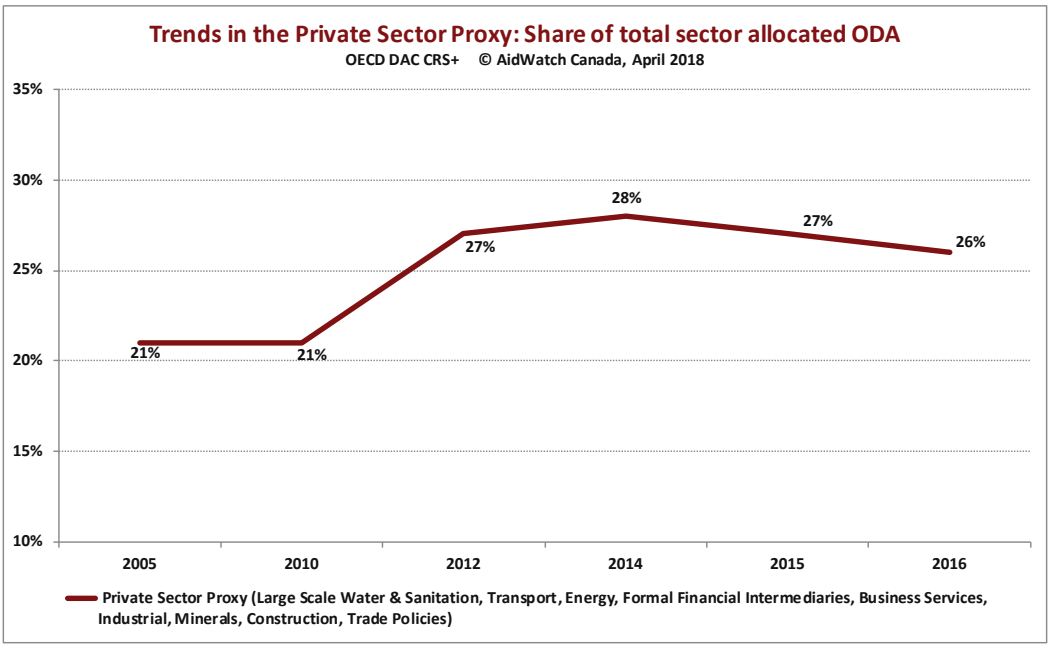
Donor	2010	2013	2016
France	11%	30%	35%
Germany	31%	30%	35%
Japan	45%	56%	55%
United Kingdom	15%	12%	10%
United States	13%	12%	7%
DAC Donors	20%	23%	22%
Multilateral Donors	24%	33%	32%

As indicated in Table 16.1, **a number of large donors have given a large and increasing share of their sector-allocated ODA to those favouring the private sector.** France, Germany and Japan are notable among these donors. An increase in the multilateral donors' share to these proxy-related sectors is a reflection of changing priorities by the development banks.

Public Private Partnerships

Public-Private Partnerships (PPPs) have been a high-profile catalyst for private sector investment through ODA,

Chart 16.1



particularly in support of infrastructure projects. ODA allocated to sectors that are likely to be involved in infrastructure projects was approximately 25% of sector-allocated ODA in 2016.[76] These projects often combine major private sector investments with small amounts of public sector funding. In most cases the public sector assumes the majority of the short and long-term risks in the implementation of the project and the recovery of the original investment.

PPPs have been heavily criticized, not just by NGOs and civil society, but also by the UK National Auditor and the European Court of Auditors. The latter commented, "the PPP option was chosen without any prior comparative analysis of alternative options (...) thus failing to demonstrate that it was the one maximising value-for-money and protecting the public interest."[77] A similar 2015 review by the UK's National Audit Office found that "investment through PFI [Private Finance Initiative] schemes more than doubles a project's cost to the public sector."[78] While these assessments are related to PPPs in these countries, the critique is consistent with other such projects implemented in developing countries.

Felix Dodd has summarized some of the main overarching concerns with an uncritical expansion of PPP in developing countries:[79]

- The distortion of the public agenda;
- Loss of local control over critical infrastructure and services, and co-option of government or civil society partners;
- Commoditization of the commons;
- Lack of strong legal/regulatory frameworks;
- Lack of transparency and accountability - including hidden or off-the-books accounting treatment of PPP debt;
- The displacement of public employees; and
- Lack of engagement with stakeholders throughout.

Eurodad has also analyzed the impact of PPPs, looking at various factors. One of the most critical is the crowding out government fiscal space for SDG finance, particularly where government revenue is tied into large PPP investments. A second concern is the inequitable burden of user fees on poor populations for essential services financed through PPPs. And, finally, Eurodad has voiced concerns regarding the potentially large and unexamined environmental and social consequences.[80]

In 2016 DAC donors invested only $704 million in PPPs, slightly more than the seven-year average of $600 million since 2010. This represented less than 1% of Real ODA in that year. The Netherlands, the United States and the United Kingdom were responsible for more than half of these investments.

While PPPs make up a relatively small proportion of DAC ODA, they may be associated with large private capital investments. The Reality of Aid's 2016 Aid Trends chapter noted that US PPPs were highly associated with the commercial interests of the business partner, which could be considered an informal modality for tying US aid to US corporate interests.[81] While the direct use of ODA in PPPs may be light, there is strong indication that ODA-funded technical advice and ODA-related conditionalities play a strong role in promoting PPPs.[82]

Advancing the donor private sector agenda: Blended finance

Current donor pre-occupations focus on a dramatic expansion of ODA engagement with 'blended finance.' Despite this attention and priority, there is no common agreement on either the definition of blended finance or the range of modalities that could be used in support of private finance.

OECD has adopted the following definition: "Blended finance is the strategic use of development finance for the mobilization of additional finance [where additional finance = commercial finance] towards sustainable development in developing countries."[47] Other definitions also stress the inclusion of philanthropic capital. With respect to modalities, the OECD's analysis of blended finance includes the use of syndicated loans, credit lines, direct share investment, investment guarantees, and shares in investment vehicles.[84]

According to the OECD, 17 DAC members now employ various forms of blended finance. Since 2000, DAC members have created 167 mechanisms for pooling public finance with private capital. The majority of these initiatives were established after 2010 and many are Development Finance Institutions (DFIs).[85]

The OECD estimates that these mechanisms mobilized $81.1 billion in private sector finance between 2012 and 2015. But such estimates inevitably involve a level of subjectivity since they are shaped by various assumptions.[86] As well, there is no estimate of related amounts of public resources invested for this result.[87] This gap in statistics is part of a larger issue, where DFIs are being implemented in a policy and evaluation vacuum. Of the 17 donors involved in blending, only 6 have donor guidance policies governing these operations, and only 4 monitor blending finance activities as a separate activity.[88]

In 2016, DAC members agreed to a set of principles to guide blended finance.[89] But

to date, members have failed to reach a consensus on rules to operationalize these principles. Development effectiveness and human rights standards must be integrated into these rules to guide the inclusion of official contributions to these private sector instruments as reported ODA. To date, there has been no agreement on the interpretation of development-oriented private sector projects or safeguards to protect the integrity of ODA in these arrangements.

Despite this lack of consensus, the DAC High Level Meeting (October 2017) agreed to allow reporting of "development-oriented" transfers to private sector instruments. Reported ODA could be in the form of total public finance to DFIs (institutional approach, which was formerly not allowed) or on a transaction basis approach (finance for specific identifiable activities of a DFI). The former has the potential to inflate aid as it may include public finance for DFI activities that could be ineligible as ODA. In both approaches, the issue of concessionality, as a core value of ODA, is potentially compromised. The absence of clear guidelines and rules will further undermine the quality of DAC data on ODA, already weakened by inclusion of in-donor refugee costs etc. (see sections 6 and 7 above).

The OECD study on blended finance[90] makes a number of observations, which raise questions about its relevance as a complementary resource for ODA's purposes in poverty reduction:

- "There is a tendency for blended finance to go towards sectors for which the business case is clearer and the potential for commercial gains more apparent" (page 27), which are often not high-risk poverty oriented sectors.
- Are DFIs only a donor priority, with limited interest on the part of the private sector? To date, "the share of commercial investors is still quite limited when compared with development investors." (page 26)
- The diversity of 167 mechanisms creates a highly fragmented development finance environment, with potential partners having to deal with a diversity of modalities, terms and conditions. (pages 27-28)
- More work is required "to understand how blended finance can work in LDCs and LICs," which alongside LMICs are high priorities for "leaving no one behind," (page 27)
- Most blended finance is concentrated in the formal finance and energy sectors. (page 26)
- Monitoring and evaluation systems for blended finance are weak, something that has been compounded by multiple layers of private financial inter-mediation for specific projects. (page 30)

The OECD's detailed analysis of the $81 billion of private sector funding by DFIs confirms many of the OECD DAC observations: [91]

- Least Developed and Low-Income Countries benefitted from only 10% of this private finance, while Upper Middle-Income Countries received 43%, and Lower Middle-Income Countries, 34%. Another 13% was unspecified.
- In terms of the origins of the private sector funds, 62% originated in OECD countries and 38% in developing countries (excluding those with multiple sources). This raises

questions about tied aid, development effectiveness and country ownership.

- In terms of public finance instruments used to mobilize private finance, 40% were investment guarantees (in which potentially no public funds were transferred), 27% were syndicated loans, 16% were credit lines, 10% were shares in Collective Investment Vehicles, and 6% were direct investments. The high-level of guarantees has the potential to inflate ODA as they are only financed when the investment or loan fails. Following the DAC's 2017 High-Level Meeting, the door is now open for donors to report guarantees as ODA under the institutional approach. This is a serious anomaly, since no rules for reporting guarantees under the instrumental approach have yet to be agreed upon.
- Multilateral DFIs were responsible for 64% of the capital mobilized; bilateral providers accounted for 36%. The latter was heavily concentrated with the top five bilateral providers making up close to 90% of the total (The United States:54%, the UK: 13%, France: 9%, Germany: 7% and Denmark:6%).
- Investments were sectorally concentrated in (mostly formal) banking and financial services (33%), energy (25%), and industry, mining and construction (21%).
- Investments related to climate change accounted for 26% of the total investments, with 89% of these funds devoted to mitigation and only 11% to adaptation.

Blended finance is clearly no panacea for closing the finance gap for SDGs, particularly in relation to poverty reduction, inequality, health or education. If increased amounts of ODA are to be directed towards private sector blending institutions, there is a clear danger that scarce ODA will be diverted from its central purpose of support for global public goods, poverty reduction and reaching populations that have been excluded.[92]

Nevertheless, the expansion of DFIs is proceeding quickly. The US Congress is presently considering a measure to create an International Development Finance Corporation, which would expand the current activities of the Overseas Private Investment Corporation and USAID in private sector engagement.[93] The proposed institution will likely meet with the approval from the Trump Administration. Canada has just launched its DFI, but its initial capital of Cdn$300 million will not be drawn from the country's ODA. The UK government, on the other hand, through its 0.7% aid program, has been significantly increasing ODA resources for the Commonwealth Development Corporation.[94]

CSOs involved in development cooperation have been critical of DFIs, while also acknowledging that certain carefully targeted private sector initiatives may benefit poor and marginalized populations.[95]

- The OECD DAC is clear that only private finance that is additional "to what would have been available without blending" is considered mobilized finance.[96] But the methodology for determining **whether such finance is additional or a mere subsidy for the private sector** is not spelled out, nor is it clearly a yes/no answer. A project may go ahead with adjustments, without the public resource of a

DFI, confusing what is "additional". Eurodad's analyst, Polly Meeks, quotes a 2016 European Union evaluation of its blended finance program noting that half the cases from 2007 to 2014 had no clear added value for blending.[97]

- **Development additionality** is equally important in determining the fit with Agenda 2030. With few evaluations, there is little evidence about blended finance impact on development outcomes. The EU evaluation noted above, found that "the projects selected for blending did not emphasize the pro-poor dimension" and "gender was rarely targeted." DFIs often have scant policy guidance on labour, social and environmental standards. There is also little evidence that DFIs are supporting projects **consistent with development effectiveness principles**, such as strengthen country ownership or inclusive partnerships at the country level.[98]
- **Concessionality** of finance is not a DFI condition for blending, but it is a crucial condition for Low-Income Countries and those facing a growing potential debt crisis.
- W**eak transparency** plagues any assessment of projects supported through blended finance. Improving aid accountability is a challenge where these resources cannot be traced in the multiple layers of DFI financial transactions with intermediaries.
- Activities funded through PSIs have the potential to erode finances available for developing country governments, as they can be a factor in introducing unsustainable levels of public and private **debt**,[99] or through **tax avoidance** by the corporations involved.[100]
- There are **major confusions and lack of agreement on the rules** in reporting DFI-related ODA to the OECD DAC. How will the DAC determine whether such activities are sufficiently 'development-oriented' to count as ODA? How will the DAC resolve the anomalous treatment of guarantees under the institutional approach, which currently risks inflating ODA? How far will the final reporting rules deviate from the concessionality principles applied to public sector loans?
- There is a strong risk that donors will **increase tied aid** through engagement of donor private sector companies in DFI initiatives. This outcome has been documented for US PPPs.

17. Demand-Driven Technical Assistance?

After a sharp decline from 2005 to 2010, technical cooperation has been a large but constant share of Real ODA, averaging 15% to 17% from 2010 to 2017. It currently exceeds 20% of Real Bilateral ODA. Among donors, France, Australia, Germany and Japan have heavily relied on technical cooperation in their bilateral aid. Much of this technical cooperation continues to be donor-driven in relation to financial management, infrastructure development, and trade agreements.

Demand-driven technical assistance can be an important modality for meeting technical needs and improving capacities

in developing countries, which partners define and seek cooperation.

At the Accra High-Level Forum (2008) donors pledged their support "for capacity development [that] will be demand-driven and designed to support country ownership." The theme of the 2016 Global Reality of Aid Report was 'Technical Cooperation as an aid modality: Demand-driven or donor-driven?'.[101] Contributions and evidence collected for that Report suggest that technical assistance is still largely responsive to donor-perceived needs for capacity development, infrastructure requirements, and advise to governments linked to approval of World Bank loans, financial management and trade agreements. It is often been a resource to embed donor country interests and orientations within their aid programs and ensures direct accountability to donors.[102]

Following a sharp decline from 2005 to 2010, **technical cooperation has become a large and constant share of Real ODA, averaging 15% to 17% from 2010 to 2017.** (Chart 17.1) As a share of DAC Real Bilateral ODA, it has averaged just over 20% since 2010. Technical cooperation was 16% of multilateral ODA in 2016.

Table 17.1 demonstrates that technical cooperation as a share of individual donor, ODA has varied considerably. France, Germany and Japan made up 51% of all bilateral technical cooperation in 2016 (combined these donors represent 26% of all Real Bilateral ODA).

Almost all of the donors listed below have reduced the proportion of ODA devoted to technical cooperation since 2010. The two exceptions are the Netherlands and the United Kingdom - both have increased their reliance on technical cooperation in recent years.

Chart 17.1

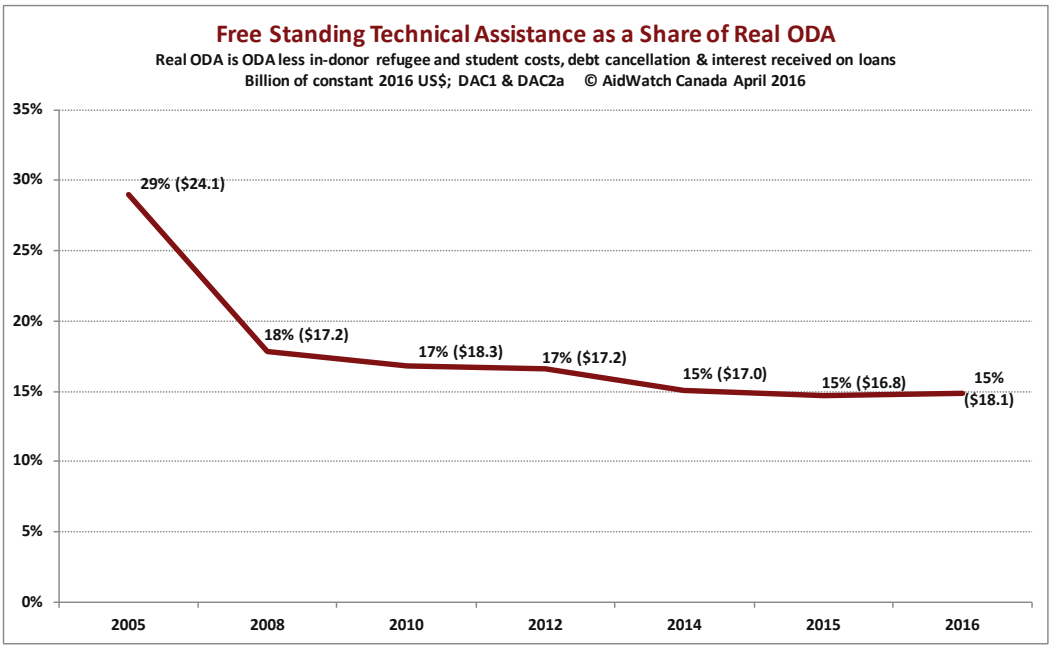


Table 17.1 Technical Cooperation Share of Real Bilateral ODA*

Donor	2005	2010	2016
France	101.5%	55.8%	41.7%
Australia	54.7%	50.4%	39.0%
Germany	105.0%	67.4%	37.5%
Japan	48.9%	53.0%	37.1%
United Kingdom	18.2%	8.6%	23.1%
Austria	73.5%	63.4%	20.9%
Netherlands	18.8%	9.9%	16.8%
Belgium	64.3%	50.5%	14.6%
Norway	16.2%	9.2%	6.6%
United States	42.9%	4.7%	3.1%
All Bilateral DAC Donors	40.8%	22.5%	19.6%

Note: Real Bilateral ODA is Bilateral ODA less in-donor refugee and student costs, debt cancellation and interest repayments on ODA loans. Percentages greater than 100% indicate that technical cooperation was larger than bilateral ODA after the above deductions were made.

18. Renewed attention to tied aid

Tied aid has fluctuated from 21% of bilateral ODA in 2013 to 24% in 2015, and back to 20% in 2016. For LDCs, a pronounced increase from 11% in 2013 to 17% in 2015 was reversed in 2016 to 12%. There is indirect evidence that many donors have practiced a high level of informal tying of aid. For example, on average more than 60% of aid procurement contracts have been awarded in donor countries since 2010.

It has been repeatedly demonstrated that the tying of aid disbursements to commercial purchases in donor countries reduces the effectiveness of this aid. In many cases it not aligned to a recipient country's needs and can raise project costs by as much as 30%. In 2001 the DAC agreed to fully untie aid to Least Developed Countries. This was extended to Highly Indebted Poor Countries (HIPC) in 2008, against which progress reports are to be issued each year. At the 2011 Busan High-Level Forum, providers agreed to develop a plan for accelerating the untying of aid by 2012. At the Global Partnership's 2016 High-Level Meeting in Nairobi, all providers of aid agreed to "accelerate untying of aid, and promote development cooperation that supports local businesses throughout the supply chain" [Nairobi Outcome §42(g). Given all these initiatives, how much progress has there been?

The overall trends in tied aid since 2010 are mixed. **Notably, tied aid increased in recent years, from 21% of bilateral ODA in 2013 to 24% in 2015. This trend was reversed in 2016 when tied aid went down to 20%. For LDCs there was a pronounced increase from 11% in 2013 to 17% in 2015, but back to 12% in 2016**. (Chart 18.1)

Donors are required to report to the DAC on the formal status of their aid contracts, whether these contracts legally oblige procurement in the donor country or not. But irrespective of legal requirements, it is clear from DAC procurement statistics that a high level of informal tying of aid is common. A measure of this informal untying is captured by the DAC through donor reporting the actual country where each aid contract is awarded.

Chart 18.2 paints a picture of aid untying in practice with a considerable contrast to that provided by the formal aid tying recommendation data. While the

Chart 18.1

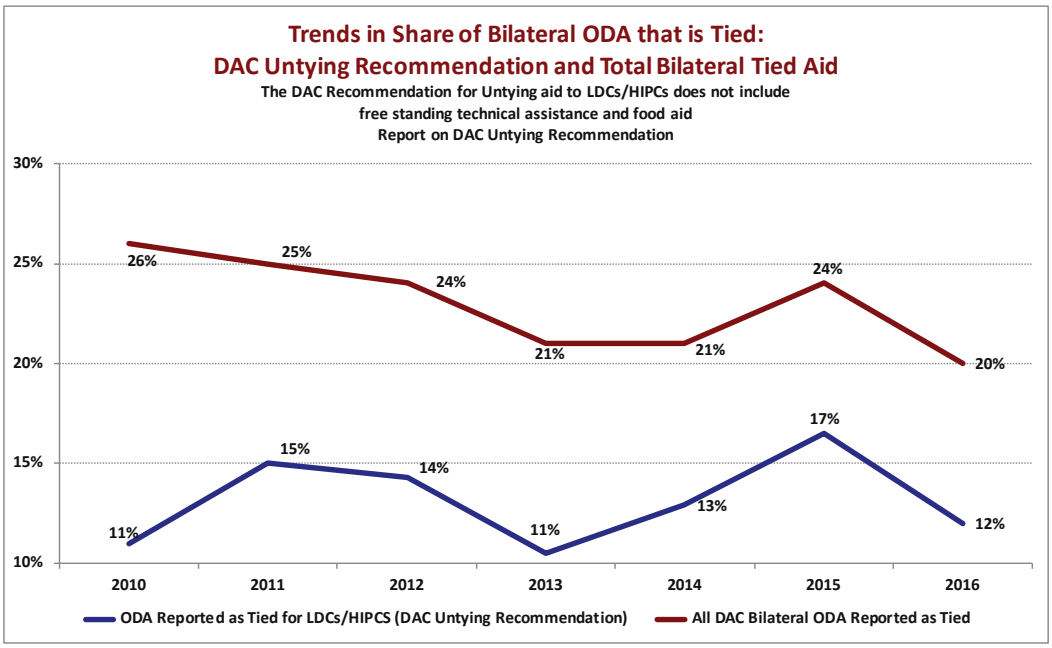
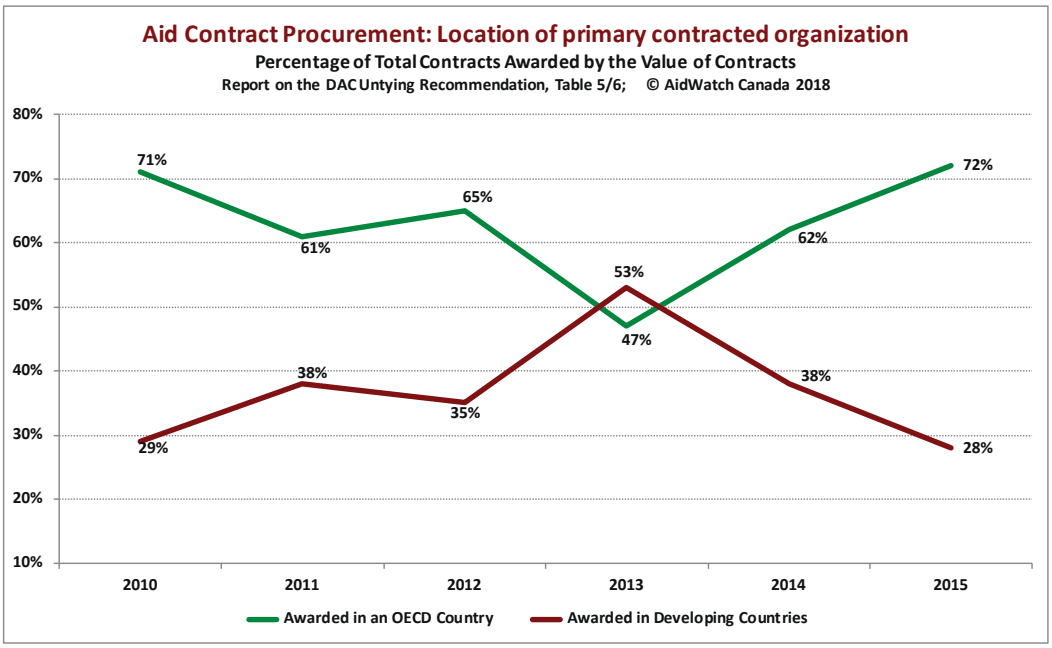


Chart 18.2



proportion of aid contracts awarded in OECD countries, rather than a developing country, has varied from year to year, **on average more than 60% of these contracts have been awarded in donor countries since 2010.**

The formal and informal experience of individual donor is mixed. With respect to formal legal untying of bilateral aid, Austria (36% untied in 2015), Greece (15% untied), European Union (62% untied), Japan (75% untied), and the United States (56% untied) are outliers from the DAC norm of above 80%. With respect to informal tying through the awarding of aid contracts, Canada (83%), the United Kingdom (96%) and the United States (96%) were highly skewed towards OECD country contractors in 2015 (the last year for data).[103] As noted above, increased use of Private Sector Instruments will likely increase the levels of both formal and informal tied aid.

F. Measuring Official Resource Flows for the SDGs

19. Total Official Support for Sustainable Development (TOSSD) – A flawed new metric.

The current framework for TOSSD is unclear and deeply flawed. It may include commercial private sector flows beyond official flows, which would substantially undermine donor accountability for official financing of the SDGs. The establishment of clear developmental criteria, including the SDG norm that no one is to be left behind, is essential for TOSSD's credibility. These criteria must be transparent and applied across the different financing modalities. To date, there is no elaboration of pillar two for TOSSD – the flow of donor resources for a broad range of global public goods, including those related to security and peacekeeping. Given that TOSSD will include cross-border flows of ODA, there could be strong political incentives to substitute TOSSD in donor discourse on development cooperation, ignoring the crucial role of ODA for the SDGs. This will be particularly true for donors with weak performance on ODA.

As part of the response to the vast scope of financing required for Agenda 2030, DAC donors initiated discussions in 2012 on a new measurement of development finance. This measure is now called 'Total Official Support for Sustainable Development' (TOSSD). TOSSD is intended to be a new international statistical standard within the Agenda 2030 and SDG framework.

According to the DAC, this metric will purportedly capture the full array of official development cross-border flows relevant to sustainable development. TOSSD is meant to complement ODA, going beyond dedicated DAC concessional flows to include other "resources provided through South-South cooperation, triangular cooperation, multilateral institutions and emerging and traditional donors."[104] TOSSD will also include humanitarian assistance and ODA cross border flows, which essentially correspond to Country Programmable Aid (see section 14). The inclusion of ODA will be a major incentive for donors to substitute TOSSD for ODA in public discourse when profiling their commitment to SDGs. This move away from ODA as the measure of "aid" will be particularly tempting in the case of donors with weak performance on ODA alone.

The current working definition for TOSSD is:

> "[TOSSD] includes all officially-supported resource flows to promote sustainable development

> in developing countries and to support development enablers and/or address global challenges at regional or global levels."[105]

The implementation of this definition, particularly with respect to inclusion of "officially-supported resource flows," is moving in seriously worrying directions. TOSSD will include not only flows by official agencies, but also by "state-owned companies and enterprises under government control" (an addition to attract China to report), and by "other enterprises under significant government influence" - a very vague notion. In relation to the latter, the draft DAC rules suggest that it will be at "the discretion of the reporter to determine whether companies under significant government influence should be included." Even more troubling is that possibility that TOSSD may also include "private resources mobilized by official interventions, where a direct causal link between the official intervention and the private resources can be demonstrated."[106] How that causal link will be determined is not elaborated.

Even though the DAC expects to implement TOSSD in 2019, they are far from finalizing a comprehensive draft proposal for the metric. In particular, to date there has been no elaboration of pillar two in the metric – resources that are "development enablers" and dedicated to "global challenges".[107] Details on what constitutes a 'development enabler' and the scope of global challenges will not be elaborated before September 2018. Pillar two is certain to be controversial as there is strong possibility that it will likely be broad and include problematic areas related to security, peacekeeping and support for trade and investment.

Direct private capital flows may not be included in the metric, but published as a parallel set of data on private sector support for SDGs. While not disputing that the private sector has an important role in achieving the SDGs, along with other private stakeholders such as CSOs, these contributions should be monitored and measured separately. Given the rationale that drives large-scale private investment, one focussed on maximizing profits, the value added of private sector support for the SDGs needs to be clearly identified and measured against human rights and development effectiveness norms.

The reporting of non-concessional flows from state institutions and donor discretion as to what it chooses to include presents major challenges. Such an approach could well create a TOSSD metric that will only confuse and undermine donors' accountability, as governments, to the SDGs. There is great potential that it will lack the rigour to allow for data to be comparable amongst donors, and TOSSD, therefore, will have low credibility.

For whom is this metric being developed? To date, the sole actors have been donors embedded in the DAC, with a few representatives of partner country governments on the TOSSD Taskforce. Consultations with other stakeholders for in-depth discussions of the issues and the form of the metric have been perfunctory. CSOs are deeply concerned that donors are creating a public tool for themselves that will remove current pressures to increase levels of ODA to meet the 0.7% target for poverty-oriented financing for SDGs.[108] This concern is compounded by the measurement of resource flows leaving donor countries, and not based on cross-border flows actually received

in developing countries, which could be a meaningful tool for partner countries.

What are some of the key concerns?

- Despite the notion that TOSSD resources must demonstrably promote sustainable development, it is not clear how this criterion will be met. Many of the official flows that providers intend to include – such as loan and investment guarantees, equity, credit lines or pooled investment funds – are often determined purely on commercial grounds. **Establishing some clear developmental criteria, including the crucial SDG norm that no one is to be left behind, is essential for the credibility of TOSSD. These criteria must be transparent and applied across the different financing modalities.**
- For flows that will be included, such as those coming from South-South Cooperation, global challenges and multilateral organizations, or alternative finance mechanisms in donor countries, **the scope and terms of these resource transfers, and their impact on SDG implementation in developing countries, are an essential consideration**.
    - The **scope of resource transfers to be included** in TOSSD should be determined by the access of developing countries to these resources. **Loan and investment guarantees**, for example, may reduce risk for private sector investors, but seldom are translated into real demands on the provider's budget. Such guarantees should be counted only in cases where these guarantees are legitimately drawn upon.
    - Unlike ODA, there is no requirement for TOSSD flows to be grants or concessional loans. Because it is open to many types of flows, the degree of **concessionality** of flows is an essential consideration and must be transparent. Concessionality is particularly relevant for both debt-stressed Least Developed and Low-Income Countries and many Lower Middle-Income countries. Providers are committed to maximizing resources for countries least able to achieve the SDGs. All providers, including those from the South, should be held accountable to the ways they address the needs of countries with limited resources to service debt.
    - **What is to be counted?** Inclusion of official resources for the SDGs within a TOSSD measure must **take into account official measures that continue to undermine the achievement of these goals**. Loans should be included on a grant equivalency for concession loans or on a net basis, accounting for return flows. Financing climate change mitigation measures, for example, need to account for official support for measures, such as fossil fuel subsidies, that undermine movement towards a carbon-free global economy.
    - Transparency about **the degree of formal and informal tying** to provider country commercial interests, which may be inherent

in many TOSSD flows, is essential. Tying of resources undermines developing country ownership in shaping and supporting their development priorities. Currently there are no safeguards in TOSSD to ensure a focus on recipient-driven development. How will the metric limit the inclusion of resources that are mainly driven by donor foreign policy interests?

- The scope for the inclusion of flows "to support **development enablers and/or address global challenges at regional or global levels**" [TOSSD definition] has not been defined. Presumably, these flows would relate to areas of global public goods demonstrably and directly aligned to the SDGs. However, this area still is largely undefined and potentially open to inflated reporting.
- As a development resource for the SDGs, TOSSD re**source tran**s**fers should be clearly aligned with the Busan development effectiveness principles** – country ownership, inclusive partnerships, a focus on development results, transparency and mutual accountability. CSOs would add that such principles must be informed by human rights standards and norms. TOSSD resource transfers should be guided and monitored in relation to these principles. **They should be subject to review by partner country-driven mutual accountability forums** that include all development stakeholders. Finally, in order to assess the relevance of TOSSD resources for development outcomes, it would be important to disaggregate TOSSD in the GPEDC bi-annual partner-country monitoring exercise.

In summary, a credible TOSSD metric will be one that is substantially informed by Agenda 2030, including the overarching goal of leaving no one behind. The rules governing the inclusion of flows should be determined by the application of strong development criteria. There should be an exclusive focus on official resources that are clearly and transparently linked to cross-border transfers to developing countries. It should exclude ODA to ensure that it is truly complementary to ODA and its purposes. Inclusion of transfers for global public goods should be determined by their direct relevance to achieving the SDGs. As an expansive measure of development cooperation, TOSSD resource transfers should be guided by development effectiveness principles and human rights norms, and should be monitored accordingly.

Unfortunately, the current framework for TOSSD is deeply flawed in several respects. It has not been confirmed how it will include commercial private sector flows beyond official flows (perhaps as a parallel metric). It may be open to substantial donor discretion, and thereby substantially undermines clear donor comparability and accountability. No development criteria have been elaborated and there is no reference to issues and principles affecting the effectiveness of development cooperation.

For some donors, especially those with weak ODA performance, there will be strong political incentives to use TOSSD in their discourse on development cooperation. In this scenario, the international community will surely fail the SDGs, as substantially increasing ODA is a critical resource for poverty eradication, gender equality, resilience to climate change, and the reduction of growing socio-economic inequality.

G. Other Sources of Development Cooperation Finance

20. South-South Cooperation – Heavily concentrated among a few providers

South-South Cooperation (SSC) concessional finance for development is estimated at $27.6 billion in 2015/16, down 14% from an estimate of $32.2 billion for 2013/14. This decrease is mainly due to declining flows from Saudi Arabia and China. Almost 75% of SSC flows are from Middle East providers and are directed toward the humanitarian crises in the region. A growing South-South sharing of experience and knowledge, which sometimes takes the form of technical assistance and exchanges, is probably not fully captured in the headline amount for SSC finance

In addition to concessional finance, China and other BRICs have been developing a parallel Southern-led financial architecture in the BRICS New Development Bank and China's new Asian Infrastructure Development Bank. China's launched its Belt and Road Initiative (BRI) in 2013 as a highly ambitious umbrella for Chinese investment in infrastructure across 65 countries in Asia, the South Pacific, Africa and Europe. Current projects total more than $1.8 trillion, but many of these are still very much in the planning stages.

Concessional South-South Cooperation

South-South Cooperation (SSC) concessional finance for development declined in 2015/16 by 14% from an estimated $32.2 billion in 2013/14 to an estimated $27.6 billion in 2015/16.[109] (Table 20.1) The main reasons for this decline is a substantial decline in estimated assistance from Saudi Arabia ($13.6 billion in 2014 to $6.8 billion in 2015) and from China ($3.4 billion in 2014 to $2.3 billion in 2015). The decrease in Chinese aid was due mainly to the availability of carryover funds from previous years.[110]

Of the $27.6 billion in SSC, $20.3 billion (74%) is estimated to come from providers in the Middle East. Much of this aid is allocated to humanitarian crises in that region. Several donors have exceeded the UN target of 0.7% of GNI, including Turkey at 0.95% of GNI and UAE at 1.31%. These providers are responding to the wide-spread humanitarian initiatives in the region. In April 2018, it was announced that Saudi Arabia and the UAE together were donating $930 million, a third of the $2.96 billion current UN appeal for Yemen, This is a conflict characterized by significant human suffering and humanitarian blockades. Saudi Arabia and its allies are directly engaged in the conflict and bear a huge responsibility. They have been strongly criticized by human rights and humanitarian organizations.[111]

At $3.9 billion, India and China accounted for 14% of SSC in 2015/2016. Much of India's SSC is directed to Bhutan and regional partners for hydro and other infrastructure projects. But in early 2018, India announced $50 million for a Commonwealth Window for Least Developed and Small Island States,

augmenting its 2017 $100 million India-UN Development Partnership Fund, which is managed by the UN Office for South-South Cooperation.

Table 20.1 Estimates of South-South Cooperation Concessional Flows for Development (DAC ODA-like flows)

Aid Provider	Concessional Assistance (millions US$)	Notes
a) SSC Providers Reporting to the DAC		
United Arab Emirates	$4,241	2016 (DAC Table 33a)
Turkey	$6,488	2016 (DAC Table 33a)
Russia	$1,258	2016 (DAC Table 33a)
Kuwait	$1,060	2016 (DAC Table 33a)
Israel	$351	2016 (DAC Table 33a)
Chinese Taipei	$326	2016 (DAC Table 33a)
Romania	$269	2016 (DAC Table 33a)
Nine (9) Other providers	$322	2016 (DAC Table 33a)
b) SSC Providers Not Reporting to the DAC		
Saudi Arabia	$6,758	2015 (DI)
China	$2,253	2016 (See Sources)
India	$1,600	2015/16 Budget (See Sources)
Qatar	$1,400	2016 (Estimate – See Sources)
Brazil	$500	2010 (Brazil)
Mexico	$251	2013 (DI)
South Africa	$148	2014
Hungary	$156	2015 (DI)
Four (4) Other Providers**	$175	2014
Total SSC Providers 2015/2016	$27,556 (estimate)	$11,952 in 2012, $27,325 in 2013, $32,240 in 2014/15 (same sources)
Percentage of DAC Real ODA (2016)	23%	26% in 2014-2015
Percentage of DAC Country Programmable Aid, including Humanitarian Assistance (2016)	40%	46% in 2014-2015

Sources: Providers reporting to the DAC: OECD Dataset DAC1a (2016 current prices);
Providers not reporting to the DAC: OECD DAC Table 33a: Estimates of concessional finance for development (ODA-like flows) of key providers of development cooperation that do not report to the OECD-DAC, accessed April 2018 at http://www.oecd.org/development/stats/statisticsonresourceflowstodevelopingcountries.htm; For India, DevEx, "India's Foreign Aid Budget: Where is the money going?," March 9, 2015, accessed April 2018 at https://www.devex.com/news/india-s-2015-16-foreign-aid-budget-where-the-money-is-going-85666. For China, John Hopkins China-Africa Research Initiative, Chinese Global Foreign Aid Expenditures, accessed at http://www.sais-cari.org/s/ForeignAid_v2-tfwt.xlsx, April 2018. Qatar is an estimate based on "Qatar's annual development aid stands at $2bn, says minister," November 19, 2017, http://www.gulf-times.com/story/571701/Qatar-s-annual-development-aid-stands-at-2bn-says-, with 70% from government sources. DI indicates that the source is Development Initiatives, Datahub: http://data.devinit.org.

*** The four providers are Chile, Colombia, Costa Rica and Indonesia*

SSC is approximately 40% of DAC donors combined Country Programmable Aid and humanitarian assistance, down from 46% in 2014-15 (Table 20.1). SSC continues to be an important, albeit modest, resource for achieving the SDGs. Its importance may lie less in the amount of finance, and more in its expression of solidarity across developing countries. There is a growing South-South sharing of experience and knowledge, which takes the form of technical assistance and exchanges, but not fully captured in the headline amount for SSC finance.[112]

SSC is also becoming an increasing factor in climate finance. In a review of developing countries Nationally Determined Contributions (NDCs), 15 countries referred to SSC as an important part of these contributions. Brazil has reported that it is supporting developing country efforts in forest monitoring, reforestation and climate resilient agriculture. Similarly, China is reporting financing for climate-smart agriculture, low carbon urban development renewable energy, and disaster risk reduction. In 2015 China established a South-South Climate Cooperation Fund.[113] This new Fund complements earlier Chinese promises of new investments of $500 million in its South-South Cooperation Fund to benefit sustainable development and respond to humanitarian crises in developing countries.[114]

South-South Cooperation beyond concessional finance

China's 15-year investment in government-funded projects, between 2000 and 2015, could be as high $354 billion in 140 countries. But only 23% of this amount would qualify as concessional aid. By contrast, for the same time period, the US government spent over $400 billion, but 93% could be counted as ODA. The top five recipients of China's aid during this period were Cuba, Cote d'Ivoire, Ethiopia, Zimbabwe and Cameroon.[115]

Along with the other BRICS (Brazil, Russia, India, China, and South Africa), China is leading in the development of a new Southern-initiated architecture for financing development. The BRICS launched its New Development Bank in July 2015. Base in Shanghai, its main purpose is to mobilize finance for infrastructure and sustainable development in the BRICS. It expects to reach a loan portfolio between $10 billion to $15 billion by 2021.[116]

China also launched an Asian Infrastructure Development Bank (AIDB) in January 2016, which currently has 86 approved member states. Up to 2018, the AIDB had lent about $4.4 billion, with the expectation that its total multi-year loan portfolio would grow to between $10 billion and $15 billion in the coming years. As a point of reference, the Asia Development Bank lends about $18 billion a year. Many of its early projects are co-financed with other finance institutions such as the Asia Development Bank and the World Bank.[117] The AIDB maintains a strong focus on Asian infrastructure development closely related to China's One Belt One Road Initiative.

In 2013 China launched its Belt and Road Initiative (BRI), a highly ambitious umbrella for Chinese investment in infrastructure projects across 65 countries in Asia, the South Pacific, Africa and Europe. Current projects total more than $1.8 trillion, though many are still very much in the planning stage. [118] The Initiative is closely linked to China's external export strategy for rail, hydroelectric power, technology

and industrial goods. It has been suggested that the BRI strengthens China's political influence in the region through the "connectivity power" of these projects, which are implemented by the Chinese government and its large state-directed corporations.[119]

There is growing concern that several of these Chinese projects have entrenched "connections" through high debt loads for recipient countries. Chinese loans for BRI projects are collateralized through the project or natural asset investment. They have already created a debt trap for several countries (Sri Lanka, Namibia, Laos), where several large projects proved to be economically unviable.[120]

Chinese SSC received mixed reviews from African CSO representatives polled by the Belgian NGO 11.11.11. While there was great appreciation for the SSC principles of solidarity, non-interference, and respect for sovereignty, there were doubts that these principles actually informed practice. Recipient countries appreciated cost-effective investments in infrastructure, telecommunications and access to scholarships. However, there were significant concerns about the impact on local economies, unable to compete with China's cheap imports and exploitative natural resources deals, and often undermining efforts to improve accountability and fight corruption.[121]

Institutionalizing South-South Cooperation – China's new aid agency

Increasingly, South-South Cooperation providers are institutionalizing their SSC within a dedicated agency of their government. Some providers have long-standing agencies for this work, such as Brazil's ABC or TIKA in Turkey. Others, such as India and South Africa, are in the process of establishing such an agency. In April 2018 China launched the State International Development Cooperation Agency to facilitate and coordinate its international cooperation efforts, with Wang Xiaotao, an experienced internationalist, as its first director.

Previously billions of dollars of international assistance, including concessional finance, were allocated from several government ministries without an overarching plan. In future, the Agency will work under the State Council. It will coordinate and increase the profile of China assistance programs, with particular emphasis on overseeing the implementation of policy and monitoring the One Belt One Road Initiative. The new Agency will also better integrate Chinese aid into its foreign policy objectives. But the actual implementation of these aid programs will remain with the current line ministries involved in delivering aid programs.[122]

21. Civil Society Organizations – Focused on poverty reduction and partnerships in LDCs/LICs, in a deteriorating enabling environment

Including both private and government funds channelled through CSOs, these organizations contributed at least an estimated $52 billion in 2014 in development cooperation. Ten of the largest international NGO families collectively provided approximately $10.5 billion in 2016.

While the value (in 2016 dollars) of ODA channelled through CSOs

by DAC donors has increased by more than 12% between 2012 and 2016 (from $18.3 billion to $20.6 billion), the actual share of this ODA has been relatively constant at 17% of Real ODA. This ODA has been concentrated (79%) in eight out of twenty-eight donors -- the United States, the United Kingdom, the European Union, and Germany, along with Sweden, Canada, the Netherlands, and Norway.

CSOs are highly invested in sectors associated with poverty reduction (68% in the 12 proxy sectors for reducing poverty) and are concentrated in LDCs and LICs (52%).

Civil Society Organizations (CSOs) are essential actors in development in their own right. As peoples' organizations and agents of democracy, they not only deliver programming on the ground, they also monitor human rights and hold governments and other stakeholders to account. They provide significant financing for development partnerships.

Civil Society financing for development

In 2014 (the last year for comprehensive data), **CSOs managed an estimated $52 billion in development assistance**[123] including both privately raised funds and donor resources channelled through CSOs in OECD DAC countries. A study of the ten (10) largest international NGOs and NGO families confirmed that these organizations raised an estimated $10.5 billion in 2016 (including both privately-raised funds and government-channelled funds).[124] Comparable revenue figures for eight of these large NGO families (excluding ACT Alliance and CARITAS) indicates that their total revenue increased by 50% between 2006 and 2011, but then fell by 20% from 2011 to 2016, from $8.7 billion to $7 billion.

While the value (in 2016 dollars) of ODA channelled through CSOs by DAC donors has increased by more than 12% between 2012 and 2016 (from $18.3 billion to $20.6 billion), the share of this ODA has been relatively constant at 17% of Real ODA. (Chart 21.1)

Donor-funded partnerships with CSOs whereby they serve as a delivery channel for aid, is particularly concentrated among several donors. Four donors together make up close to two-thirds (62%) of all ODA channelled through CSOs – the United States (35%), the United Kingdom (11%), the European Union (10%) and Germany (6%). Four other donors – Sweden (5%), Canada (4%), the Netherlands (4%) and Norway (4%) – provide approximately 17% of their ODA through CSOs.

In terms of the delivery of ODA with and through CSOs, certain donors stand out. Seven (7) donors provide more than 20% of their Real ODA in CSOs partnerships – Denmark (20%), the Netherlands (22%), Norway (22%), the United States (22%), Canada (22%), Ireland (23%), Sweden (24%), and Switzerland (28%). The average for all donors is 17%. (Chart 21.2)

In terms of their practices as donors the European Union and the United Kingdom have strong commitments to work with and through CSOs. The uncertainty surrounding Brexit has created an insecure future for UK CSOs as they draw

Chart 21.1

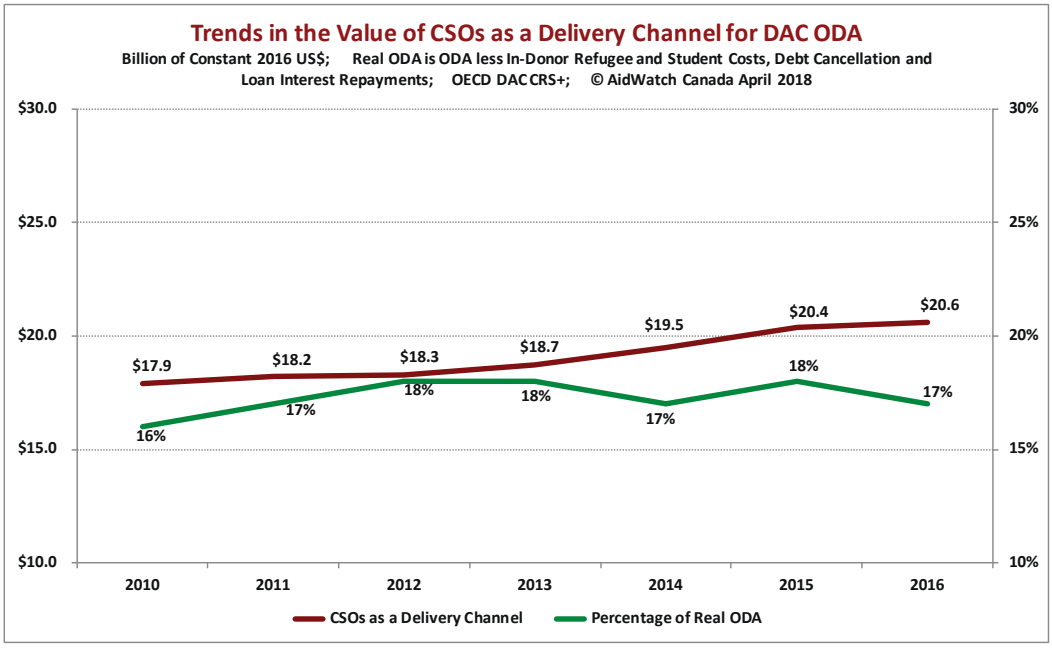
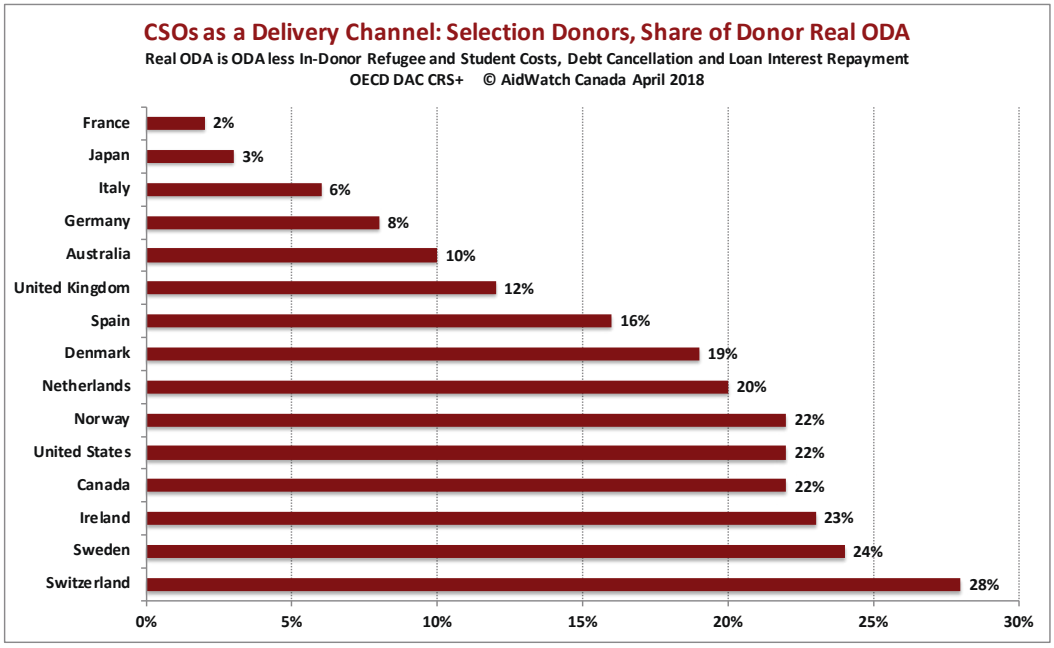


Chart 21.2



considerable resources from the EU for their work. Similarly, CSOs that work closely with major governance programs funded by USAID, or are contracted by the Agency, may be affected by the potential massive cuts in US aid and changes in aid priorities by the Trump Administration.

Priorities in CSO Development Cooperation

As noted earlier (Chart 12.1) CSOs are particularly focused on sectors that are strongly associated with priorities for poverty reduction. In 2016, 68% of CSO sector-allocated ODA focused on the 12 proxy sectors that directly affect the prospects for people living in poverty (compared to 36% for official donors). **CSOs are more concentrated in the least developed and low-income countries than DAC bilateral ODA as a whole, with 52% of ODA for CSOs, and 43% for bilateral ODA in 2016.** (Chart 21.3)

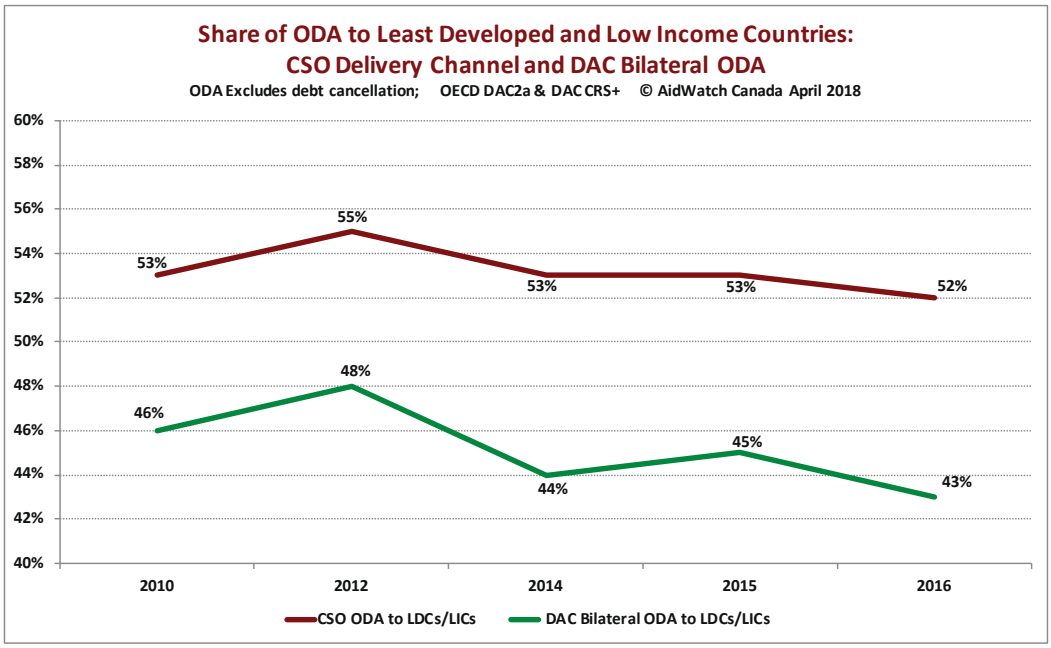
CSOs have also been strongly involved in the delivery of humanitarian assistance. Since 2010, CSO-delivered ODA humanitarian assistance has averaged 30% of total humanitarian assistance, not including any privately raised funds for these purposes.

CSOs have been less involved in the delivery of climate finance, representing only 5% of total ODA climate finance from 2010 to 2016, and 15% of adaptation climate finance.

While many donors have a general commitment to civil society's roles as development actors, this commitment has not been reflected in their support of women's rights organizations. It is true that allocations to women's rights organizations have increased since 2011 (see Chart 11.2**). But as a share of total financing to and through CSOs, this funding is a very small percentage, ranging between 0.9% and 1.6% of sector-allocated ODA to and through CSOs.**[125] (Chart 21.4)

The OECD DAC collects disaggregated statistics on ODA finance through different types of CSOs. **While International CSOs have increased their share of ODA that**

Chart 21.3



is channelled to and through them, the share of Developing Country-Based CSOs has not changed and stands at a mere 6% of total CSO finance.[126] (Chart 21.5)

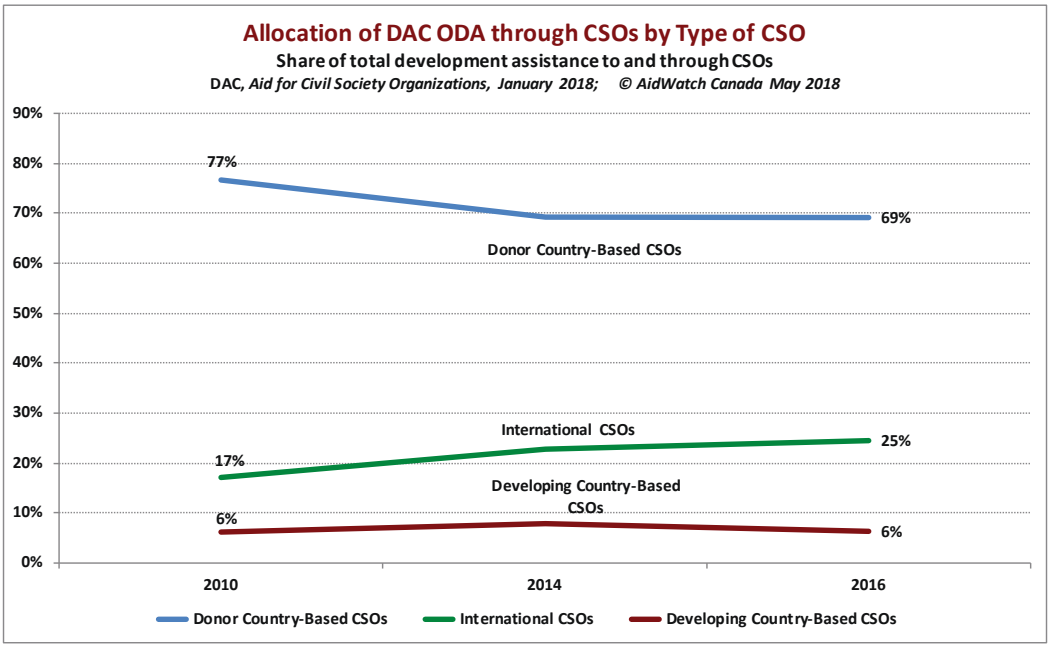
A Deteriorating Enabling Environment for CSOs

Civil society organizations (CSOs) are crucial actors for achieving progress for Agenda 2030. However, a global crackdown on civil society is growing more prevalent in both non-democratic and democratic countries, in the South and in the North. CIVICUS reports that as many as 109 countries currently have closed, repressed or obstructed civic space. This reality sets a disturbing context for citizen's participation in local development in which no one is left behind.[127] Along with human rights activists, women's rights promoters, and environmentalists, civil society organizations are facing increasing levels of threats of violence and intimidation, as well as legal and regulatory obstruction or harassment, in their work with vulnerable and poor populations.

In recent years, governments across the globe have implemented a contagion in hundreds of restrictive laws against CSOs. These actions have ranged from onerous legal requirements for registration and operation to severe restrictions on foreign funding and limitations on the freedom to peaceful assembly. There has been widespread repression of trade unions, indigenous rights organizations, women's rights organizations and other human rights defenders. Many governments are indiscriminately using existing laws and regulations to harass organizations that raise uncomfortable issues for government.

A free and open civil society is essential in order to hold governments accountable, and to give voice to marginalized

Chart 21.5



populations seeking to realize their rights, regardless of the circumstances.

22. Philanthropic Foundations – Role in development cooperation growing, but dominated by the Gates Foundation

Philanthropic Foundations provide an average of $8 billion in development cooperation a year. The Gates Foundation provides half of these contributions and is the third largest contributor to the health and reproductive health sectors.

The role of large philanthropic foundations has received an increasingly high profile in development cooperation**. From 2013 to 2015 an OECD DAC study of more than 130 foundations documented an average of $8 billion in philanthropic initiatives in developing countries**.[128] The US-based Bill and Malinda Gates Foundation dominates this engagement, providing almost half of the $8 billion total**. In 2016, the Gates Foundation disbursed $3.7 billion to developing countries, up from $3.0 billion in 2014.**

In 2016 the majority of the assistance from foundations (79%) concentrated on the health and reproductive health sectors. The $2.7 billion for these sectors was close to 20% of the total support provided by all bilateral donors for health and reproductive rights, with foundations being the third largest donors. When the Gates Foundation is removed from the analysis, the top sector is education, followed by health, government and civil society, population and reproductive health, and environmental protection.

Philanthropic foundations allocate most of their resources (67%) to Middle-Income Countries. According to the study, India, Mexico, China, Brazil and Turkey were among the top 10 recipients of foundation funding. These allocations meant that the distribution by income group puts a strong emphasis on Upper Middle-Income Countries (29%) compared to 17% for ODA from donors and multilateral organizations. The share for LDCs and LICs was 33% (compared to 44% for ODA). Foundations allocated 38% to Lower Middle Income Countries (compared to 28% for ODA).

The study also noted that several developing countries have a growing domestic philanthropic sector, with domestic flows representing 83% of philanthropic finance in Turkey, 60% in Mexico and 35% in China.

23. Domestic Resource Mobilization – Limited government revenue to invest in SDGs, with modest donor support for domestic resource mobilization

Almost all LDCs/LICs and many LMICs have a per-capita government revenue of less than $3,000. Revenue per capita in OECD DAC countries is more than $15,000, which is five times the revenue capacity of most developing countries. In countries with less than $3,000 per capita government revenue, 59% of the population are living below the $3.10 a day World Bank poverty line. Even among UMICs, close to one third (29%) are living on less than $5.50 a day.

While there is clear scope for increasing domestic revenue generation in many developing

countries, it is also clear that these countries will require various levels of budget support and other forms of concessional assistance if they are to meet the SDG targets. Increased levels of ODA will be essential for many years to come.

Donor support for domestic resource mobilization is increasing, but in 2016 only a quarter of this investment (26%) was made in Least Developed and Low-Income Countries, where it is most needed.

Per capita revenue available to government

The 2016 Reality of Aid Report 's Global Aid Trends chapter examined the domestic revenue available for governments to meet their commitments, across a range of developing countries.[129] This revenue included not only expenditures for health and education and other social and economic support programs, but also for managing the rule of law, infrastructure investment, foreign policy, defense and other legitimate government expenses.

Updating this analysis for 2018, the conclusion remains the same. Almost all Lower Middle-Income Countries, Least Developed and Low-Income Countries have per capita government revenue of less than $3,000. The comparable per capita government revenue for OECD DAC Countries is more than $15,000. In OECD countries, social spending by government has an impact on inequalities. However, the limited government revenue of most developing countries leaves little besides spending on broken health and education systems.[130]

This 2018 analysis looks at government revenue and poverty statistics for 101 developing countries (based on available data, current at least to 2010), of which 43 were LDCs or LICs, 25 were LMICs, and 33 were UMICs. The following observations can be made:

- **For the 49 countries with less than $3,000 in per capita revenue (all but one is LDC/LIC or LMICs), 59% of the population were living on less than the $3.10 a day poverty line.**
- Of the 22 countries (out of 25) that are classified as LMICs, 39% of the population were living on less than $3.10 a day.
- Among the 28 UMICs with more than $3,000 per capita government revenue, 29% were living on incomes of less than $5.50 a day, the poverty line for these countries as set by the World Bank. Within this share of the population consider poor, there was 12% who were living on less than $3.00 a day.

While there is scope for increased domestic revenue generation in many developing countries, increased levels of ODA will be essential for many years to come, if these gross inequalities in government capacities to meet the needs of hundreds of millions of poor and vulnerable people are to be overcome.

Domestic revenue generation

The World Bank suggests that countries with tax revenues below 15% of their Gross National Product will have difficulty funding "basic state functions." They observe that:

> "tax revenues in over one-third of IDA countries (36 percent) and 70 percent of fragile and conflict-affected countries are below that threshold, and tax revenues are lowest in countries where most of the very poor live."[131]

Domestic resource mobilization in the poorest countries is falling behind needed expenditures. A recent IMF report on global economic prospects concluded,

> "while lower commodity prices since 2014 have dragged on revenue in commodity exporters, the broader pattern across low-income countries of worsening fiscal positions suggests that domestic revenue mobilization efforts have generally fallen short of rising expenditure requirements."[132]

In Sub-Saharan Africa, where the collection of tax revenue is weakest, another IMF study pointed out that the maximum rate of personal income tax has fallen from 44% to 32% since 2000, while the collection of indirect value added taxes has increased substantially.[133]

Many CSOs, including the Reality of Aid network, have called for donors to support measures of fair taxation in developing countries, ones which focus on progressive taxes on assets such as income or land. These taxes take into account the ability of taxpayers to pay their share.[134] Value-added taxes are easier to collect, but place a heavy burden on poor people and the hundreds of millions of working poor who may live just above the poverty line. A study of several African countries discovered that value added taxes are actually contributing to poverty. In four out of five countries "the net effect of taxes and transfers is to increase the number of people living below the World Bank's extreme poverty line" and in Tanzania "poverty is nearly 20 percent higher due to taxes and transfers."[135]

Donor support for domestic resource mobilization (DRM) remains modest, but is growing.[136] Gross disbursements for projects dedicated to DRM almost doubled, going from $191 million in 2015 to $365 million in 2016. Unfortunately, only a quarter of this investment (26%) was made in Least Developed and Low-Income Countries. The majority - almost 60% - was devoted to Lower Middle Income Countries.[137]

The 2016 Reality of Aid analysis also pointed to the importance of international initiatives to stem the flow of illicit capital flight from developing countries as well as the loss of revenue to developing countries as a result of "profit sharing techniques" by transnational companies. The IMF estimates this to be between $100 billion and $300 billion.[138]

H. Conclusions

In the face of converging global crises of widespread poverty, increasing concentrations of wealth and power, and the prospects of environmental catastrophe, ODA is a deeply compromised resource to help realize Agenda 2030. Yet ODA also remains the only resource, under government direction, which has the potential to be a catalyst for truly transformative and collective action. Donor reforms in policies and practices could give real priority to measures that directly support poverty eradication, reduce inequality, and build resilience to climate change.

Aid effectiveness for Agenda 2030 requires donors to move beyond short-term commercial and foreign policy interests that currently drive aid allocations and partnerships. Aid providers must return to the reduction of poverty and inequality as the driving purpose of aid, collaborate in transformative partnerships towards these ends, and reform their practices in support of developing country priorities.

What are some benchmarks and directions that indicate a determined donor commitment to shape ODA as an effective resource for the SDGs?

1. **Donors must immediately set out specific fiscal plans to increase concessional Real Aid volumes to meet the UN ODA target of 0.7% of their GNI. .** Realizing this goal would have produced an additional $200 billion in 2017, which is the order of investment required to make a difference for poverty eradication. Without substantial and sustained increases in aid volume, the urgent demands of increasing humanitarian crises, which must be met, will continue to reduce aid resources available for sustainable long-term development.

2. **The policy foundation for aid increases requires well-defined donor aid strategies that focus ODA on partnerships in developing countries, or in global public goods, with a clear demonstration of a positive impact on poor and vulnerable populations**. These policies must not only respond to emergency humanitarian needs. Instead, they must also give priority attention to long-term structural changes affecting all dimensions of poverty and the many expressions of inequality, including those relating to gender and disability. Such policies are rooted in an ethic of global solidarity, working for a sustainable planet and a meaningful future for all.

3. **Donors must commit to greater ODA transparency through a reform of current DAC rules for aid reporting, consistent with an exclusive focus on public concessional resources for poverty reduction**. Such reforms require DAC agreement to remove in-donor refugee and student costs and the full value of debt cancellation from their reported ODA. DAC members must also revisit the expansion of these rules in the area of security and military training. Aid is increasingly being used to backstop donor interests in the deployment of military in fragile situations and migration control, their use in anti-terror security sector reform, and as subsidies to donor country-based corporations.

4. **Donors must ramp-up resources for climate mitigation and adaptation finance to achieve, and hopefully exceed, the $100 billion global climate finance target by 2020** (of which $37 billion is expected to come from individual donor funding). Resilience and adaptation to the impact of climate change is an essential screen for all aid projects. At the same time, donors must live up to their commitments in Bali (2007) and Copenhagen (2009) that climate finance resources are to be additional to current aid obligations. This commitment requires that climate resources be added to donor schedules to achieve the 0.7% ODA

target (noted in #1 above). This goal can only be monitored if there are clear aid and climate finance targets, or separate funding mechanisms through which climate finance can be tracked.

5. **Poverty-focused ODA requires particular attention to overarching country and gender manifestations of poverty and inequality**:

- **Donors must address the expressed needs of Least Developed and Low-Income Countries by meeting the long-standing commitment that up to 0.2% of donor GNI is devoted to LDCs as part of increasing aid budgets**. Meeting this commitment in 2017 would have resulted in more than $90 billion for partnerships in these countries.
- **Donors must return to the priority given to Sub-Saharan Africa in the 2000s, a strategy that resulted in more than doubling the ODA to that region over the decade.** There is an urgent need for an emphasis on strengthening the capacities of Sub-Saharan African partners to address poverty where 42% of the population are estimated to live in destitution and extreme poverty.
- **Donor support for programs focusing on gender equality, including women's rights organizations, must be dramatically increased. Currently, 65% of Real ODA has no gender equality objectives – this is untenable.** Advancing women's rights and gender equality are central to making progress on all of the SDGs. Support for programs tackling other dimensions of identity-based inequality, though not currently tracked in DAC statistics, is also essential in the context of the SDGs' "leave no-one behind" commitment.

6. **Donors must tackle quality issues for ODA**, including the implementation of the 2011 development effectiveness principles that inform the Busan commitments of the Global Partnership for Effective Development Cooperation. These includes:

- **Increase country partner ownership over the priorities of ODA and other development flows intended for country development.** While this core development effectiveness principle implies changes in donor practices at the country level (see human rights based approaches below), it also means reversing the declining levels of Country Programmable Bilateral Aid (CPA) accessible to country partners.
- **Strengthen country-led inclusive mechanisms for policy dialogue and mutual accountability for development cooperation at the country level.** Mechanisms should include an institutionalized review of progress in donor practices promoting development effectiveness, ones that are open to a diversity of development actors, including civil society, and be fully transparent.
- **Reverse the trend towards increased use of loans as a modality in ODA, particularly for Low-Income and Lower Middle-Income Countries.** There is increasing concern that debt unsustainability is returning for several of the poorest countries, particularly in Africa.
- **Where ODA is partnered with the corporate private sector, or used to mobilize such financing (blended finance and DFIs),** all stakeholders should be assured that initiatives 1)

are driven by poverty and inequality reduction as the primary objective; 2) priorities are consistent with inclusive country-led development strategies; and 3) all initiatives take account of human rights standards at all stages. Full transparency is key to development effectiveness.

- **Reform technical cooperation (TC) practices to respect the principle of demand-led technical cooperation.** These reforms imply country management of TC, avoiding "soft conditionality" in the deployment of TC, focusing on mutually agreed upon capacity development efforts to transfer skills and knowledge, and be fully transparent and accountable for the work of technical assistants in TC programs.
- **Reverse the trend towards increased tied aid**. Renewed attention to tied aid is urgent, particularly as there is evidence that informal tying of aid continues unabated. As donors consider directing increased levels of aid to mobilize investment from the corporate private sector, there is concern that these measures will lead to more and different forms of tied aid. Tied aid has long been demonstrated to increase costs for developing country partners and lead to inappropriate responses to their development needs.
- **Strengthen the effectiveness and responsiveness of the multilateral system to issues of poverty eradication and the reduction of inequality in both the priorities and delivery of multilateral ODA.** This objective includes not only increasing core resources under the control of UN organizations, but also measures to bring coherence to UN initiatives by reducing donor-led special funds and/or allowing UN organizations to direct these funds based on organizational priorities.

7. **Donors should strengthen the focus of ODA for Agenda 2030 by implementing their ODA through partnerships that have a human rights-based approach (HRBA).**[139] While aid is delivered through a range of instruments and relationships, the focus of HRBAs is on ownership of development priorities and approaches at the country level. Central to this approach is an understanding of the unique human rights challenges of poor and vulnerable populations. HRBA approaches work with local partners to assess the changing power dynamics faced by these marginalized populations. While sectoral priorities for ODA may not shift with the adoption of a HRBA, their objectives and implementation may well do so. Implementation of HRBAs on the part of official donors requires concerted senior institutional and political leadership as well as deliberate efforts to build institutional capacities. The latter may involve human resource training and tools to support country programmers.

8. **Donors must address the shrinking and closing space for CSOs as development actors.** Civil society in all its diversity is a crucial actor in advancing country level accountability as well as direct engagement with communities affected by poverty and discrimination. The space for CSOs is closing, particular for human rights and women's rights advocates, LGBTO activists and environment activists working with affected communities. Donors can support this work through

ongoing contact with vulnerable human rights activists at the country level. Collectively donors can raise the profile of relevant issues at the international and national level. They can also undertake human rights due diligence in their foreign policy and support for donor-based corporations' investments in developing countries. They can facilitate flexible financial arrangements for a diversity of CSOs in developing countries and provide institutional support. They can help expand the space for engagement with civil society in international organizations and multilateral negotiation processes.

ENDNOTES

1 The following characteristics of ODA are adapted from Box One in Brian Tomlinson, ""Global Aid Trends, 2016, Financing Agenda 2030: Where are the resources?," *The Reality of Aid 2016*, Manila: IBON Foundation, 2016, accessible at http://www.realityofaid.org/roa_report/technical-cooperation-as-an-aid-modality-demand-led-or-donor-driven/ and an unpublished CSO Working Document on TOSSD, April 2018, coordinated by Luca De Fraia.

2 See Busan Partnership for Effective Development Cooperation, December 2011, accessible at http://www.oecd.org/development/effectiveness/busanpartnership.htm.

3 All figures are in US dollars unless otherwise stated.

4 See Adams, B., Martens, J. *Fit for Purpose: Private Funding and Corporate Influence in the United Nations*. Global Policy Forum, September 2015, accessed May 2018 at https://sustainabledevelopment.un.org/content/documents/2101Fit_for_whose_purpose_online.pdf and "Market discourse has captured the development agenda to a point that may be incompatible with UN mandates," Interview with Barbara Adams, Global Policy Forum, March 2, 2018, access May 2018 at https://www.globalpolicy.org/home/270-general/53041-market-discourse-has-captured-the-development-agenda-to-a-point-that-may-be-incompatible-with-un-mandates.html.

5 See Concord, *Aid and Migration: The externalization of Europe's responsibilities,* AidWatch 2018, accessed May 2018 at https://concordeurope.org/2018/03/19/aid-migration-aidwatch-paper/'

6 Saldinger, A., "What the US National Security Strategy sais about global development," DevEx, December 19, 2017, accessed May 2018 at https://www.devex.com/news/what-the-us-national-security-strategy-says-about-global-development-91778.

7 Curtis, M. et al, *The Conflict, Stability and Security Fund: Diverting aid and undermining human rights.*" Global Justice Now, December 2017, accessed May 2018 at http://www.globaljustice.org.uk/sites/default/files/files/resources/conflict_security_and_stability_fund_diverting_aid_and_undermining_human_rights_web.pdf.

8 On export credits, debt relief and ODA see Eurodad, *Exporting Goods or Exporting Debt: Export Credit Agencies and the roots of developing country* debt, December 2011, accessed May 2018 at http://eurodad.org/files/pdf/4735-exporting-goods-or-exporting-debts-export-credit-agencies-and-the-roots-of-developing-country-debt-.pdf. The DAC has agreed to change the rules regarding the inclusion of

ODA loans effective in 2018. These rule changes and their implications are elaborated below in the section on trends in ODA loans.

9 See Brian Tomlinson, "Global Aid Trends, 2016, Financing Agenda 2030: Where are the resources?," *The Reality of Aid 2016*, Manila: IBON Foundation, 2016, pp. 130 – 133, accessible at http://www.realityofaid.org/roa_report/technical-cooperation-as-an-aid-modality-demand-led-or-donor-driven/.

10 See Kharas, H., and Rogerson, Andrew. "Global Development and Challenges: Horizon 2025 Revisted," ODI Report, October 2017, page 31, accessed June 2018 at https://www.odi.org/sites/odi.org.uk/files/resource-documents/11873.pdf.

11 Owen Barder, "Is the UK Putting Its Own Interests Ahead of the Poor in Its New Aid Strategy?." Center for Global Development, Blog, December 10, 2015, access April 2018 at https://www.cgdev.org/blog/uk-putting-its-own-interests-ahead-poor-its-new-aid-strategy. See also Germany, working together to eliminate poverty focusing on extreme poverty, http://www.bmz.de/en/issues/Poverty/index.html and USAID, https://www.usaid.gov/endextremepoverty.

12 Allen, Robert C. 2017. "Absolute Poverty: When Necessity Displaces Desire." American Economic Review, 107 (12): 3690-3721.

13 OECD DAC, Development Cooperation Report 2017, Paris, 2017, accessed May 2018 at http://www.oecd.org/dac/development-co-operation-report-20747721.htm.

14 Clair Hoy, "Projecting National Poverty to 2030," ODI, March 2016, accessed April 2016 at https://www.odi.org/sites/odi.org.uk/files/resource-documents/10355.pdf.

15 ILO, *Women and Men in the informal economy: A statistical picture*, Third Edition, April 2018, accessed May 2018 at http://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

16 See Yamey, G., and Hecht, Robert. "Are tough times ahead for countries graduating from foreign aid," Future Development Blog, Brookings, March 8, 2018, accessed April 2018 at https://www.brookings.edu/blog/future-development/2018/03/08/are-tough-times-ahead-for-countries-graduating-from-foreign-aid/. Also Development Initiatives, "Income status is no basis for aid allocation decisions," July 3, 2014, accessed April 2018 at http://devinit.org/post/income-status-basis-aid-allocation-decisions/.

17 See the latest report, DAC, *Aid in Support of Gender Equality and Women's Empowerment, Donor Charts,* March 2018, accessible at http://www.oecd.org/development/financing-sustainable-development/development-finance-topics/Aid-to-gender-equality-donor-charts-2018.pdf.

18 Canada's feminist international assistance policy is available at http://international.gc.ca/world-monde/issues_development-enjeux_developpement/priorities-priorites/policy-politique.aspx?lang=eng and Sweden's feminist foreign policy at https://www.government.se/government-policy/feminist-foreign-policy/.

19 See Stephanie Fillion, "As Sweden and Canada Push a 'Feminist Foreign Policy,' Others Resist the Label," PassBlue, February 12, 2018, accessed April 2018 at http://www.passblue.com/2018/02/12/as-sweden-and-canada-push-their-feminist-foreign-policy-other-nations-resist-the-label/.

20 See Meeks, P., "Mixed Messages: The rhetoric and the reality of using blended finance to 'leave no one behind', Eurodad, November 2017, access June 2018 at http://www.eurodad.org/files/pdf/1546844-mixed-messages-the-rhetoric-and-the-reality-of-using-blended-finance-to-leave-no-one-behind--1511464491.pdf.

21 Sophie Edwards, "Inside the battle for replenishment at the Global Partnership for Education," DevEx, December 20, 2017, accessed at https://www.devex.com/news/inside-the-battle-for-replenishment-at-the-global-partnership-for-education-91688.

22 Christin Roby, "GPE replenishment misses targets, but sees 'turning point' in education financing," DevEx, February 5, 2018, accessed at https://www.devex.com/news/gpe-replenishment-misses-targets-but-sees-turning-point-in-education-financing-92021.

23 Nicole Gaouette, "US abortion funding hurting health overseas, aid groups argue," DevEx, March 8, 2018, accessed at https://www.cnn.com/2018/03/08/politics/global-gag-early-health-impact/index.html and Human Rights Watch, "Trump's 'Mexico City Policy' or 'Global Gag Rule', Questions and Answers," February 14, 2018, accessed April 2018 at https://www.hrw.org/news/2018/02/14/trumps-mexico-city-policy-or-global-gag-rule.

24 Lena Sun, "CDC to cut by 80% efforts to prevent global disease outbreak," Washington Post, February 1, 2018, accessed at https://www.washingtonpost.com/news/to-your-health/wp/2018/02/01/cdc-to-cut-by-80-percent-efforts-to-prevent-global-disease-outbreak/?utm_term=.59f7836408b1.

25 Although levels of funding and their programs can be affected by powerful donors such as the United States in its recent (2017) implementation of its policies restricting US funding for any organization promoting abortion within its family health work.

26 See for example, UNDP, "Funding Compendium 2016," accessed June 2018 at https://www.undp.org/content/dam/undp/library/corporate/Partnerships/Funding%20Compendium%202016.pdf.

27 See the Aid Trends Chapter in the 2016 Reality of Aid Report for a more detailed discussion of this trend and its impact on different UN organizations at http://www.realityofaid.org/roa_report/technical-cooperation-as-an-aid-modality-demand-led-or-donor-driven/.

28 The DAC defines CPA as Gross Bilateral Aid less: humanitarian aid and debt relief (unpredictable aid); administrative costs, imputed student costs, development awareness, research and refugees in donor countries (no cross boarder flows); and food aid, aid from local governments, core funding to NGOs, ODA equity investment, aid through secondary agencies and aid which is not allocable by country or region (do not form part of cooperation agreements between governments). See http://www.oecd.org/dac/aid-architecture/cpa.htm.

29 Peters, D., Paina, L., Schlelmann, Finn. "Sector-wide approaches (SWAps) in health: what have we learned?," *Health Policy and Planning*, Volume 28, Issue 8, 1 December 2013, Pages 884–890, https://doi.org/10.1093/heapol/czs128.

30 See Orth, M., J. Schmitt, F. Krisch, S. Oltsch (2017), "What we know about the effectiveness of budget support. Evaluation Synthesis," German Institute for Development Evaluation (DEval), Bonn, accessed June 2018 at https://www.deval.org/files/content/Dateien/Evaluierung/Berichte/2017/DEval_Synthesen_Bericht_2017_EN_bffinal.pdf. They found "convincingly broad evidence that budget support is indeed an effective modality in promoting important development outcomes, such as improvements in public financial management and budget processes and improved provision of public goods and services. In view of these findings it appears worthwhile for donors – including those who have largely withdrawn from budget support – to re-assess the modality."

31 Quoted in Larry Elliott, "Global debt now worse than before global financial crisis, says IMF," Guardian, April 18, 2018,

accessed April 2018 at https://www.theguardian.com/business/2018/apr/18/global-debt-now-worse-than-before-financial-crisis-says-imf.

32 For examples of the DAC calculation of grant equivalency of loans for various donor countries for 2016 see Table 20 at http:// www.oecd.org/ dac/stats/statisticsonresourceflowstodeveloping countries.htm.

33 See OECD DAC, "Note on the treatment of loan concessionality in DAC statistics," accessed May 2018 at http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/concessionality-note.htm.

34 For more detail see, Rob Tew, "Accounting for ODA Loans: The effect of the new rules," Development Initiatives, February 28, 2018, accessed April 2018 at http://devinit.org/post/oda-loans-accounting/ and "Modernizing ODA loans: impact of new DAC reporting rules (part2)," Development Initiatives, March 9, 2018, accessed April 2018 at http://devinit.org/post/modernising-oda-loans-impact-of-new-dac-reporting-rules-part-2/. These briefing papers provide an estimate of the impact on aid levels for various affected donors.

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Measuring Brazilian South-South cooperation through a participatory approach

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South-South cooperation (SSC) has been around for a long time, but theorists and practitioners alike still struggle to agree on what it actually means. The 1955 Bandung conference is usually considered an initial landmark, but it is possible to identify similar principles of autonomy and self-determination in international alliances going back as far as an analyst chooses to look.

Along with deeply rooted anti-colonial principles, SSC has also been linked to alternative development models, especially during the Cold War period, and with the overcoming of structural issues (such as trade and intellectual property) that have hindered competition – and deepened dependency. In the late 1970s, however, SSC also became about the creation and adaptation of knowledge and technical expertise, through what was then known as technical cooperation among developing countries, or TCDC. The 1978 Buenos Aires Plan of Action for Promoting and Implementing TCDC – or *BAPA* – highlighted capacity-building as a key SSC dimension. In a context of military regimes in Latin America and the end of the *détente* period in the bipolar regime, political demonstrations gave way to a more *technical* dimension.

SSC has, therefore, manifested itself in many forms throughout the decades. But whether it is seen as part of political alliances, concerted action in the trade regime or in technical cooperation and knowledge-exchange activities, there is an underlying and identifiable *SSC quality* that has been systematized into principles (See Figure 1). Its relevance was ratified and confirmed in the *2030 Agenda*, especially through SDG 17.

In the early 2000s, South-South relations gained a new impetus, one that disputed the space and narratives of the international development cooperation system and challenged practices and principles related to the Official Development Assistance (ODA) from traditional donors of the Organization for Cooperation and Economic Development (OECD).

The process of reaffirming SSC coincided with debates about ODA effectiveness - in fact, about what should be understood as *development* in the 21st century. Connected to this rethinking was the emergence of strongly mobilized civil society networks and coalitions, which were advocating for a people-centered and rights-based cooperation, whether at the national level or in regional and multilateral forums. The impact of these two *emerging* actors (CSO networks representing the interests of impacted populations and SSC advocates) was considerable – and, at least in the case of the CSOs, motivated several initiatives to keep up the political momentum and to develop relevant research (Bracho, 2017).

The so-called Southern providers, however, continue to struggle to support their normative discourse with

Figure 1 South-South cooperation: conferences and principles

evidence-based research and analysis. When it comes to providing useable data and developing shared tools and methodologies for SSC measurement, the lack of common definitions is a major bottleneck (Diciommo, 2017).

As a contribution to these debates, this chapter intends to share a recent approach to measuring Brazilian SSC, that is part of a larger initiative of dialogue between governmental and nongovernmental stakeholders. The initiative, supported by Oxfam Brazil, has involved several organizations and networks. It began in September 2016 with a multi-stakeholder workshop followed by capacity-building activities on Brazilian national accounting systems. The final report on implementation was published two years later, in Portuguese, in April 2018.

The methodology is the result of collective inputs and has been inspired by existing budget-monitoring initiatives – however, the absence of a clear-cut SSC policy made the search for SSC-related disbursements quite complicated and required a unique approach. Instead of looking for a previously defined object, our aim was to highlight budget lines and expenses that had a clear SSC narrative, which could ultimately inform a more coherent and coordinated SSC public policy. The general goal, therefore, is to foster an inclusive and evidence-based debate on what Brazilian SSC is – as well as what it can become.

Measuring what? A search for SSC narratives

In Brazil, the only official report available regarding the country's contributions to international development cooperation – known as COBRADI– supplies information on federal disbursements from 2005 to 2013. It includes data from more than 90 federal institutions that has been collected through an electronic survey form. COBRADI's methodology is complemented by additional qualitative information provided by focal points in participating institutions.

The COBRADI report was not intended as a SSC report, but rather tried to assess Brazilian contributions to international development since its first edition, published in December 2010. It was a pioneer assessment that sought to include contributions from different ministries and federal entities, collecting scattered and unidentified information in a context of little awareness of SSC – at least not by that name. Moreover, it offered, for the first time, an official narrative on Brazilian contributions to international development, no longer as an exclusively receiving country but as an exporter of social policies and ideas. The foreword, signed by President Lula da Silva, emphasized that the objective of Brazilian cooperation was not to replicate vertical models of aid, but rather was based on mutual benefits and responsibilities among equals.

The COBRADI reports became the main reference for measuring and understanding Brazilian SSC: what it entailed, how much was spent, which ministries and agencies were involved and where the money was allocated. In this sense, it was the first reference in terms of what needed to be examined in the federal budget system.

Despite being the only comprehensive report on Brazilian cooperation, COBRADI's survey-based methodology demands significant political and bureaucratic engagement and duplicates efforts in implementation and reporting. Consequently, each edition takes considerable time and effort from its publishing institutions (the Institute of Applied Economic Research – IPEA, a governmental think-tank and the Brazilian Cooperation Agency from the Ministry of Foreign Affairs), which partially explains for its constant delay. Another negative aspect is that COBRADI's database is not open, so the only available disaggregation is that which is made in the report itself, which limits the scope of evidence-based analysis.

The development of a budget-monitoring methodology was thought to address many of these issues. In the first workshop, several points were raised:

- By extracting information from the online budget system, it would be possible to have updated information on SSC-related expenses at the federal level;
- The process would allow for strategic policy-advice on how to improve SSC accountability and visibility;
- Proposing an open perspective on what SSC can include or exclude would empower different stakeholders to participate in policy debate and implementation; and
- Finally, this process could provide an adjustable perspective that could foster dialogue and comparison with other Southern providers.

Implementation began in late 2017 in the main online platform known as SIOP (the Union's integrated budget and planning system). The SIOP provides data from January 2000 and is constantly updated with disbursements as they are created and approved by budget authorities within federal agencies and ministries. It is open and relatively user-friendly. However, in order to collect information from the selected timeframe (January 2000 to December 2016) it was necessary to use an automated program to collect information from the system.

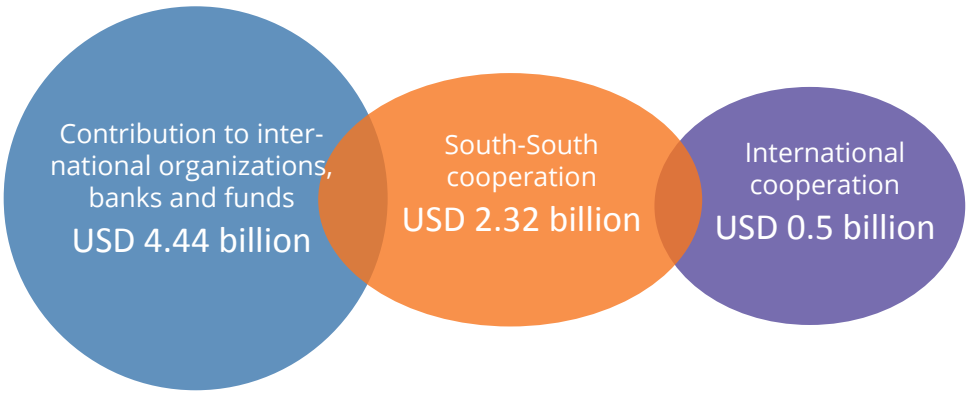
The SIOP allows for free text in input fields that describe each expenditure. This means that data is not standardized or easily identifiable. It has, nonetheless, allowed for increased transparency and detailed information: a complementary section created in 2011 made it possible to describe each budgetary expenditure in terms of goals, specific budget lines, legal framework and, in some cases, to access detailed contract information for rendering goods and services.

The methodology implementation began by filtering information from SIOP according to a list of key-words, that are linked to SSC *narratives* - that included the names of all countries (regardless if North or South), as well as general terms such as "international" and "cooperation". The automated program conducted a series of searches in every input field available in SIOP. Our hypothesis here was that a clear SSC narrative for specific budget expenditures would suggest a stronger SSC awareness among policy-makers and bureaucrats: in fact, results showed a significant increase on the use of SSC vocabulary from 2005 until the end of the analysed period.

Considerable efforts were made to ensure that criteria were comprehensive so as to include any expenditure possibly related to international cooperation. As expected, this resulted in tens of thousands of disbursements. The next step was to analyze these disbursements individually, classifying them according to their *predominant narratives*. This required significant work from a dedicated team of SSC experts, and motivated very fruitful methodological debates along the way.

An initial challenge was separating programmatic expenses from ordinary ones related to foreign policy. Once the latter were identified and excluded, the total number of entries diminished significantly. In fact, it left only three general categories: 1) contributions to international organizations, banks and funds; 2) international cooperation and 3) South-South cooperation (See Figure 2).

Figure 2 - ASUL Federal budget monitoring: Initial results, Distribution of Brazilian international development cooperation expenditures (2000 - 2016)



Source: SIOP total amounts, USD current values.

General results were encouraging: Figure 3 illustrates how total amounts resulting from the implementation of our methodology coincided with those from the official reports.[1]

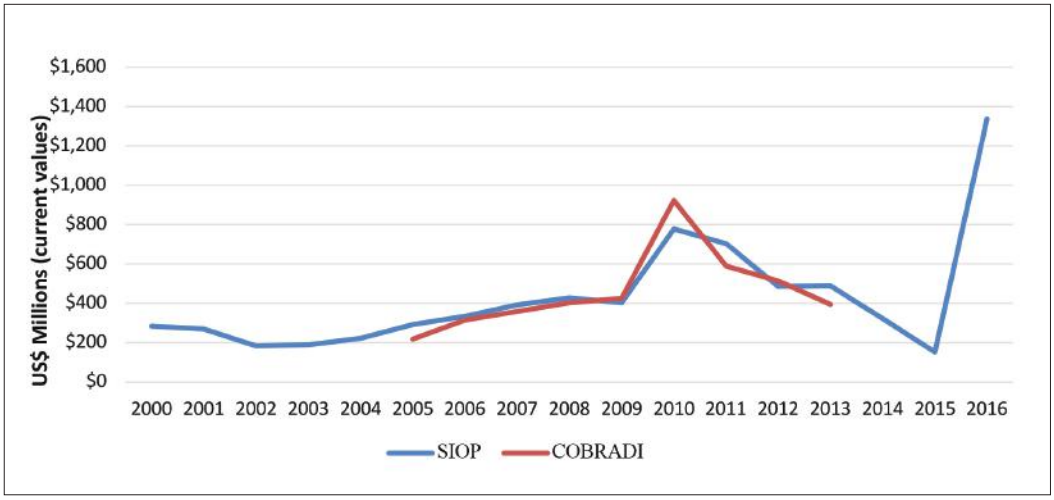
Contributions to international organizations, banks and funds represented approximately US$4.44 billion, accounting for more than 65% of the total amount in the period. But a central question was why these contributions should be identified as Brazilian cooperation for development.

The first COBRADI report includes Brazil's contributions to international thematic or multipurpose organizations (which was misleadingly called "multilateral cooperation"), as well as regional banks and funds.[2] Although the budget-monitoring methodology did coincide with the official data, it has also raised a few issues that need to be addressed in order to improve transparency. For example, budget registries do not discriminate between assessed and voluntary contributions to international organizations, which may impact the accuracy of SSC-related numbers.

Brazil does not have an enabling SSC legal framework.[3] In fact, it has a *receiving* country legislation, that prevents it from sending resources abroad. Thus, several international organizations (mostly the UNDP but also WFP, ILO among others) serve as facilitators, managing resources that come from the Union's budget to implement Brazilian SSC program and projects. This suggests that some portion of what has been classified as *contributions to international organizations* is actually SSC. However, in the absence of a clear identification linked to SSC vocabulary it was not considered as such by ASUL's methodology.

The international cooperation category comprises only 6% of the total amount identified in the period. It is made up of budget registries that, on the one hand, have a dimension of international cooperation, but, on the other hand, do not have a clear SSC narrative. They were too

Figure 3: Official Report COBRADI (2005-2013) and ASUL budget monitoring (2000-2016)



Source: COBRADI Report and SIOP

ambiguous to fit inside the SSC category, or they were actually disbursements related to international cooperation *received* by Brazil.

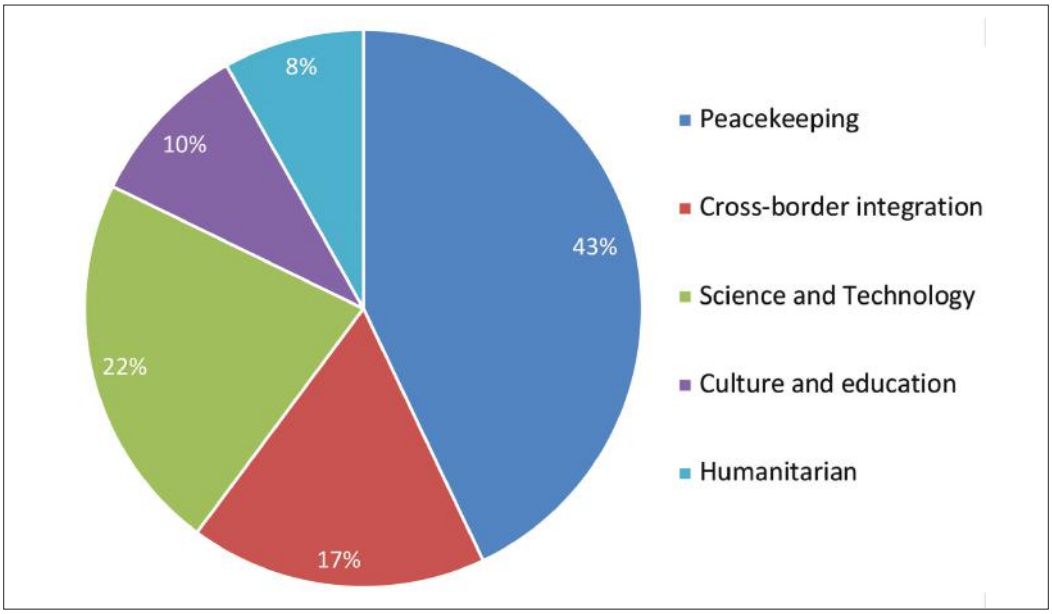
Having a dual personality as both provider and receiver in the international development cooperation system, far from being an exception, is a defining trait of many Southern providers. Because of this duality, this category of disbursements included, for instance, payments related to the development of a nuclear-powered submarine that resulted from a "strategic partnership" between Brazilian and French defense ministries. Nevertheless, this category may also include SSC-related disbursements that could not be clearly identified: a generic budget line for "international technical cooperation," for example, is likely to include TCDC, but the lack of a clear SSC narrative or the identification of the partner country prevented it from being reclassified.

The SSC category only included federal disbursements that had clear narratives identifying it. It represented 28% of the total amount identified for the period, but it may, as we have seen, been underestimated. Moreover, and as it will be briefly described in the next section, it was possible to examine it according to five different *predominant narratives*: 1) defense and peacekeeping; 2) cross-border integration; 3) science and technology; 4) cultural and educational; and 5) humanitarian cooperation.

South-South cooperation lost and found

According to ASUL budget-monitoring methodology, all federal disbursements that had a clear SSC narrative were classified as such. According to Figure 4 they could also be divided into five predominant narratives:[4]

Figure 4 Distribution of Brazilian South-South cooperation disbursements (2000-2016): predominant narratives



Source: SIOP

- **Peacekeeping missions and defense**: Comprising little less than US$1 billion for the period, disbursements from the Ministry of Defense represented more than 40% of the SSC category. Since they were all from the same institution, budget registries were fairly standardized and included disbursements related to Brazil's participation in peacekeeping missions in Haiti, Lebanon and East Timor, all UN mandated missions. As already stated in the COBRADI report, a significant part of these expenses are reimbursed by the United Nations Department of Peace-Keeping Operation (UN-DPKO), after a very thorough accountability process, so they should not be considered net disbursements;
- **Cross-border integration**: Although it was absent from the official reports, the budget-monitoring methodology identified a narrative of regional integration in disbursements related to infrastructure projects across municipalities in national frontiers and in the MERCOSUR corridor. The latter, however, despite having a clear SSC narrative of regional integration, consists largely of disbursements related to projects within national borders;
- **Science and technology *(space cooperation)***: Federal disbursements that had a clear SSC narrative within the field of science and technology represented over 20% of all SSC expenses in the period. Cooperation with China for the development of the earth resources satellite was one of the main disbursements in this category, along with cooperation with Ukraine to develop a satellite launcher on Brazilian territory;
- **Cultural and educational**: This category accounts for cooperation amongst Portuguese-speaking countries as well as foreign student grants for graduate and post-graduate programs in Brazilian universities. Representing 10% of SSC disbursements, it also included expenses related to the Lusophone and Latin American Universities (UniLAB and Unila): Although they were both located in Brazilian territory, their main mission was regional and extra-regional integration with a focus on foreign students, and they were particularly strong in upholding the principles and rationale of South-South cooperation in culture and education, especially in the first half of the analyzed period; and
- **Humanitarian cooperation**: The internationalization of the zero-hunger agenda formed the base of the disbursements related to South-South humanitarian cooperation. It included support to international cooperation and civil society participation in the field of family farming, school feeding, as well as disaster response and in-country refugee support. It represented 8% of SSC disbursements, with a peak in 2010 with the Brazil's response to the Haitian earthquake.

What we have *not* found was equally important. Brazil's flagship cooperation initiatives in agriculture and health, for instance, were surprisingly absent, as well as virtually all technical cooperation. As mentioned, data regarding contributions to international organizations, which was not included as SSC, may explain the absence of Brazilian technical cooperation. These organizations play the role of TCDC enablers, managing Brazilian funds (and charging the equivalent overhead) to implement projects and programmes in

partner countries. Although it responds to a necessity, that is, the lack of a legal framework for SSC in Brazil, it also raises a few questions: Is all TCDC, *triangular* cooperation? What are the implications of this arrangement for accountability, for instance? Since funds are managed by an international organization, they are not integrated into the national transparency systems. This is not to say they are opaque – quite the contrary, the recently launched UNDP Transparency Portal[5] offers detailed information on these agreements, including budget utilisation and project documents. But they are not visible in the national budget as TCDC.

ASUL's methodology has highlighted cases such as this and developed specific recommendations for better identification of expenditures. The team is also engaged in national and international advocacy, in order to influence a more open and participatory approach to SSC measurement and monitoring. By identifying different manifestations of SSC in the national budget system we are encouraging the international debate without advocating for a closed conceptual framework. Countries that wish to report and compare any or all of the existing narratives can do so, based on their own national systems, and according to their own interests and availability.

Towards participatory SSC

In the late 1980s, the Brazilian city of Porto Alegre implemented a social participation policy that became known as *participatory budgeting* (PB). The main idea was to include a wider part of the population in the process of city budget allocation, through an annual cycle of public consultations and deliberations. By 2012, more than 2,500 local and central governments (from both the global North and South) had adopted PB policies in their own national realities, strengthening democratic participation and improving accountability (Porto, 2017). The methodology we propose to measure SSC is in the spirit of participatory budgeting aimed at facilitating the engagement of multiple stakeholders in the process of measuring and, at the same time, conceptualizing and strengthening Brazilian SSC.

South-South cooperation cannot be measured solely through financial flows. Nonetheless, understanding budget allocations can help enlighten practices and priorities of Southern providers. The numbers we share here are actual disbursements (or outlays) made by the Brazilian government, which were described in the budgetary system, by official accounting authorities, using a SSC *vocabulary* and *narrative*. They offer a concrete perspective on what SSC may entail, and a baseline for further debate and methodological exercises.

Numbers may be well below expectations (and speculations), especially if compared to traditional OECD references. Measurement, however, is different than *value*. To understand the *value* of SSC we must go beyond measurement and tackle the issue of SSC assessment and evaluation, while finding a way to include domestic constituencies and impacted populations in partner countries.

Fear that numbers may misrepresent the national effort that is required to engage in SSC partially explains the resistance of Southern providers to openly address them. In this sense, some have argued for the use of corrective methodologies, such as applying Purchase Power Parity

or using UN-type salaries to account for technical hours of national professionals. As valid as these exercises may be, they need a concrete baseline, which is what this methodology aims to provide. Understandably, Southern providers do not want to replicate OECD metrics and methodologies – however, it cannot be an excuse for being unaccountable.

Forty years ago in Buenos Aires, representatives of 138 countries agreed on an action plan to promote and implement technical cooperation amongst developing countries - TCDC. The 1978 BAPA had already called attention to a context of changes in relationships between developed and developing countries and denounced its governance as anachronistic and unequal. Next year there will be an official commemoration of its 40th anniversary, the BAPA+40, and the richness and complexity of the topic cannot dispense with a broad, participatory and evidence-based debate.

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1 The peak in 2016 refers to a presidential decree that authorized payment of late contributions regarding Brazilian membership in international organizations, in the amount of nearly USD 1 billion.

2 Besides UN-system agencies, the Fund for Structural Convergence and Institutional Strengthening of Mercosur (Focem), the International Development Association (IDA) of the World Bank Group, the Inter-American Development Bank (IDB) and the African Development Bank (ADB) were the main receivers of Brazilian federal contributions in the first assessed period.

3 A study from the Overseas Development Institute (ODI) authored by Lidia Cabral details the institutional challenges and constraints for Brazilian SSC (CABRAL, 2010).

4 We have chosen to use the term "predominant narratives" since they are not necessarily SSC modalities, but they do share common elements that allowed them to be included in a specific narrative within SSC.

5 Accessible through the following link https://open.undp.org

One step forward, Two steps back: Brazil's impact in aid and international cooperation

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Over the past decade, there has been a growing recognition that the space for civil society is shrinking and that restrictions for social movements and organizations are affecting transparency, participation and democracy itself. It is important, however, to note that in the Global South, restrictions have always existed. Corporate power and clientelism, along with the heritage of colonialism, have created barriers to meaningful social and political dialogue that have never fully opened. Many groups, such as LGBTI, Afro-descendants and indigenous people, have never had access or a voice in shaping policies and presenting demands at both the government level but also with other sectors of civil society.

What is different about this current period is that the threats are no longer limited to the South. Northern groups are struggling with change and unpredictability as much as Southern groups. In both the South and North, people are suffering from the repression of protests and dissent, growing anti-democratic legislation, and elected leaders with little or no respect for human rights guarantees. It is increasingly difficult, almost impossible to secure funding for any resistance to these backlashes and the undermining of democratic values and practices.

On the one hand, the current situation provides opportunities to promote equality and solidarity between groups in the North and the South as both work to address similar threats and support each other in these struggles. However, the fact that funding for development and human rights is being questioned in the North has huge consequences for Southern groups, limiting their capacities to engage in these debates and to advocate for truly democratic processes in their countries.

In the early 2000s, groups in Brazil and throughout Latin America obtained considerable support and engagement to rebuild democracy after their dictatorship periods. In 2010, the Brazilian Association of Non-Governmental Organizations (ABONG using Portuguese initials) prepared a profile of its 270 members,[1] examining, amongst other issues, the extent of international cooperation in its members' budgets. Interestingly, that study confirmed that in 2003, 22.5% of ABONG members had 61% to 80% of their budgets covered by foreign funding and 35.2% had 81% to 100% of their costs paid through international cooperation. Just four years later (2007), the numbers were more balanced: 20.6% of members received 20% of their resources through international cooperation (in 2003, it was only 7%), 20.6% had 21% to 40%; 18.5% had 41% to 60%; 21.7% had 61% to 80%. Only 18.5% received between 81% and 100% from international sources.

In the early 2000s, debates on the financial sustainability of civil society focused on the importance of diversifying sources of support to avoid donor dependency. Later, these discussions extended to debates on appropriate funding models. A cycle of economic growth and improvement of social-economic indexes pushed Latin

America and the Caribbean to adopt new roles in aid –whereby they became, in some instances, donors themselves but even more importantly, hubs for learning rather than just at the receiving end of resources.

A 2010 survey[2] conducted with 41 international CSOs operating in Brazil indicated that several of these international organizations were preparing to leave or re-adjust their relationship with the country's civil society. Aside from Brazil's high level of economic development, the reasoning for this decision included:

- the impact of the 2008-9 economic crisis and consequent reduction of budgets;
- changes in priorities and/or interest in other regions;
- changes in an organization's strategic focus;
- the increased potential for domestic fundraising and possibilities for the self-sustenance of Brazilian civil society.

According to this survey, the amount invested locally by these organizations dropped 50% from US$88 million to approximately US$40 million between 2009 and 2010.

In 2012 Brazil's economy surpassed that of the UK, making it the world's sixth largest economy.[3] Brazil's economic performance cemented the view that a country as wealthy as Brazil should not continue receiving foreign aid. However, aid cuts for the government also meant international cooperation cuts to Brazil's civil society.

Data from 2011 confirms that official development assistance (ODA) dropped by 2.7%. In 2010, Latin America was the recipient of only 7% of ODA in comparison to 37% to Africa and 30% to Asia.[4] This overall trend has been maintained - data from 2016 shows that the region received around 7.9% of total ODA resources.

During the 2000s, Brazil used its strong economic momentum to develop policies for external technical and financial cooperation, despite remaining on the OECD list of ODA recipients. From 2011-13 Brazil provided the equivalent of US$ 1.5 billion to support projects in 159 countries. This support included individuals and multilateral organizations, with the latter accounting for 53% of that assistance.[5]

Countless articles and panels have discussed Brazil's adjustment to its changing roles from an aid recipient to recipient and donor, including the path to reach this status as a global player alongside its BRICS peers.[6] Its claim to this space was legitimate with a strong foreign policy based on South-South relations, defense of multilateralism and, domestically, important achievements through social inclusion programs.

But this space, one that Brazil craved, was built on an unstable foundation. It depended on economic success based on high commodities prices, with a significant portion of the funds originating in the infamous Brazilian Economic and Social Development Bank (BNDES). It was strongly linked to the popular and trusted Brazilian leader, President Lula, and there was no real alternative leadership after his term ended. Brazilian civil society harshly criticized Brazil's lack of transparency in terms of the country's foreign aid practices as well as the many contradictions between domestic and international policies. One example of this was seen in the embattled ProSavana project in Mozambique, a triangular initiative with Japan, where the development rhetoric and its practice did not match. The long term program (30

years) was built on the assumption that big agribusiness and family agricultural models could coexist, something that has not been possible in Brazil and has been a historic source of conflicts in rural areas. This unequal and failed model, which causes Brazil to be a leader in the assassination of land rights defenders[7] and use of pesticides,[8] was exported to Mozambique, with consequences as bad as foreseen by the Brazilian and Mozambican civil societies, such as farmer's struggle to keep their land.[9]

While the government tested its new roles in foreign assistance, Brazilian civil society suffered from funding cuts in international cooperation. The strong economic growth produced gains but local philanthropy did not keep pace. A survey conducted by a local think tank stated that while 77% of the Brazilian adult population made donations in 2015, only 46% was in the form of financial donations to an institution.[10] In fact, the estimated amount of donations was equivalent to only 0.23% of the country's GDP. No doubt the country's philanthropic sector has grown over the last decade, but it has not replaced international cooperation, as was expected. As a middle-income country with a booming economy, Brazil still did not pay the costs needed to guarantee that its civil society would continue to protect acquired rights and defend policies to attend to the poorest and most vulnerable in society.

> *"Historically, the Brazilian civil society was structured during the re-democratization process, from the struggles to guarantee social and political rights and against the military dictatorship, that lasted from 1964 to 1985." (SOARES: 9).*

This history has meant that the country's civil society has been supported primarily through international cooperation. Local sources have been, and continue to be, scarce. One alternative sought by local groups was to deliver services through partnerships with the government at the local and national level. Since Brazil is not a country used to open debate and funding of its civil society, the distrust was enormous. This context resulted in unpractical and complicated bureaucratic hurdles that hit harder smaller organizations, with less access to international dialogue. As Soares discusses in "Funding for NGOs" (O Dinheiro das ONGs in its original title in Portuguese), this difficulty demonstrates the contradiction between recognizing the importance of civil society - as Brazil does in its progressive 1988 Constitution – while not providing ways whereby the State can support participation and dialogue with civil society outside of the service delivery model.

Soares' publication, produced by ABONG and the Brazilian Civil Society Observatory,[11] also exposes another important point. In situations where the State is not ready to create mechanisms to support civil society and public opinion is not providing the necessary donations, it does not necessarily follow that businesses will fill the shortfall. In fact, evidence shows that businesses prefer to lead their own projects, as confirmed by a census conducted by Brazilian group GIFE – Group of Institutes, Foundations and Enterprises. Research demonstrated that in 2012, only 30% of the social expenditure by businesses was invested in civil society groups. The remainder, 70%, was used to develop their own projects. These numbers remain approximately the same in the Census of 2016.[12] One theory is that businesses have to justify their social spending, which requires impact measurement, and once a company develops its own initiative, control over it becomes easier.

Funding also contains political challenges. Many have suggested that fundraising through individuals could be the answer to acquire not only resources, but also program supporters, and thus greater protection for civil society. However, this approach is costly because of the structure involved and harder to become successful for causes that are advocacy-focused or political. Individuals in Brazil will support charitable causes and donate time, but tend to back away from rights-based actions. This claim is supported by the numbers from the World Giving Index produced by the UK-based Charities Aid Foundation – which combines data on money donations, volunteer time and help provided to strangers. According to this Index, Brazil ranks 75th amid 139 countries overall and 85th when the list focuses on financial giving.[13]

This challenging scenario is not exclusive to Brazil. The same report shows that developed countries ranked in the top 20 most generous nations experienced a decrease in fundraising in 2016. This may be partly due to poor economic conditions, but it can also be a reflection of the increased anti-foreign sentiment felt across EU countries. This sentiment, aligned with the rise of populism, may contribute to Europeans being more reluctant to donate to civil society groups. According to an analysis by the European Parliament, national governments are not taking action to revert this trend, but are choosing to support it instead:

> *"uncontroversial, development CSOs. (...) In some cases this has helped keep some link to civil society open; in many cases, however, critics say it has inadvertently helped regimes isolate outspoken civil society opponents under the guise of partnering with the EU on development policy. In its high level diplomacy the EU can still be strikingly cautious in confronting regimes engaged in brutal civil society crackdowns. The general direction of EU security policy often undercuts efforts to hold the shrinking space problem at bay,"*[14]

The concept of philanthropy and government aid is still being developed in many countries of the South, especially the kind that supports independent political work to maintain an open civil society. So the non-controversial approach of the EU, its member states and many donors is deeply troubling. This approach has been duplicated in Brazil, particularly since the country's terrible crisis and the unjustified impeachment of President Dilma Rousseff based on false accusations.

In August 2016, northern governments were quick to recognize Michel Temer as the new president, despite substantial evidence that he had arranged his predecessor's fall in order to orchestrate a neoliberal agenda of reforms that was not endorsed in the election. In 2016, this illegitimate government gained the power to dictate the direction for national policies and the use of ODA to enforce these plans. In that year, Brazil received US$674.6 million in aid from Germany, the European Union, France, Norway, Japan, the top five partners respectively, to implement aid programs in education, health, infrastructure, humanitarian programs and other areas.

Commodity prices have not kept up with the early to mid-2000s levels that allowed the country to grow and create programs to reduce poverty and inequality. But that is not the only reason social indicators are decreasing dramatically in a country once considered too wealthy to justify receiving international cooperation

support. Beginning with President Rousseff, and intensified by Temer's illegitimate government still in power in 2018, there has been a series of austerity measures to dismantle social guarantees, public policies and spaces for dialogue. In a short period of time, the damage has been enormous, with the potential for even greater impacts as documented by UN and civil society experts, from both Brazil and abroad.

According to a study conducted by the Institute for Socioeconomic Studies (INESC), Oxfam Brazil and the Center for Economic and Social Rights (CESR), the country's austerity measures have led to a sharp decrease in investments in social inclusion and human rights programs in Brazil.[15] This has resulted in a reduction of 83% in youth programs, 76% for food security, 72% for climate change programs, 60% for racial equality. Over the same period, expenditures based on foreign debt grew 90% and the refinancing of foreign debt has increased 344%.

According to the study, the poverty reduction and social inclusion achieved by Brazil over the past decade is at risk:

> "These advances are at imminent risk from a series of harmful and severe austerity measures put in place by the government starting in 2015. While aimed at tackling spiking deficits, these initiatives are deepening socioeconomic inequalities in Brazilian society, with particularly disproportionate impacts on those already disadvantaged. Among the most extreme of these measures, the Constitutional Amendment 95/2016 (EC 95), known as the 'Expenditure Ceiling Act', is particularly far-reaching in its harm to human rights. Coming into force in 2017, this act took the unprecedented step of freezing real public spending for 20 years. By constitutionalizing austerity in this way, any future elected governments without an absolute majority will be prevented from democratically determining the size of human rights investments needed to deal with aging populations and increased financing needs. The UN Independent Expert on Extreme Poverty and Human Rights considered the EC 95 'a radical measure, lacking in all nuance and compassion', arguing that the amendment 'has all the characteristics of a deliberately retrogressive measure' (Alston, 2017). This call reinforced an earlier statement by the Inter-American Commission on Human Rights that the government's turn to harsh austerity measures may well be in violation of its legal obligations (IACHR, 2016). Under international law, states' margin of discretion in responding to economic crises is not absolute. To be in compliance with human rights standards, fiscal consolidation measures must: be temporary, strictly necessary and proportionate; non-discriminatory; take into account all possible alternatives, including tax measures; protect the minimum core content of human rights; and be adopted after the most careful consideration with genuine participation of affected groups and individuals in decision-making processes (CESCR, 2012, 2016)."[16]

What the Brazilian example shows is that social inclusion achievements are fragile. They require substantial, vigilant protection by governments and civil society. In 2012, Brazil was being celebrated for having the sixth largest economy in the world. In 2014, its name was removed from the UN Hunger Map for the first time. Currently,

it is battling for its name not to be put back on that map and is dealing with a sharp decline in its social indicators, once celebrated worldwide.

Sadly, this trend is evident throughout Latin America. Over 2.7 million people returned to poverty during the period of 2014-16. A decade ago, foreign aid declared most of the region wealthy enough to see a reduction in partnerships. But without the pressure provided through international partnerships in funding and attached political support, human rights have been compromised by parliaments, especially for the most vulnerable groups: women, LGBTI, Afro-descendants and indigenous peoples. Conversely, fundamentalisms have been strengthened.

With debates on the future of aid and cooperation, it is clear that civil society has an important role to play, as it did in the period of re-democratization following the downfall of the dictatorships. It will not be easy to restore the path of dialogue, participation and influence on public policies that benefit all, not just a small elite. In Brazil, with its size and importance in the region, it is even more vital for civil society to be strengthened and vigilant in order to help the country get back on a track of development that, unlike the boom experienced in the 2000s, is sustainable and lasting.

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The Case of China's Development Co-operation in Infrastructural Development in Angola and Kenya

Vitalice Meja, Reality of Aid Africa

Introduction and Background

At the first Forum on China-Africa Cooperation (FOCAC) meeting, held in 2000, China announced a number of measures to enhance African development. It pledged doubling assistance by 2009 through the provision of US$3 billion of preferential loans and US$2 billion of preferential buyers' credits, the creation of US$5 billion Africa-China development fund, and cancellation of debt owed by the heavily indebted least-developed countries. (FOCAC 2006)

At the 2015 FOCAC, China and African heads of state agreed to take concrete measures and give priority to encourage Chinese businesses and financial institutions to expand investment in Africa. It would do so through various means such as Public-Private Partnerships (PPP) and Build-Operate-Transfer (BOT) schemes to support African countries in their efforts to build railroads, highways, as well as other infrastructure projects. These include African flagship projects, in particular the Program for Infrastructure Development in Africa and the Presidential Infrastructure Championing Initiative. (FOCAC 2015)

China committed to offer African countries US$35 billion of concessional loans and export credit lines; to create new financing models, to optimize favorable credit terms and conditions, to expand credit scales, and to support infrastructure building in Africa among other things. It agreed to expand the China-Africa Development Fund from US$5 billion to US$10 billion. China has also established the Assistance Fund for South-South Cooperation to support African countries in implementing the 2030 Agenda for Sustainable Development.

Chinese South – South Development Co-operation in Context

China formulated its African Policy Paper on China-Africa bilateral cooperation in the context of its South-South Development Co-operation (SSDC). The policy paper is consistent with the "go abroad" policy of the Chinese government to promote an increase of Chinese investment in foreign countries, especially in Africa, as well as to strengthen collaboration between African countries and China. The policy paper sets out the following pillars:

- Political pillar covering high-level visits, exchanges between legislative bodies, political parties and local governments, and cooperation in international affairs;
- Economic pillar covering trade, investment, finance, agriculture, infrastructure, natural resources, tourism, debt relief, investment and multilateral cooperation;

- Human resource development with a focus on education, science, culture, health, technology, media, administration, consular services, environment, disaster mitigation, humanitarian cooperation and people-to-people exchange; and
- Peace and security with a focus on military affairs, conflict settlement/ peacekeeping, judiciary and police. (FOCAC 2006)

Chinese instruments of development co-operation have thus been designed to support progress in the four pillars of development co-operation. Over the years, Beijing has restructured its development co-operation policy and imposed additional restrictions. Interest-free government loans have become discounted loans offered through Chinese banks and aid grants have been replaced by joint ventures and other forms of cooperation.

Chinese assistance, therefore, goes beyond the concept of concessional ODA flows as defined by the Development Assistance Commitee (DAC) of the Organization for Economic Cooperation and Development (OECD). It includes various types of economic and political cooperation, such as grants, loans, export credits, trade and investments – some of it equivalent to the DAC's ODA concept, while others not. It is therefore difficult to separate instruments of Chinese development co-operation from other types of economic cooperation.

Management of Chinese South - South Development Co-operation

China's State Council, which is the highest executive organ of the state administration, is the oversight body that oversees all SSDC programs of the Chinese state. It decides on the portion of the national budget that is designated to SSDC at the beginning of the budgetary year. The Ministry of Finance is responsible for drawing up the development co-operation budget in consultation with the Ministry of Commerce.

China has since created an aid agency called the State International Development Cooperation Agency, (SIDCA) to promote aid coordination and aid planning. The agency like those of the west will seek to incorporate aid in foreign diplomacy and maximize China's foreign interests, increasing its influence on the global scale. It plans to strengthen trilateral partnerships between China, OECD DAC, and southern countries as well as buttress the monitoring and evaluation of Chinese development cooperation impact.

The Ministry of Commerce, specifically the Department of Aid to Foreign Countries, coordinates China's foreign aid policy, including inter-governmental agreements, and reviews requests from the Ministry of Foreign Affairs on foreign aid. Other relevant institutions are the respective ministries and local embassies in Africa that are tasked with monitoring implementation of aid that falls under their jurisdiction and expertise (Davis, Edinger, Tay and Naidu: 2008). A number of different bodies also play a role in the management of the various projects once the implementation begins. In addition to the local embassies, EXIM Bank[1] loans are closely monitored by the Bank itself.

Criteria of Chinese aid

The Government of the People's Republic of China's basic criteria for funding a project through concessional loans is as follows:

- The project should be approved by both the Chinese Government and the Government of the borrowing country;
- The project should be technically feasible and able to generate favourable economic returns;
- The project should be of good social benefit;
- Chinese enterprises should be selected as contractors/suppliers ahead of other countries;
- Equipment, materials, technology or services needed for the project should be procured from the People's Republic of China ahead of other countries; and
- In principle, no less than 50% of the procurements should come from the People's Republic of China.

Concessional loans availed by the Government of the People's Republic of China have the following terms:

- The management fee is calculated on the basis of the total amount of the loan and paid in one lump sum before the first loan is drawn down;
- The commitment fee is calculated on the basis of the withdrawn amount of the loan and paid on interest collection dates; and
- Repayments are made semi-annually on 21 March and 21 September of every year after the grace period.

The buyer's credit Loans for developing countries have the following terms and conditions:

- The borrower should be a foreign importer, or the importer's bank, or Ministry of Finance or other authorized government institutions of the importing country, and should be acknowledged by Exim Bank of China. The borrower should have a reliable credit standing, and should be capable of paying all the principals, the accrued interests and related fees and charges of the loan as prescribed in the agreed repayment schedule.
- In the event that the borrower is not the Ministry of Finance, a government guarantee may be required if the balance sheet of the borrowing institution is not satisfactory.

Country Cases

Angola

Angola is Sub-Saharan Africa's second largest oil producer and the world's fourth largest producer of diamonds (6.3 million carats in 2003). Despite these riches, there has been, limited progress towards social and economic normalization. As well, much remains to be done to improve the transparency, accountability, and efficiency of the government; to increase effective social spending (especially in health and education); to rehabilitate destroyed infrastructure; and to rebuild national capacities devastated by decades of conflict. Corruption and mismanagement of public resources remains an obstacle to people's empowerment.

Nevertheless, strong economic growth, supported by political stability, stable inflation, financial security and rapid improvements in infrastructure that have been realized over the last decade has distinguished Angola as one of the most vibrant economies on the continent (see Table 1).

Table 1: Angola's Economic Outlook

Public Finances (percentage of GDP)	2010	2011	2012	2013	2014	2015
Total revenue and grants	43.5	48.8	45.8	42.5	38.4	36.2
Tax revenue	6.7	6.1	5.6	5.7	5.9	6
Oil revenue	36	40.2	38.5	35	30.8	28.5
Total expenditure and net lending (a)	34.9	38.6	37.1	40.1	43.4	43.1
Current expenditure	29.5	29.9	25.8	28	30.5	30.3
Excluding interest	27.3	29	24.9	26.5	29.6	29.6
Wages and salaries	10	9	8.5	8.4	8.1	7.7
Interest	2.2	1	1	1.5	0.8	0.7
Capital expenditure	5.5	8.6	11.2	12.1	13	12.8
Primary balance	11.4	11.2	9.7	3.9	-4.2	-6.2
Overall balance	9.2	10.2	8.7	2.4	-5	-6.9

Source: Government of Angola 2016

Angola is among the largest recipients of Chinese investment in Africa. The country is strategically important to China for a number of reasons. First, its vast oil deposits make it attractive to China's national oil corporations, supporting China's search for energy security and China is aggressively pursuing oil assets. Secondly, as an African west coast economy, Angola has great potential as a gateway to the region, especially to Central Africa, particularly the DRC. Angola is also one of the most fertile agricultural regions in Africa, offering great potential for commercial agricultural development. Angola is currently China's largest African trading partner, with bilateral trade amounting to US$ 25.3 billion in 2008, dwarfing even China's trade with South Africa at US$ 17.8 billion. Such strong trade figures are primarily on the back of previously high oil prices. Currently more than 30% of Angola's crude exports go to China. China has pledged to increase its oil imports from Angola, and it is hoped that an uptake in Chinese demand will mitigate flagging exports to other countries amid the global financial crisis.

Relations between the Peoples Republic of China and Angola date back to the fight for national independence and its first financial assistance and military training support during the 1960s and '70s. From the year 2000, the two countries renewed their relations, with Angola seeking to rebuild its economy and the infrastructure destroyed by 27-years of civil war and with China seeking oil and investment opportunities for its private and state-owned enterprises.

Development co-operation between China and Angola grew in late 2003, when a "framework agreement" for new economic and commercial cooperation was signed by the Angolan Ministry of Finance and the Chinese Ministry of Trade. The following year, the first $2-billion financing package in concessional loans for public investment projects was approved, payable over 12 years. At the time,

project proposals, identified as priorities by Angolan ministries, were presented to the Grupo de Trabalho Conjunto, a joint committee of the Angolan Ministry of Finance and the Chinese Ministry for Foreign and Commercial Affairs, for review and funding.

In Angola the coordination of Chinese development co-operation functions under a special office under the Angolan Presidency. In 2005, the President formed Angola's Reconstruction Office, Gabinete de Reconstrução Nacional (GRN). This office, which is exclusively accountable to him, manages large investment projects and ensures rapid infrastructure reconstruction. According to Campos and Vines (2008) and Corkin (2007), the GRN was also created on the assumption that the ministries would not have the organizational and technical capacity to manage the large inflows of money for reconstruction.

The bulk of Chinese financial assistance is reserved for key public investment projects in infrastructure, telecommunications, and agro-businesses under the Angolan government's National Reconstruction Program. The China Construction Bank (CCB) and China's Exim Bank provided the first funding for infrastructure development in 2002. Since the CCB and Exim Bank funding was provided directly to Chinese firms, the Angolan Ministry of Finance had little input in these arrangements (Campos and Vines 2008). The main Chinese development assistance instrument to Angola is in the form of commodity-secured loans. The guarantor of the loans is the National Bank of Angola. The guarantee is strengthened by a commitment to adjust the quantities in the oil supplied to China. The credits are directed to public investment projects. Intermediate goods are imported from the relevant companies in China.

China in Angola's Infrastructure

China's growing need for raw material resources has made it one of the most important partners for development co-operation in the South. The Chinese government has succeeded in securing the supply of oil from Angola through a number of agreements, including partnerships in infrastructure rehabilitation and development financed through oil-backed loans. China ensures that the Angolan government employs a number of Chinese construction firms to do the job required by the signed agreements. After making the selection of the companies required for a given infrastructure project, the Chinese government provides this list to the Angolan government. The Angolan government is expected to use the Chinese loans to fund construction projects, with the understanding that around 70% of the construction companies involved in these projects must be Chinese.

The initial funding for infrastructure development in Angola was provided by the China Construction Bank (CCB) and China's Exim Bank in 2002. Chinese investment in the rehabilitation of infrastructure rose to more than US$4.5 billion by 2003. Sino-Angolan cooperation has led to the rebuilding of national roads, the building of a new airport on the outskirts of Luanda and other major infrastructure projects throughout the country. These infrastructural projects are implemented by Chinese companies. One of the largest upcoming projects is the US$59.4 million upgrade of a road in Lunda Sul Province, which will be handled by the China National Machinery Industry Corporation Group. Other key projects include rebuilding the

roads from Caconda to Chicomba and Caconda to Rion Ngalo. These are being carried out by the China Railway 20 Bureau Group Corporation, with the work costing an estimated US$58.8 million.

In 2004, Angola signed nine new cooperation agreements with China following a visit to Angola by the Chinese Vice Premier, ZengPeiyang (Corkin and Burke, 2006). These agreements, which were meant to support projects in the fields of agriculture, energy, water, education, mass media and infrastructure, were signed by the Angolan Ministry of Finance and the China EXIM Bank (Corkin and Burke, 2006). In January 2005, the China Exim Bank extended an oil-backed US$1 billion credit line to the Angolan government, later doubling it and then further increasing it to US$ 3 billion in March 2006. This made China the biggest player in Angola's post-war reconstruction process (Corkin and Burke, 2006).

The loan – payable at 1.7 percent over 17 years – was intended to assist in the rebuilding of vital infrastructure. In exchange, Angola provided China with 10,000 barrels of oil per day. This agreement was significant, particularly because Angola had, at the time of the agreement's conclusion, been experiencing difficulties in securing capital from international financial institutions such as the Paris Club, IMF and the World Bank.

The most popular construction projects in Angola are road and bridge infrastructure, water infrastructure and railway rehabilitation (Corkin and Burke, 2006). For example, the rebuilding of the road that was destroyed in the 1975-2002 civil war was undertaken by the China Road and Bridge Corporation (CRBC). The project, which was funded from a US$211 million loan, required the building of 10 new bridges as well as the repair and construction of 200 aqueducts. It employed 3,000 Angolan and Chinese workers for over two years.

Most Chinese SSDC projects have been, and are continuing to be implemented through state-owned or state-invested enterprises of the Chinese state. The Chinese state-owned enterprises (SOEs) receive considerable assistance from their government in terms of information on the market tenders in Angola as well as capital. The projects are supported by Chinese oil-backed loans that are included in the cooperation agreement between the Chinese and Angolan government. Chinese companies are able to overcome barriers to entry faced by other companies due to the capital provided by China as well as the lower interest rate provided by the EXIM bank.

The Angolan government also has had to create enabling conditions for the co-operation to take effect. The government of Angola has allowed Chinese companies to pay their laborers lower wages while their competitors must follow the country's labor policies. The government has also given Chinese companies tax allowances to import the raw materials they need for construction from China.

In their evaluation of the implementation of these projects, Chinese companies cite local barriers, such as the poor quality of local labour and construction materials. They maintain that the shortage of African skilled employees as well as Chinese employers' lack of trust in their abilities has meant that only 8% of the labour requirements are sourced locally. The rest, over 90%, is imported from China. The language barrier may also be one of the reasons

Chinese companies prefer to hire Chinese workers. However, the institutional distance between the construction firms and the community poses a challenge for democratic ownership of the various development projects initiated by Chinese state-owned firms.

Kenya

Since 1996, Kenya has attracted considerable public and private investments into the country's economic infrastructure sectors. Kenya's Vision 2030, the country's development blueprint, aspires to transform Kenya into a newly industrialized middle-income country, with high quality services and facilities. It gives high priority to investments in all the infrastructure sectors.

Kenya's Africa Infrastructure Country Diagnostic (AICD) report estimated that the country's infrastructure deficit would require sustained expenditures of approximately $4 billion per year (around 20% of GDP) over the next decade. As of 2006, Kenya needed an additional $2.1 billion per year (11%of GDP) to meet that funding goal. The estimated requirements shot up because of the desire to meet the Vision 2030 goals and for Kenya to be the regional hub for East Africa and beyond.

The provision of adequate and high quality infrastructure services remains to be the biggest challenge to the development of Kenya. Currently, the Government of Kenya faces a growing gap between public investment needs and available resources to finance them. Over the years the Government and traditional development partners have been the main financiers of public infrastructure and services, but this role has been limited by the level of resources available.

In order to export produce from Kenya, the country needs effective transportation infrastructure. Current transport infrastructure in Kenya amounts to 177,500 KMs of roads, with 63,000 KMs making up classified (read major) roads and 114,500 KMs of unclassified (read rural) roads. Major investment is required for the approximately 40% of Kenya's roads that need maintenance, mainly in the rural areas. Connecting these areas is clearly the key infrastructure task at hand for the Kenyan government. To its credit, it has actively tried to encourage such development, promoting itself as a stable and geographical "gateway" to Africa.

National Development Framework

Kenya's Vision 2030 sets forth the national objective of transforming Kenya into a globally competitive, middle-income country through substantially higher growth rates and more balanced development. Its Vision 2030 recognizes the importance of developing infrastructure for socio-economic transformation. The infrastructure sector aspires for a country that has modern metropolitan cities, municipalities and towns, whose facilities meet international standards, making Kenya globally competitive and prosperous. The strategies and measures to be pursued in the medium term include: 1) supporting the development of infrastructure initiatives around flagship projects; 2) strengthening the institutional framework for infrastructure development; 3) raising the efficiency and quality of infrastructure and 4) increasing the pace of infrastructure development.

Vision 2030 seeks to realize average annual GDP growth rates of 10%, through

investments in priority infrastructure sectors including national flagship development projects. These are to be financed and implemented through 3-year medium-term plans. Kenya is currently implementing the MTP II, which ran up to 2017.

Kenya - China Relations

Kenya-China relations date back to 14 December 1963, two days after the formal establishment of Kenyan independence. China became the fourth country to open an embassy in Nairobi. The Sino-Kenyan relationship was centered on promoting trade between the two countries. China has its largest African embassy in Nairobi. China currently gives both monetary and non-monetary aid to Kenya covering loans and grants for projects and concessional loans for construction of various roads in the country.

China's assistance to Kenya is exclusively project-based. It mainly supports investment in infrastructure, equipment and plants; academic training; technical training; humanitarian relief; and tariff exemptions. China has given Kenya grants and loans for infrastructure, plants and equipment. These are primarily in road construction projects; the modernization of power distribution; rural electrification; water; renovation of the international sports centre; medical centers and drugs for fighting malaria; and construction of a malaria research centre. For many years China has awarded scholarships to Kenyan students wishing to undertake their studies in China in a variety of fields. *Table 2* shows the magnitude of China's support to Kenya's infrastructure.

In 2006, Kenya and China signed six agreements, which signaled closer economic and technical cooperation between the two countries. The signed agreements included the Economic and Technical Cooperation Agreement on the provision of concessional loans by China to Kenya and the Air Services Agreement that grants Kenya Airways landing rights in several cities in China. Also signed were agreements on radio cooperation between the State Administration of Radio, Film and Television of China and the Ministry of Information and Communications of

Table 2. China Aid to Kenya on Infrastructure in Kenyan Shillings

	2015/2016			
Draft Estimated (KES)				
	GoK	Grant		
	Amount	AIA	Revenue	
Ministry of Transport and Infrastructure				
Gambogi-Serem Road		0	0	
Nairobi Eastern and Northern Bypass Project	2 Billion			
Nairobi-Thika Highway Improvement Project (LOT 3)	2 Billion			
Nairobi Southern Bypass Project	2.5 Billion			
Standard Gauge Railway				

**100 Kes – 1 USD*
Source: Compiled by the Author

Kenya as well as a collaborative agreement between the General Administration of Quality Supervision Inspection and Quarantine of China and Kenya's Bureau of Standards. This cordial relationship between the two governments has facilitated the award of a tender to Chinese contractors to improve various infrastructure. (Mugendi: 2011)

China on Kenya's Infrastructure

China has continued to develop major transport links to support its economic interests in Kenya as well as the Eastern Africa region covering Uganda, Rwanda and the DRC. There has been an increase in Chinese infrastructure investment in Kenya. Chinese companies have been involved in the construction of major road networks in Kenya, such as the Nairobi-Thika Highway, the Airport Road in Nairobi; the Kipsigak-Serem-Shamakhokho Road in Rift Valley; the Kima-Emususwi Road and the Gambogi-Serem Road in western Kenya. Chinese investment in Kenyan roads, which began in 2006, has resulted in the rehabilitation or construction of approximately 905.4 kms of road at an estimated cost of U$379 million over a four-year period.

The Chinese strategy for infrastructure construction has been marked by the development of either extremely long stretches of motorway or concentrated networks within major cities. Chinese firms have, for example, sought to ease traffic congestion in Nairobi by completing by-passes in the north, east and south of the city, and by linking the Jomo Kenyatta International Airport to the city centre. Where motorways are concerned, the Chinese have invested approximately U$240 million in the rehabilitation of the Nairobi-Mombasa road.

Analysis of the Country Case Findings from HRBA Perspectives

It is important to note that Chinese co-operation with both Angola and Kenya is largely driven by the funding instruments and support given by the Government of China. Unfortunately, most of these instruments are marked by a desire on the part of China to pursue economic interests

					2015/2016		
					Draft Estimated (KES)		
	Loan		GoK	Grant		Loan	
	AIA	Revenue	Amount	AIA	Revenue	AIA	Revenue
	500 Million	0					
	5.1 Billion	0				5.52 Billion	0
	3.88 Billion						

Box 1: Kenya's Project Management Process

The Project Process

The Government has an operating framework for assigning roles and responsibilities of key public entities in the preparation and implementation of PPP projects during their life cycle.

i) Project identification, selection and prioritization: As the first step in determining the technical profile, operations, service delivery targets, and future income and costs of the project, the Ministry, Department and Agency (MDAs) shall perform a needs analysis through a survey. For PPP projects that require the collection of user fees directly from consumers, the policy proposes that there be a survey to confirm whether revenues paid by customers will be sufficient to make the project financially viable;

ii) Project preparation and appraisal: This includes the conducting of a social cost benefit analysis which will entail a full investment appraisal that determines the commercial sustainability of the project, the project description, and any requirements for land acquisition or other Government support, the affordability of the project's proposed tariff path for users, the bankability of the project based on optimal risk sharing and consultations with stakeholders to ensure their interests are considered;

iii) Project tendering: This shall be consistent with the PPP Act. As a general principle, projects should be tendered with a maximum of information provided to the potential bidders, including the level of Government support to be extended to the undertaking;

iv) Project negotiation: Guidelines shall be developed to include guidance in preparing and organizing the negotiations with first ranked bidders, and the approval procedures required from oversight state departments such as the state department responsible for treasury and/or the state department responsible for fiscal management; Project approvals: The approval of PPP projects shall be done in accordance with the PPP Act2.

vi) Project monitoring and evaluation: This step will involve the development of a monitoring and evaluation plan aimed at reviewing PPP project performance to ensure compliance with the project agreement during the implementation and operation period and to ensure that the transfer of assets at the expiration of the project agreement is consistent with the terms and conditions in the project agreement.

While the Kenyan and Chinese governments deal bilaterally on infrastructure development, Chinese firms carryout the work. Kenya's role is limited to the identification of the project and its processing for co-operation, including providing an enabling environment and the facilitation of project implementation,[3] as outlined in Box 1above.

Box 2: Thika Highway and Standard Gauge Railway

The Nairobi - Thika Highway Improvement Project

The Government of Kenya (GOK) solicited the financial assistance of the Chinese EXIM Bank for the rehabilitation and upgrading of the Nairobi-Thika highway. The Nairobi-Thika road is part of the classified international trunk road A2 that originates in downtown Nairobi and extends to Moyale at the Ethiopian border. The road operated beyond its capacity, accommodating more than 30,000 vehicles per day. Its condition had deteriorated and required rehabilitation. Three Chinese companies were involved in the substantial improvements needed to increase the road's capacity, including the construction of additional lanes and six interchanges. Firms involved in this project were China Wu Yi (Kenya) Corporation, Sheng Li Construction Company and Sinohydro Company.

The Improvement Project in Kenya was intended to achieve the following three objectives: 1) to improve road transport services along the Nairobi-Thika corridor and reduce traffic congestion; 2) to develop a sustainable urban public transit system for the Nairobi Metropolitan Area; and 3) to boost private sector participation in the development of road infrastructures. The Government has noted the following benefits from the project: 1) improved traffic flow in and out of the city; and 2) reduction in fuel consumption, which translates into economic savings for vehicle owners. The benefits in the economic evaluation include vehicle operating cost savings, travel time savings for passenger and cargo, and road maintenance savings.

The Standard Gauge Railway

The Standard Gauge Railway (SGR) is a flagship project identified by the Government of Kenya as a transport component aimed at delivering Vision 2030. The SGR project is proposed to connect Mombasa to Malaba on the border with Uganda and to continue to Kampala, Uganda's capital city. It will then run to Kigali in Rwanda with a branch line to Juba in South Sudan. Branch lines along the route will extend to Kisumu, Kasese and Pakwach. It seeks to simplify transport operations across borders and to reduce travel costs, thus benefiting the economies of both Kenya and neighbouring countries. Construction of the 609km-long line began in October 2013 and is scheduled to be completed by December 2017. The Mombasa-Nairobi phase of the project cost KES327bn ($3.8bn). China Exim Bank provided 90% of the financing while the remaining 10% was contributed by the Kenyan Government. (KRC Website)

on the one hand, and the demand for infrastructure by Angola and Kenya on the other. Issues relating to human rights or people's empowerment remain aspirations that are alluded to, but are not tackled directly by either side of the co-operation.

Angola

Civil Society Organizations (CSOs) have a crucial role to play in ensuring that the boom in Angola's new trade with China is managed in a manner that contributes

to the eradication of poverty as well as sustainable economic growth and development. However, the relationship between CSOs and the state is problematic and does not facilitate this role. The institutional and legislative framework governing CSOs as well as the state's enforcement measures are designed to deter CSO input. CSOs are dismissed as placing 'democracy' ahead of 'development' and as being agents of the West. Some CSOs face blanket condemnation as being anti-development and against the exploitation of natural resources by foreign companies. The Angolan government sees CSOs as a hindrance in its attempts to encourage China's contributions to Angola's development. Neither the Chinese nor the Angolan government supports the growth and development of CSOs that are promoting accountability. In practice, this greatly limits accountability to the people in the practices and initiatives of China-Angola cooperation.

There are also concerns regarding limited transparency in the use of Chinese funds. There is insufficient information available to the public concerning the process and magnitude of Chinese investments, especially from the government arm that manages many of the larger Chinese infrastructure projects. There are fundamental questions on the procurement procedures governing Chinese construction tenders in Angola and the over-riding authority of the Executive in aid management (Corkin, 2007; 3). Furthermore, Chinese companies flout local labor regulations especially for the Chinese expatriates working for their companies. Chinese companies are yet to establish social projects as part of their corporate social responsibility to support local communities where their projects are located.

Chinese projects do not expressly prioritize reduced unemployment as a development goal. Though public investment projects are aimed at improving infrastructure, which will eventually stimulate domestic and foreign direct investment, Chinese contracts are not in themselves employment-generating. CSOs cite lack of evidence of technology transfer, with most sub-contracted firms being Chinese. Most of projects' skilled labor are Chinese and foreign expatriates.

Only specific Government sectors are engaged in Chinese co-operation. Citizen participation in these sectors is very limited or non-existent. The sectors are capital-intensive and heavy equipment-related. Furthermore, few government officials are aware of the details of Chinese co-operation as these are managed from the President's office. Civil society has minimal, if any, awareness of Chinese co-operation and related issues. The few with an interest and understanding of the issues are most often influenced by the emerging discussion at the international level.

There is no involvement of citizens in any activities related to Chinese development co-operation or projects in the country. Some analysts maintain that Chinese investments in Angola have been implicated in environmental protection offenses as well as workers' rights violations. Generally, there is the feeling that there is weak surveillance within government institutions of Chinese's projects in Angola, particularly in regard to their development and empowering aspects.

Kenya

While the Kenyan government exercised leadership in the identification and

approval infrastructural projects, a study done by RoA Africa in 2014 has revealed that citizen participation in the identification of priority projects was essentially non-existent. It appears that outside the government, the exercise was closed to most stakeholders, including the domestic private sector. This could be attributed to the technical nature of the process to identify projects as well as the lack of a clear framework and structure within which to facilitate public participation in the process.

This lack of public and stakeholder participation has led to challenges during implementation as most of the projects have required large tracks of land that were occupied by the population. Citizen involvement is paramount in such a process as they are not only the beneficiaries of infrastructural projects but also active players in their success. It must be noted, however, that the involvement of the cabinet in the approval of projects indicates strong political buy-in from the government.

Projects appear to be supply-driven with little community participation and ownership of the construction of large installations. Government involvement also seems to be limited, focusing primarily on providing guarantees and creating an enabling environment for the investment to take place.

There is no support to community and civil society initiatives based in areas where projects have been initiated through the Community Development Trust Fund. There is no Community Environment Facility for NGOs/CBOs to facilitate the awareness and advocacy campaigns on land rights and access to land for pasture.

China EXIM bank has remained true to its objective of profit-making, and the project requirements reflect this goal with their emphasis on the technical soundness of the investment in terms of returns. In Kenya, where the demand for infrastructure is needed for development purposes as opposed to merely securing profit, there is a need to address tradeoffs rather than to just stick to an unrealistic win-win rhetoric.

Project requirements put emphasis on benefiting Chinese economic interests and Chinese companies rather than people's empowerment. This was seen in the development impact of the two projects described above. Both are heavily driven by the need to supply Chinese capital, companies and technology, with no evidence of backward linkages to local companies and supply chains or partnerships with local companies and communities.

The Chinese support requirements are weak on social and environmental impact assessment. Instead they focus on the delivery of the project in a timely manner and at a cost-effective rate. An example of the consequences has been the endangering of fishermen's livelihoods during the construction of the Standard Gauge Railway, which has been raised as a critical issue. The project is going down 150 meters into the ocean– the same level as the fish landing sites. The access routes for fishermen to have their nets, boats, launch into the ocean have been closed. This has significantly affected their livelihoods and has caused untold suffering.

Recommendations

Based on the above findings, it would seem that the avowed principles of Horizontal SSC are not being implemented in these cases of SSDC. Saying that,

there are some elements that have been reflected in terms of country leadership and country ownership. However, a lot more would have to be done to bring the concept of Horizontal SSC to bear in the current co-operation arrangements. The recommendations in this section therefore focus on elements that could be addressed to support a Horizontal SSC agenda for Kenya, Angola and China.

China's engagement with both Angola and Kenya should promote inclusive partnerships. The current partnerships in infrastructure development are not inclusive. They involve only governmental structures and the contracted Chinese private sector. Both governments would need to create structures that involve the participation of citizens who are impacted by projects. Furthermore, infrastructure investment projects should seek to include local investors who have been left out in the current framework, through deliberate financing instruments that currently only target international investors from China.

Make co-operation more transparent and accountable. Horizontal South-South co-operation is meant to empower and directly tackle poverty. Therefore, the use of Horizontal SSC resources in China, Angola and Kenya in infrastructure development must clearly show these linkages to poverty reduction. Combining concessional finances and investment funds to support Chinese private sector investments, as is the current form, fails the transparency and accountability of these resources in determining the direct impact of such investments.

Address the human/ project conflicts. The Standard Gauge Railway project described in this study shows conflict between the initiative and the communities surrounding the projects. The main problems involve people's rights/ access to fishing grounds and the poor compensation mechanisms. Furthermore, there appears to be neither proper legal representation of the communities surrounded by such projects, nor are there CSO groups to facilitate them to claim their rights. CSOs and human rights defenders need to help secure the rights of communities surrounded and affected by these projects. There needs to be more analysis, information disclosure and transparency on Chinese development assistance in infrastructure and its impact on the countries involved.

Strengthen the South-South Co-operation units. South-South Co-operation, as exemplified in this research, shows that it is one of the most important instruments for financing development infrastructure in the countries under study. This is not only because of the level of finance this co-operation is attracting but also because of the complexity of instruments used for financing. The governments of Kenya and Angola should consider creating SSC units in all the ministries to facilitate the growth and development of these partnerships.

Create special standards pertaining to labour and employment conditions, tax regulations, environmental, and export standards. These measures require increased collaboration amongst inter-governmental agencies (i.e. finance, planning, standards, procurement) to reduce corruption and improve implementation modalities in Chinese's funded projects to better align them with Horizontal SSDC principles.

The governments of Angola and Kenya need to conduct research on China's engagement with their respective economies so that they can maximise their benefits. More information should be shared between these two governments on their relations with China to facilitate beneficial relations. If well implemented, SSC could result in greater development impact from China's involvement in the countries involved.

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ENDNOTES

1 In 1994, Beijing established the China Eximbank, which set up a fund for concessional loans to support industrial, infrastructure, and social welfare projects by Chinese enterprises.

2 The Public Private Partnership Act was enacted into law in 2012 and became effective in 2013. The main objective of the act is to facilitate the participation of the private sector in financing the construction, development, operation, or maintenance of public infrastructure or development projects through concession or contractual arrangements. It also paves the way for the private sector participation in provision of public services in the transport, water, sanitation, housing and environment sectors. Other areas the act seeks to affect include the following:

- The process of engagement between the private and public parties in order to deliver long term public facilities and services;
- The definition of a Public Private Partnership, the scope and type of PPP arrangement;
- The establishment of institutions and their roles in dealing with PPP projects;
- The process of PPP projects including identification, prioritization, conceptualization, preparation, tendering, negotiations, award, approval, implementation, monitoring and evaluation, and finally how they are handed over to the Government of Kenya where applicable;
- Financial security instruments such as political risk guarantees and letters of support;
- The key elements of project agreement; and
- Establishment of a Facilitation Fund to cover Viability Gap Fund, Government subsidies, contingent liabilities when they crystallize, project preparation funds. This is aimed at making the projects bankable and attractive to the private sector

3 These include land acquisition, tax reliefs, guarantees as well as clearing various regulatory hurdles for the project.

4 Private Sector and Development Finance in Kenya

Belgium: more with less

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Overview

In a recent statement, the Belgian Minister of Development Cooperation maintained, "the 0.7% remains important, but we must ensure that this discussion does not compromise other relevant questions. What results does Belgian development policy want to achieve?".[1] The Minister contends that efficiency and quantity are mutually exclusive. However, it could be argued that they should be seen as fully compatible and that it is crucial to focus on both efficiency and a robust budget for achieving the SDGs.

1. **The decline of Belgian ODA:** The OECD-DAC predicts Belgium will spend only 0.38% of GNI in 2019, down from 0.64% in 2010. Development cooperation is, of course, more than just a question of money. But how can Belgian cooperation continue to be relevant with such a drastic reduction in its budget allocations for ODA? Public finance for public goods such as education, health, and social protection is still necessary. Nonetheless, there is a need for a strong focus for development cooperation on poverty eradication and the fight against inequality.
2. **More challenges with less ODA, the case of international climate finance:** Belgium is addressing increasing numbers of global challenges with its ODA. One of these is climate change. The majority of Belgian contributions to international climate finance are paid with resources intended for development cooperation. Revenues from the European Emission Trading System (ETS) allocated for international climate finance in 2016 could, for instance, be considered as additional resources. However, their inclusion in ODA reporting conceals a decreasing development budget (for example in the case of the Flanders government). In fact, the resources provided for global challenges are not really increasing. However, since the Belgian contribution to international climate finance is relatively low, the impact on the development budget is not (yet) high.
3. **Belgian focus on the role of the private sector and its ability to lever ODA:** Following changing trends in development finance, Belgium is increasingly focusing on the potential of the private sector for reaching the SDGs. In 2017, Belgium launched the first 'Humanitarian Impact Bond', promoting a result-based approach to increase both efficiency and overall development impact. However, these types of bond represent a relatively small niche, as their potential in developing countries still face many challenges. In terms of additionality, which is ultimately the goal, current evidence suggests this is a key issue. In the context of declining ODA, it is important to ensure that the overall cost of new instruments does not

lead to a further reduction of public budgets for development.

1. The decline of Belgian ODA and the role of development cooperation

Far away from internationally committed standards

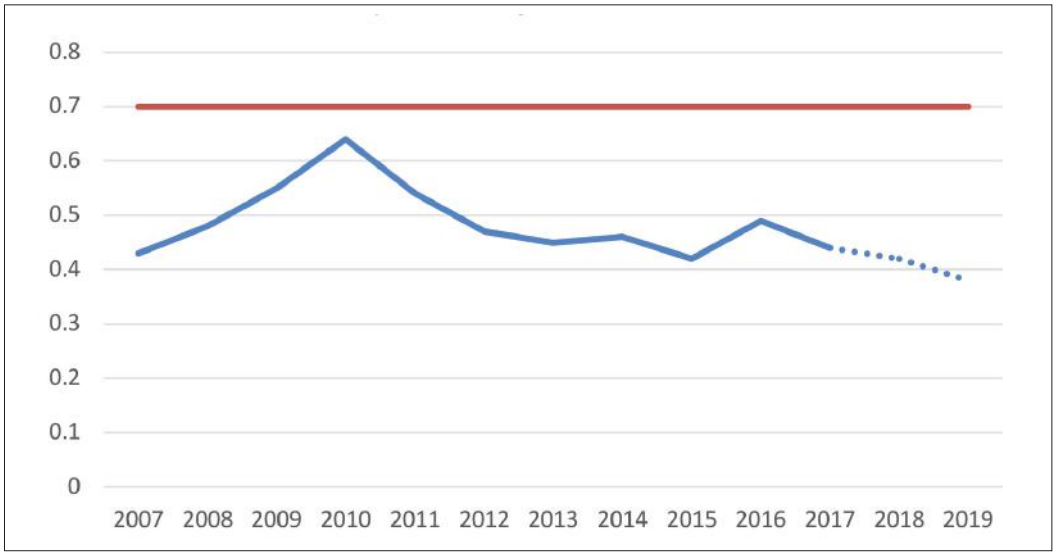
Although it is a legal obligation in Belgium, the 0.7% goal is certainly not a priority for the current Belgian government. Linear cuts were decided on in 2014 (€1,125 billion), and there have been increasing levels of under-spending in the budget (€560 million to date). As a result, in 2017, Belgium contributed only 0.45% of its GNI to ODA. The OECD-DAC predicts this performance will fall to only 0.38% of GNI by 2019, down from 0.64% in 2010.

Belgium is thus further than ever from the objective of contributing 0.7% of its GNI to development aid. Despite this performance, it committed itself to this goal in 1970, 2002, 2005, 2011, 2013, 2014 and 2015. No plan to reach the 0.7% goal has ever been defined. Belgium is also moving away from being a member of the leading group of donors at the global level.

The Belgian Federal Council for Sustainable Development has representatives of various social groups): environmental organisations, development cooperation organisations, consumers', employees' and employers' organisations, youth organisations and the academic world. The Council made a clear statement in the run up to the United Nations High Level Political Forum in New York in July 2017: "With just below 0.5% of gross national income currently spent on official development assistance Belgium still has some considerable catch-up effort to make in order to reach the internationally set 0.7% target which was recommitted to in the context of the 2030 Agenda."[2]

In a more welcome move, Belgium's budget for humanitarian aid has recently increased from €102 million in 2014 to

ODA as Percentage of GNI



€177 million in 2016. While this is highly important, Belgium must ensure that it also maintains financing of long-term development programmes, especially in the least developed nations, which make up the majority of Belgium's 14 prioritized partner countries. In 2016, 21% of the budget of the development administration (DGD) was spent on humanitarian activities, primarily in Syria and neighboring countries.

Discourse about impact less and less credible

The proportion of Belgian aid spent by government departments other than the Department for Development Cooperation (DGD) has continued to grow in recent years. In 2016, the DGD was responsible for managing only 55% of Belgian ODA, down from 67% in 2013. The main reason is the increased spending of ODA by the Federal Agency for the Reception of Asylum Seekers (Fedasil). This accounts for almost 17% of the total ODA in 2016 - five times its volume in 2010. In 2017 it is still 14,3% and Belgium is one of 9 of the 29 OECD-DAC countries contributing more than 10% of its ODA in 2017 to in-donor refugee costs. Since 2015, the strong increase of in-donor refugee costs made Belgium the first beneficiary of its own development aid.

Given this combination of disproportional savings on international solidarity in Belgium (€1.5 billion since 2014) and the increasing use of ODA to tackle challenges not directly linked to development cooperation, the Development Minister's political discourse on the importance of aid effectiveness and impact is becoming less and less credible. His statements could even seem contradictory, as aid effectiveness itself depends on the availability of sufficient and predictable budgets to support long-term development strategies. Without sufficient budgets, the results-oriented policy advocated by the Minister for Development Cooperation will remain wishful thinking.

Development cooperation as an instrument of foreign affairs

In 2016, the Belgian government approved a new strategy paper (the so-called *comprehensive approach*) to ensure that the different instruments of foreign policy, including development cooperation, demonstrate improvements in coherence and efficiency. The link between the methodology and the aims of this approach, however, is unclear. It does little to safeguard and sustain the crucial objectives of development cooperation and to retain developing countries' and their citizens' leadership of their development processes. Given the trends at the EU level, there is a legitimate concern that instrumentalising development cooperation to meet security, commercial and migration objectives risks undermining the fight against global poverty as the primary objective for development cooperation, as stipulated in the Lisbon Treaty's global development objectives and in the Belgian Law on Development Cooperation. The wish to increase collaboration amongst different departments does not discharge Belgium from its responsibility to guarantee policy coherence for development, as anchored in the law.

2. The case of international climate finance

At the Paris Climate Conference in December 2015, Belgium pledged to spend €50 million annually for international

climate finance for the next five years, until 2020. This is the same yearly amount as provided during the Fast Start period for climate finance (2010-2012). In practice, this means that Belgium did not actually promise an increase, as was agreed internationally in the 2009 Climate Conference agreement in Copenhagen. In fact, €50 million is low compared to contributions by other countries and what was agreed to internationally (US$100 billion annually by 2020).

In Belgium, all the regions (Walloon, Brussels and Flanders) and the federal government contribute to climate finance. In 2016, both Flanders and the federal government – which accounts for the largest part of Belgian contribution –used portions of their development budget to fund their commitments to international climate finance.[3] This analysis will focus on 2016, as official reporting on international climate finance in 2017 will not be published until September 2018. We argue that Belgian international climate finance is insufficient and is not additional to its commitments to development finance.

Increase in 2016

The reported amounts for climate finance have varied considerably from one year to the next. In 2016 it just exceeded €100 million for the first time. Two factors led to this increase. Firstly, this increase was the result of an agreement reached in 2015 between the regions and the federal government, in which the regions pledged to contribute to climate finance. There was therefore a significant increase in the contributions from the regions. This agreement also affected the distribution of ETS revenues. Part of these revenues, which had been blocked since 2009, was finally made available to the regions in 2016. Without the 2017 expenditures, it is difficult to estimate whether this represents a structural increase. However, seeing that the regions spent most of their ETS revenues budgeted for international climate finance in 2016, and that the Belgian commitment stays the same, it is unlikely that Belgium's contributions will exceed €100 million in 2017. The final numbers of the Flanders region for 2017, which are already available, show a sharp decrease in contributions for climate finance compared to 2016. Belgium needs to commit to a structural increase in its climate finance objectives.

More challenges with less resources

As discussed above, Belgian ODA is decreasing. In addition, there have been increasing challenges to the protection of this budget for its original purposes. One of these challenges relates to climate change finance. In 2016, Belgium reported 83.3% of its climate finance commitments as ODA. This reporting takes two forms.

Firstly, Belgium scores development projects with Rio Marker purpose markers as 0 (no climate objectives), 1 (significant climate objectives), or 2 (primary climate objective) in relation to their climate finance purposes. While the federal level (which delivers most of the climate finance) uses a strict methodology for this scoring,[4] it can hardly be argued that it complies with the criteria of 'new and additional' climate finance. Furthermore, this method was never approved under the UNFCCC as a way of accounting for international climate finance. The OECD developed it for another purpose – tracking the mainstreaming of climate relevance in development projects. The OECD does not

represent all parties to the UNFCCC, only the rich, donor countries.

Mainstreaming the climate challenge in development cooperation is important for sustainable development, but to comply with international agreements on climate finance, additional resources should be made available.

The second issue relates to Belgium's contributions to multilateral climate funds such as the Least Developed Countries Fund (LDCF), Adaptation Fund (AF) and the Green Climate Fund (GCF). The majority of these contributions are paid with the decreasing budget of development cooperation. In this case, the contributions can legitimately be classified as 'new' but not as 'additional'.

Because the Belgian commitment for international climate finance is low, the impact on the development budget is not (yet) high. However, if Belgium gradually increases its contribution to be closer to its fair share of the promised US$100 billion by 2020, without budgeting additional resources, the impact on other development priorities such as education, health and poverty eradication could be substantial.

Belgium blends its promises and obligations for development cooperation and international climate finance in ways that can be confusing and misleading. This is risky business. Both development cooperation and international climate finances are important for sustainable development and global security. It is especially incoherent for a minister who claims humanitarian aid is one of his priorities, as there is a direct link between climate impacts and increasing humanitarian needs. Given this stance, it should also increase its contributions to international climate finance independent of resources that have already been allocated for development cooperation. Belgium should take its historic responsibility for the climate problem seriously.

ETS revenues for climate finance

One positive trend is that part of the Belgian revenues from the auctioning of allowances under the European Emission Trading System has been allocated for international climate finance. In principle, this allocation could lead to real additionality. Unfortunately, this did not prove to be the case in 2016. There are two factors to consider.

Firstly, the amounts dedicated to international climate finance were not enough to comply with Belgium's promises to climate finance. This meant that only a part of international climate finance was paid with ETS revenues and were therefore additional. For the federal government, there is a big gap between what is available (€32.6 million in total for the period 2015-2020) and what was promised (€25 million per year until 2020). The remaining part to fulfill the commitment is once again paid by using the development budget.

The second issue is that, by including these resources in Belgium's official ODA reporting, the government is concealing a decreasing development budget. This situation is especially visible at the Flanders level, where the share of climate finance in official ODA reporting went up from 13% in 2015 to 33% in 2016 because of the ETS revenues (and decreasing core budget for aid). Belgium should increase the amount of ETS revenues used for international climate finance, and make

a clear separation in reporting of these amounts. It should also increase its core development budget.

3. Impact bonds: Looking for social investors for sustainable development

In September 2017, Belgium launched the first *Humanitarian Impact Bond* (HIB) with the International Committee of the Red Cross. This Bond created €23 million to support rehabilitation programs in Mali, Nigeria and the DRC.[5] This kind of innovative finance is considered necessary in the reality of an increasing number of humanitarian crises. At the same time, there is growing support for a results-oriented approach, with well-defined and measurable outcomes. But pertinent questions remain. How can investors be convinced to finance high-risk projects in conflict and fragile countries? Is it possible to guarantee that these instruments will succeed in providing *additional funding* when considering the overall cost?

Changing trends in development finance

There has been a real paradigm shift in the debate and practices of development finance. Following the commitments made by the *Addis Ababa Action Plan*, development finance has become more diverse, with a strong emphasis on domestic resource mobilization in developing countries. There is also a growing support for private finance to focus on achieving the Sustainable Development Goals. Innovative financing instruments such as impact bonds are increasingly promoted as a way to increase the efficiency and effectiveness of development funding.[6]

Impact investment is primarily aimed at "social impact investors" who are seeking more than just financial benefits in their investments. Instead they aim to realize both positive social impact and financial returns. According to recent data from the Global Impact Investment Network (GIIN), impact investment continues to grow with an expected increase of 18% per year among currently active impact investors.[7]

Introduced in the UK in 2010, 'social impact bonds' have been used to finance social projects with assistance from private investors to relieve the pressure on government budgets. So far, the UK and the US are the front-runners in the use of these bonds. In Belgium, this type of investment has kicked in although to date the number of projects is limited.[8] Exploiting the potential of impact bonds for development finance is a more recent phenomenon. While still relatively uncommon in developing countries, the quest for additional finance has brought impact investing within the radar of donors and other development actors. This is where development and humanitarian bonds have been introduced.[9]

Development and humanitarian impact bonds

Development or humanitarian impact bonds are variations of social impact bonds and the key principles are more or less the same. They set up public-private partnerships to mobilize private investors to finance projects where the return is linked to clear and measurable results. Service providers, usually social organizations or multi-actor groups, are expected to deliver these results. The 'outcome funder', which is usually the donor government,

compensates the investors when predefined results have been obtained. For the donor government, this externalizes risks, which is, of course, a good thing. In practices it means that the risk is borne by the private investors, who lose their money in case of disappointing results.

In the recently issued humanitarian impact bond, the International Committee of the Red Cross (ICRC) is the service provider while the Belgium government is one of the group outcome funders.[10] To prove their efficiency, the International Red Cross will have to deliver results. If the new rehabilitation centers do not perform well, they too risk losing money, as they will have to refund part of the costs to the investors.[11]

Innovation for more impact?

The HIBs and DIBs respond to the rising appeal for multi-stakeholder partnerships to increase overall (development) impact. A critical question is whether they will serve as a catalyst for additional funding for development. The humanitarian impact bond brings in €23 million, which is a rather small amount compared to the US$1.7 billion ICRC's annual budget.[12]

Other questions must also be examined. If the cost of time required to create this kind of innovative finance is included, its benefit in a developing context is not self-evident.[13] By law, the maximum duration of Belgian humanitarian programs was two years. To finance the bond, a change in the law was necessary. For assuming the risks, investors can expect a return up to 7% when the project succeeds. Adding management and evaluation costs, this inevitably raises questions on the degree of additionality in finance.[14] A second concern is how to avoid crowding-out effects. For example, when private capital comes from philanthropic foundations, there is a potential risk that any 'additional' money will be compensated by a reduction in grants for NGOs, thus establishing a *substitution* rather than an *addition* of funding. Early data suggests that raising additional capital for developing countries is a key issue.[15]

A similar concern relates to the identification and measuring of additional (development) impact. With an increased emphasis on measurable results as well as private investors' being wary of high risk ventures, chances are that funding will be primarily allocated to projects that are likely to deliver measurable outputs with minimum risks. Though results are certainly important, overall development impact is difficult to assess and often only visible a considerable time after a project has ended. Impact bonds are therefore not likely suited to 'quick fixes' for development issues, or to important areas involving high risk, and should not be promoted as such.

Whether impact bonds will move from their experimental phase as an instrument for development remains to be seen. Transparency, monitoring and evaluation, will be key components to assess whether there is a development impact. Any involvement of private actors must include clear regulations to avoid scarce resources being wasted. Civil society organizations have highlighted the need to ensure new instruments aimed at mobilizing private finance should not be considered a silver bullet. Public finance remains crucial to guarantee social services such as health care and education.

Conclusion

Belgium will hold federal elections in May 2019. It is crucial that the new government focuses on efficiency and a robust budget for achieving the SDGs. This means honouring its commitment to spend 0.7% of GNI for development assistance. Belgium should respect this commitment, which is consistent with the Belgian law on development cooperation and OECD aid directives, both of which are dedicated to tackling poverty and inequality.

On climate finance, the Belgian government should take their historic responsibility seriously and increase their contributions without touching the resources allocated for development cooperation. Belgium should also increase the amount of ETS revenues used for international climate finance and make a clear separation between development cooperation and international climate finance in its reporting.

In its search for new types of financing for development, Belgium must ensure that private instruments such as impact bonds provide additional sources of funding. New financing instruments should always meet transparency rules and be able to prove their effectiveness to achieve development goals. Most importantly, the use of impact bonds must not divert scarce public resources for the repayment of one-sided investments. While results and measurable outputs are important, development impact requires that projects are locally demand-driven and have the potential to be self-sustainable over time.

ENDNOTES

1 De Croo, Algemene beleidsnota 2016, p.5.

2 Pathways to sustainable development. First Belgian Voluntary Review on the Implementation of the 2030 Agenda, https://www.sdgs.be/sites/default/files/publication/attachments/nrv_belgium_english.pdf July 2017, p 64.

3 The following discussion of Belgian climate finance is examined as a whole, without the distinctions between the different entities.

4 11.11.11 (2016). Creatief met klimaat: hoe landen hun beloftes voor het Zuiden uithollen. http://www.11.be/downloads/doc_download/1927-11-dossier-creatief-met-klimaat

5 https://diplomatie.belgium.be/en/newsroom/news/2017/humanitarian_impact_bond

6 https://www.cgdev.org/sites/default/files/investing-in-social-outcomes-development-impact-bonds.pdf

7 https://thegiin.org/assets/GIIN_Roadmap%20for%20the%20Future%20of%20Impact%20Investing.pdf

8 https://www.brookings.edu/blog/education-plus-development/2018/01/17/paying-for-social-outcomes-a-review-of-the-global-impact-bond-market-in-2017/

9 https://www.mo.be/de-ontwikkelaars/ontwikkeling-met-priv%C3%A9geld-wordt-duur-betaald

10 Other outcome funders are Switserland, The UK, Italy and the “La Caixa” foundation.

11 See:https://www.dekamer.be/kvvcr/showpage.cfm?section=qrva&language=nl&cfm=qrvaXml.

Canada
Challenged by Ambition

Gavin Charles and Fraser Reilly-King, Canadian Council for International Co-operation

Overview

- Canada has clarified a vision for international assistance with its new Feminist International Assistance Policy (FIAP), aiming to focus Canada's efforts on gender equality and rights-based approaches.
- There remains significant uncertainty on how the government's new agenda will be implemented in practice, and how it will be aligned with Canada's global commitments to principles of aid and development effectiveness and the 2030 Agenda for Sustainable Development.
- Canada's Official Development Assistance (ODA) in 2018-19 is estimated to be Cdn$6.1 billion. At 0.27% of Gross National Income (GNI), this is below the Organisation for Economic Co-operation and Development (OECD) average and Canada's historic contribution. Based on current allocations, this ratio will remain unchanged – or decline slightly – in the next five years.
- FinDev Canada, Canada's new development finance institution (DFI), represents an additional form of non-ODA international assistance. FinDev Canada seems on the right track, with a clear focus on development outcomes, but needs to clearly articulate its role relative to other forms of public assistance and to take steps to maximize transparency and accountability.

On the surface, Canadian development and humanitarian policy is trending in positive directions. Through policy announcements, and to some extent, new budgetary commitments, the Canadian government is positioning itself as a leader on specific aspects of sustainable development, notably gender equality and the empowerment of women and girls. The important and specific role of ODA is recognized by political leaders, despite the growing attention to blended and leveraged financing through the private sector.

Yet there remains significant uncertainty on how the government's new agenda will be implemented in practice, and how it will be aligned with Canada's existing global commitments. Despite the welcome policy and rhetoric, the dollar value of Canada's ODA remains very low, at just 0.27% of GNI, which is well below the OECD average (0.38% in 2017) and Canada's historic contribution (an average of 0.29% over the past 10 years).

Part I: A bold vision meets the challenge of implementation

Canada's vision for its international assistance has been clarified and strengthened with the June 2017 release of the Feminist International Assistance Policy (FIAP). The new Policy came a year after extensive consultations with Canadians, including Canadian civil society organizations (CSOs). It included

numerous important commitments by the Government of Canada towards an ambitious international assistance policy framework (Government of Canada, 2017a).

The FIAP intends to refocus all of Canada's global development and humanitarian efforts to advancing gender equality and the rights and empowerment of women and girls. It represents a unique policy shift among donors and is an encouraging and positive shift forward in the journey to gender transformative change. The feminist orientation entails a stand-alone core focus on gender equality including combatting sexual and gender-based violence; supporting local women's rights organizations and movements; improving public sector institutional capacity to deliver programs and policies that support gender equality; and targeting investments in research, data collection and evaluation around gender equality. It envisages boys and men playing a significant role in challenging gender stereotypes and changing gender roles and relations. Overall, this vision represents strong potential for Canada to pioneer global leadership in support of the Sustainable Development Goals (SDGs), with a focus on SDG 5.

With this new Policy, Canada joins countries such as Australia, Sweden, and Norway, which have explicit feminist foreign policies and/or strong gendered policies and plans for international development. Yet no other donor has so clearly focused its priorities for development and humanitarian funding on gender equality. The FIAP comes with bold funding targets for gender equality and women's empowerment: 15 percent of all bilateral international development assistance will have gender equality and the empowerment of women and girls as a principal target (up from two percent now), and 80 percent of bilateral international development assistance will integrate a focus on gender equality and the empowerment of women and girls (up from 70 percent in 2015).

Canada has pledged that, within five years, 95 percent of Canada's bilateral international development assistance budget will contribute to closing gender equality gaps. This is a highly ambitious goal. In addition to this mainstreaming of gender equality funding, the government has also announced the establishment of a new Cdn$150 million local fund (over five years) for women's rights organizations (WROs), a substantial increase from Canada's usual investment of Cdn$4 million per year. This commitment will put Canada among the top donors in the OECD to women's rights organizations. The government has also initiated a focus on Women's Voice and Leadership, an initiative that has begun to provide program funding to small and non-traditional partner organizations in the South.

To complement its feminist frame, the new Policy has adopted a human rights-based approach (HRBA), building on the ODA Accountability Act (ODAAA) (Government of Canada, 2008), which requires that aid allocations are consistent with international human rights standards. Other bilateral donors, including Sweden, Norway, the United Kingdom and Denmark, currently also pursue this approach, to varying degrees. FIAP aspires to be highly inclusive, focusing on all people "regardless of sex, race, ethnicity, nationality or ethnic origin, colour, religion, language, sexual orientation, gender identity, age, ability,

migrant or refugee status, or any other aspects of identity." The government is developing guidance notes to help inform what its HRBA will look like in practice.

The FIAP emphasizes Canada's support for Least Developed Countries (LDCs), particularly sub-Saharan Africa, through a commitment to dedicate no less than 50 percent of Canada's bilateral assistance to that region.

With this significant shift in focus, staff and systems at Global Affairs Canada (GAC), the Canadian federal department responsible for international development and humanitarian assistance, along with diplomacy and international trade, must make major changes to be fit for purpose. However, since the 2012 Federal Budget, there have been dramatic cutbacks in Global Affairs Canada's staff and technical experts, reducing the capacity of GAC's gender experts, among others. Moreover, while GAC has historic experience in governance and human rights, successful implementation of a comprehensive HRBA will need to rely on the expertise of other bilateral donors, CSOs and UN agencies. Substantial investments are needed to build the capacity and processes required to implement the new Policy, both within GAC and among partners. GAC staff will need to learn how to work with new and non-traditional partners, such as local women's rights organizations and movements, and tackle difficult contexts where space for civil society as a development actor is shrinking. The government must also develop a suite of policies and strategies to implement and integrate feminist and rights-based approaches across all programming streams and sectors. In doing so, GAC should ensure that its country strategies are sensitive and adaptable according to very different local contexts – in line with a HRBA and the principle of country ownership.

In its funding modalities, GAC will have to move from an emphasis on risk-averse short-term results, specialized and siloed project approaches, with onerous reporting and accountability requirements, in favour of greater risk-taking and flexible and responsive funding mechanisms and approval processes. Just as important will be integrated program-based approaches, ones focused on longer-term outcomes and impacts, and investments in research, evaluation, public engagement and learning. Building on the 2017 announcement of an innovation fund and a fund for small and medium-sized organizations, and working with civil society, GAC could develop and test a diverse suite of funding mechanisms, including highly responsive and decentralized funding mechanisms, for both development and humanitarian programming.

To its credit, GAC has set up a new International Assistance Operations Bureau in the past year to help implement the FIAP. Through this Unit, they have also established a Task Force on Improving Effectiveness, working in collaboration with civil society amongst others, to introduce measures to streamline processes within the Department. But more still needs to be done.

As the FIAP is implemented, GAC must ensure that the shifts entailed are undertaken responsibly and sustainably. Canada is now moving from a countries-of-focus model to a more complex model based on type-of-country, type-of-people, and sectoral themes. GAC should be open

and transparent about the implications of this transition for the continuation of investment in areas of traditional focus. Some elements of Canada's international assistance that were previously central seem to have lost their place.

For example, references to children and youth and child protection, food security and agriculture, as well as sanitation and hygiene, which are important areas in the context of an overall focus on gender equality and women's empowerment, are absent in the FIAP. It will be important to ensure that the strong record and expertise of Canadian officials and organizations in these areas is not jeopardized or lost as assistance is refocused through a gendered lens. The government has made efforts to address these and other thematic areas through partner consultations and programming announcements. However, with stagnant funding for international assistance (see Part III), and numerous commitments already made for years to come, it seems inevitable that many current programs will not continue.

In this context, GAC needs to ensure that Canada's overarching emphasis remain focused on reducing poverty and inequality, supporting the poorest and most marginalized, and, most importantly, on people – on their needs, rights, assets, abilities, and priorities, as determined at a local level, as should be exemplified in a feminist and human rights approach. If true to feminist principles, Canada's international assistance will account for and respond to local and dynamic contextual realities, as well as intersectional factors including age, ethnicity, religion, and economic status, among others. In the case of humanitarian assistance, it will be consistent with the fundamental humanitarian principles of humanity, impartiality, neutrality, and independence. Canada's new approach offers great potential and promise to advance all of these objectives, although the dynamics are very complex.

These conditions are essential to ensure that no one is left behind in the transition process – the core promise of the 2030 Agenda for Sustainable Development, and of the human rights-based approach that should underpin the FIAP itself. In the inclusive spirit of Agenda 2030 and the SDGs, and in line with the cross-cutting nature of the new Policy, the HRBA and feminist frame at the core of the FIAP should be carefully aligned and reinforced with Canada's other foreign policy activities.

Such alignment would ensure that Canada's diplomatic and trade initiatives complement, and never undermine, Canada's development and humanitarian efforts. In advancing a feminist international assistance policy coherent with other policy agendas, the government should take particular care to avoid conflating security, sustainable development and humanitarian efforts. The integration of security with humanitarian initiatives jeopardizes both the safety and the effectiveness of humanitarian workers who must always be (and be perceived to be) neutral and impartial. As the Policy acknowledges, trade can have positive development impacts, but its effect may be unequal. Indeed, trade can, in some cases, undermine effective development by weakening local economic structures, increasing dependence on global supply chains and aggravating inequality. The government must therefore approach issues of integration across the conflict,

development, diplomacy, trade, and humanitarian realms with extreme care.

Part II: Aligning with effective development principles and the SDGs

Canada sits on the Steering Committee for the Global Partnership for Effective Development Co-operation (GPEDC), one of the outcomes of the 2011 Busan meeting on aid and development effectiveness. The GPEDC represents the continuation of global engagement with the aid and development effectiveness principles agreed over the last decade and a half, including country ownership over development, inclusive partnerships, country-determined results, and transparency and accountability.

Despite Canada's welcome engagement in the GPEDC, Canada appears to have abandoned virtually any public reference to the aid and development effectiveness agenda. There are virtually no explicit public acknowledgements of Canada's commitment to support local democratic ownership, transparency and accountability for locally-determined results or inclusive partnerships. The FIAP, and the International Assistance Review that preceded it, barely refers to the international aid and development effectiveness agreements of Paris (2005), Accra (2008), Busan (2011), and Nairobi (2016).There has been no formal action plan on aid effectiveness since the last one concluded in 2012. A new one is needed.

The government's apparent abandonment of aid and development effectiveness principles coincides with increasingly directive policies and programs and contractual relationships that limit the responsiveness, innovation, and adaptation partners require to support the people who are most in need and hardest to reach (see also Part I). International development and humanitarian organizations are hoping to address this shortfall through the implementation of a new Civil Society Partnerships for International Assistance Policy (Government of Canada, 2017b). From a draft first adopted in 2015, this Civil Society Policy was updated in 2017 to align it with the FIAP, and was substantially strengthened in numerous ways, including important references to the enabling environment (for details, see Canadian Council for International Co-operation, 2017). The government is now working with an Advisory Group of diverse CSOs to develop an implementation plan for this Policy.

As ODA and global development are increasingly framed within the context of the 2030 Agenda for Sustainable Development and the SDGs, the FIAP needs to adjust its new policy directions to respond to Agenda 2030's transformational approach. However, the references feel more like bookmarks than a major shift to a universal and much more integrated and intersectional agenda. This shortfall was also reflected in a 2018 report by Canada's Commissioner on the Environment and Sustainable Development, which found that the Canadian government is not adequately prepared to do its part for the 2030 Agenda and the SDGs (Gelfand, 2018). The commissioner noted that the government, as of the end of her audit, had no governance structure for SDG implementation; no system to measure, monitor, and report on national progress; and only limited national consultation and engagement. While Canada had developed a data framework to measure results on the 232 global SDG indicators, the data

had not been compiled. These steps are essential if Canadian development and humanitarian assistance, an important dimensions of its national strategy, is to measurably advance the SDGs.

The government has begun to recognize this problem. In Budget 2018, as the Commissioner was finalizing her report, the government announced new funding to support whole-of-government coordination, monitoring, and reporting on the SDGs. One week before the Commissioner's highly critical report was issued, the government handed out a press release, signed by eight cabinet ministers, signalling that plans were finally underway to develop a strategy to implement the SDGs (Government of Canada, 2018).

Part III: Investing in sustainable development globally

The Canadian Council for International Co-operation (CCIC) has consistently affirmed that Canada's new and ambitious international assistance policy requires additional resources if the FIAP, and the partners with whom GAC works, are to realize its full potential. CCIC estimates that Canadian ODA in 2018-19 will be Cdn$6.1 billion, based on Cdn$5.5 billion budgeted in the International Assistance Envelope (IAE)– the budgetary allocation of Canada's development and humanitarian assistance. Canadian ODA will thus represent approximately 0.27% of GNI. Discounting the inclusion of in-donor first-year refugee and student costs, to which CSOs have long objected, Canada's performance ratio will be 0.25%. This performance is well below the average of Canada's OECD peer group. If current funding levels continue, by the end of this government's first mandate, it will have the lowest average ODA as a percentage of GNI of any Canadian government in half a century (Greenhill and Wadhera, 2017).

An ambitious policy vision, as expressed in the FIAP, requires ambitious investments. However, when the FIAP was unveiled, no additional funding accompanied it. Signature initiatives highlighted in the Policy, such as a previously announced commitment of Cdn$650million for sexual and reproductive health and rights and the new Cdn$150million fund for women's rights organizations, will not be additional to the existing IAE, and will therefore substitute, rather than supplement, existing programming.

This financing picture for FIAP was in stark contrast to the announcement – just two days earlier – of nearly Cdn$14 billion in additional money for defence. The new funding for defence, coupled with the lack of new investment in ODA, has aggravated an existing imbalance between these two core elements of Canada's foreign policy. Currently, Canada spends just under four dollars on defence for every dollar on development. By contrast, comparable countries such as Norway, Germany and Sweden have ratios between 1:1 and 1.6:1 (defence-to-development). With the new commitments for defence, and assuming no new development money, by 2026-27 Canada will have a defence-to-development ratio of 6:1 or more.

At first glance, Budget 2018 appeared to provide some good news to buck this trend (Finance Canada, 2018: 156-66). The government announced that it would invest Cdn$2 billion in new money over the next five years in its Feminist International Assistance Policy to promote gender equality. This was the second-highest

new investment in the Federal Budget. It also represents the biggest long-term investment since the 8% annual increase initiated in 2003 and maintained until 2010.

However, when the new commitment is divided over five years, Canada's IAE will only see an average compound annual growth rate of slightly over three (3) percent. In some years, after inflation, the budget will not likely grow in real dollar terms. At the end of the five-year ladder of increases in 2022-23, if the substantial initial increase in 2018-19 is fully sustained, Canada's ODA to GNI ratio will remain at around 0.26%, representing no increase in performance over these five years.

In addition to traditional ODA, Canada is looking to use new financing tools. In parallel to the Cdn$2 billion that will be invested in the IAE, the government has also allocated Cdn$1.5 billion over five years and Cdn$492.7 million thereafter to support "innovation". These investments will occur through the International Assistance Innovation Program and the Sovereign Loans Program. This is not new money for international assistance, but will be drawn from existing unallocated funds (or "free base") in the IAE over the next five years.

Through these two Programs, GAC can now offer sovereign loans (i.e. loans to governments) to countries, and make long-term equity investments in companies or in innovative financing mechanisms working in international development. These investments may accrue net revenues (which may eventually return to GAC) or incur net losses (which GAC will write off). The impact on Canadian Official Development Assistance will be determined by new rules currently being developed by the Organization for Economic Cooperation and Development for accounting for such investments, but GAC Finance is clearly hoping these will have a net positive impact on Canadian ODA. More information is still needed to understand the allocation process and intentions of this new pool of funding and how it will interact with and differ from FinDev Canada, Canada's new Development Finance Institution (DFI).

The establishment of FinDev Canada was first announced in Budget 2015, and was later re-announced (with the same initial capitalization of Cdn$300 million) by the new government in Budget 2017. DFIs can play a key role in high-impact development financing by providing crucial funding in credit-constrained high-risk markets, where financing for firms is in short supply, interest rates are high, or companies are too small or deemed too high-risk to access finance. In these cases, DFIs can create jobs, generate incomes and taxable revenues, and provide valuable private goods and services.

Unfortunately, global DFI practice has not been impressive to date. Notably, a disproportionate degree of DFI investments have subsidized OECD country companies working in Middle Income Countries (MICs), with DFIs too often prioritizing profit maximization over development impact. Transparency around financial leverage and development impact is still sorely lacking; financial intermediaries and secrecy jurisdictions are widely used (Kwakkenbos, 2012; Romero, 2014; Vervynckt, 2014). These issues are not inevitable for DFIs. However, FinDev Canada should explicitly bear these trends in mind, and plan and act accordingly in implementing Canada's DFI.

Overall, FinDev Canada seems to be on the right track. International Development Minister Marie-Claude Bibeau has publicly asserted that the DFI would focus squarely on development and poverty reduction, ensuring positive outcomes and real impact (House of Commons, 2018). She has also indicated that, although Canada's DFI would not be funded from ODA, it would be aligned with the ODAAA (House of Commons, 2017). The draft development impact framework for FinDev Canada, released for public consultation in 2018, reiterates this pledge by affirming that contributions to three development impact goals (market development, women's economic empowerment, and environment and climate action) will be the most significant factor in the deal-making and decision process (FinDev Canada, 2018).

FinDev Canada can enhance its effectiveness and its contributions to development outcomes by ensuring it is coherent with other government initiatives; is aligned with core global agendas and principles to which the Government of Canada has committed; and fills key financing gaps and needs. This orientation should include:

- Acknowledging where and how FinDev Canada's investments and operations will complement the FIAP and Canada's ODA;
- Supporting operations in Low Income Countries (LICs), Lower-Middle Income Countries (LMICs), Least Developed Countries (LDCs), and fragile states;
- Favouring small and medium enterprises (SMEs), particularly women-led SMEs;
- Affirming established development effectiveness principles (country ownership, inclusive partnerships, country determined results, and transparency and accountability);
- Clarifying environmental, social and governance (ESG) policies, ensuring a rights-based approach; and
- Supplementing transparency and accountability provisions with a complaints mechanism.

Canada is positioned to be a global leader in contributing to a fairer, more sustainable and safer world. It has a new feminist policy framework for its international assistance, one that emphasizes the inclusive and rights-based spirit of the SDGs, and with a clear focus on supporting gender equality and empowering women and girls across its international development and humanitarian efforts, Fulfilling the potential of this Policy will require increased ambitious, coherent, and targeted investments that serve the poorest and most vulnerable people, and leave no one behind. The next few years will determine whether Canada can deliver on these good intentions.

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The modernisation of European development cooperation: Leaving no one behind?

Alexandra Rosen, CONCORD Europe

Overview

- In 2016, the EU and its member states reported a total increase in official development assistance (ODA) with the total for that year being €75.46 billion. According to the OECD DAC this level of ODA declined in 2017 by 2.4%. With this level, the EU and its 28 member states (EU28) make up the world's biggest development donor block, demonstrating a stable increase in total aid over the last five years. Still, one fifth (€15.40 billion in 2016) of the total aid reported by the EU member states reflected financial flows that were not a "genuine" transfer of resources to developing countries ("inflated aid").The EU collective ODA in 2016 amounted to just 0.50% of GNI, which is 0.2 percentage points below the global goal of 0.7% GNI. This ratio remained largely unchanged in 2017. According to CONCORD AidWatch calculations, if genuine aid increases at the current rate, the EU will not meet the 0.7% target before the year 2052 - more than 20 years after the 2030 deadline.
- Only 5 EU member states met the 0.7%-target in 2016, namely Denmark, Luxembourg, Sweden, UK and, for the first time, Germany.
- EU donors reported a total of €10.88 billion for refugee costs in 2016. This represents a 44% increase from the previous year, and a staggering three-fold increase since 2014. One in seven euros invested by EU donors in aid was spent as in-donor-country refugee costs in 2016. In-donor refugee costs fell slightly in 2017 by 6%.
- While total ODA from EU28 increased by 10% between 2012 and 2015, the ODA from EU member states dedicated to LDCs actually decreased by 2.5%. The EU and its member states are providing more ODA to the LDCs than other donors, but in relative terms there is a shift away from spending in LDCs.

Although the EU is the biggest donor bloc, it is still far from reaching the targets

In 2016, the EU and its member states were the world's biggest donor bloc, collectively reporting €75.46 billion in total official development assistance (ODA). This represented a 27% increase over the past two years, partly because a majority of EU member states (23 out of the 28) increased their aid. Ten EU member states increased their total ODA by over 25%, including Spain (193%) and Germany (36%). EU and member states' ODA level declined by 2.4% 2017, according to preliminary figures by the OECD DAC.

Five EU countries - Denmark, Luxembourg, Sweden, the United Kingdom and, for the first time, Germany, -reached the 0.7% target. Luxembourg and Sweden deserve

special mention for keeping the integrity of their aid very high. They are the only two EU member states that exceeded the 0.7% target in 2016 and spent their aid on delivering "genuine" developmental impacts in developing countries. As an example, the Luxembourg government explicitly committed to not reporting in-donor-country refugee costs as ODA.

In spite of the 2016 positive trend of increasing aid levels over previous years, the EU is still far from meeting its international 0.7% of GNI commitment. AidWatch 2017 confirmed that overall the EU is retreating from, rather than making progress towards, its 0.7% ODA promise. The EUs total collective ODA in 2016 amounted to just 0.50% GNI - 0.2 percentage points below the 0.7% target. According to CONCORD AidWatch calculations, if genuine aid increases at the current rate, the EU will not meet the 0.7% target before the year 2052 - more than 20 years after the 2030 deadline.

Along with other OECD donors, the EU, is committed to spending 0.15% to 0.2% of its GNI in the world's least developed countries (LDCs). However, in 2016 OECD donors' spending in these countries shrank with only seven of them meeting this international commitment to LDCs. Six of these seven donors were EU member states: Luxembourg, Sweden, the UK, Denmark, Belgium and the Netherlands. According to AidWatch 2017, total EU bilateral aid to LDCs in 2015 represented just 15% of total European aid. This amount represented only 0.06% of EU28 GNI – half of the amount required to honour the international LDC commitment. While total ODA from EU28 increased by 10% between 2012 and 2015, ODA from EU member states dedicated to LDCs decreased by 2.5%.

A shift away from poverty eradication and sustainable development

A central question is the quality of the ODA delivered by the EU and its member states: did it truly contribute to poverty eradication and sustainable development? In fact, for the most part, the EU's aid *increases* have not been used for development purposes in developing countries. For a more accurate picture of EU development cooperation, it is crucial to distinguish between the portions of aid budgets that are focused on reducing poverty and supporting the countries and people that have the least versus the amount used to cover costs that serve European domestic objectives.

According to the AidWatch inflated aid methodology,[1] one fifth (€15.40 billion) of the total aid reported by the EU member states in 2016 was inflated. Furthermore, CONCORD's calculations show that, as a proportion of total European aid, "inflated aid" in 2016 increased by 43% compared to 2015, when it was 17% of total EU ODA.

The AidWatch 2017 analysis also revealed that the gap between current European aid levels and the amount needed to reach 0.7% ODA/GNI is wider than reported. Based on EU donor ODA figures reported to the DAC, the EU aid gap in 2016, amounted to €29.25 billion. When the "inflated" aid is deducted from that figure the "real EU aid gap" is €44.70 billion. While absolute EU aid figures are increasing steadily, genuine aid is lagging behind.

In-donor refugee costs: EU member states still receiving its own aid

In-donor refugee costs accounted for 30% of the total EU aid increase in 2016, showing once again that this type of spending has rapidly become a main feature of European development cooperation. In 2016, EU donors reported a total of €10.88 billion for refugee costs - a 44% increase from the previous year, and a staggering three-fold increase since 2014. In 2017 in-donor refugee costs fell slightly.

These figures for in-donor refugee costs mean that one in seven euros invested by EU donors in aid in 2016 was, in fact, spent as in-donor-country refugee costs. Although it is vitally important to support refugees in Europe, counting donor refugee costs as ODA is misleading. This type of spending has little to do with development aid and does not link directly with the core purpose of ODA, which is to reduce poverty in developing countries. As CSOs have long argued, DAC rules should stop accepting in-donor-country refugee costs as ODA. The impact on EU members states, following the implementation of the 2017 clarification to the reporting of in donor refugee costs, remains to be seen.

The EU is stepping up its gender commitments, but progress is slow

In 2016, the EU introduced its second Gender Action Plan 2016-2020 (GAP II), again confirming that 85% of new EU programmes must have gender as either a "significant" or "principal" objective, in line with the OECD's definition of gender markers. According to data on gender-integrated ODA from 2014-2015, only Sweden has met this target, although seven member states were making significant progress, reaching 50-75%. Most member states, however, still have a long way to go to reach the 85% target by 2020. In 2014-2015, the EU Commission had reached only 34%. In its GAP II 2017 implementation report it claimed that as many as 57% of its programs had gender as a significant or principal objective. Although slow, progress is being made, given that the portion of EU programs with gender as the "principal objective" will increase as well.

Modernising EU development cooperation - the instrumentalization of aid

The diversion of European ODA away from those countries that are most in need is not necessarily serving genuine and effective development. On both the EU and member state level, there has been a trend towards an instrumentalization of ODA to address emerging non-development objectives. The following section addresses EUs response to these non-development objectives, such as managing migration flows or donors' domestic security goals.

ODA and Migration - the externalisation of EUs responsibilities

Between 2013 and 2016, more than 3 million people sought asylum in Europe. In response, the EU developed several plans, agreements and policy frameworks. It also established cooperation agreements with several third countries, highlighting the importance of "addressing the root causes behind irregular migration to non-EU countries." In addition, EU development cooperation budgets were increasingly spent in favour of "migration management." Development cooperation

has become a tool to "control migration", "manage migration" or "tackle the root causes of migration".

The three ways that EU ODA is being used to curb migration include:

a) **The inflation of ODA**: ODA is being spent in Europe to host refugees instead of reaching developing countries. As mentioned above, €10.88 billion has been reported as ODA in 2016 to host refugees and migrants in Europe. As an example, Germany spent more than 25% of its ODA on hosting refugees, making Germany the biggest recipient of its own aid.
b) **The diversion of ODA**: To prevent migration to Europe, ODA has been increasingly invested in specific countries from which people tend to migrate. "Addressing the root causes of migration" has been a key theme of official European strategy since 2015 and it is also reflected in EU development cooperation policies. For example, a main purpose of the instrument called the Emergency Trust Fund for Africa is to manage migration - more than €3 billion has been invested in this fund by EU member states. The instrument is problematic as it uses development budgets for migration control and enforcement measures and diverts ODA from its main purpose of poverty eradication. Also, in implementing the Trust Funds for Africa, the EU and its member states are failing to be consistent with the principles of development effectiveness and fully supporting partner countries in achieving their own development priorities.[2]
c) **The conditioning of ODA:** EU ODA is provided on the condition that the recipient country will either prevent migrants from leaving that country to enter Europe or offer to host refugees. ODA is increasingly being used to encourage the cooperation of developing country partners in migration and border control efforts. This type of conditionality is visible in many regions that are either sources of or transit points for migrants coming to Europe. For example, 17 readmission agreements have been signed by the EU with origin countries and more than €6 billion from the EU ODA budget has been allocated to Turkey under the condition that it will host Syrian refugees under the so call "EU-Turkey deal". On a national level, Denmark has appointed a "repatriation ambassador" in charge of facilitating return agreements with countries of origin.

To stop the dilution of EU ODA, EU and its member states should phase out the inclusion of all in-donor refugee costs from their ODA and develop an evidence-based approach to migration and development that ensures development impact remains the key focus of all EU aid. As well, the EU must stop the instrumentalization of development cooperation by establishing clear boundaries between migration deterrence and development efforts. ODA in particular, must hold true to its purpose of eradicating poverty, reducing inequality and meeting humanitarian needs.

Security aid - serving European donors' national interests?

Aid spending figures show that peace and security has not traditionally been a priority sector for donor spending in developing countries. Yet, this is changing as some European Union donors are starting to prioritise the strengthening of state security in developing countries and are using ODA as a tool to counter perceived threats to Europe. Donors are also increasingly committing aid for the prevention of extremism or terrorism as well as to control insurgency and migration.

In 2016, the OECD DAC clarified the reporting rules for peace and security related ODA spending. Contrary to the original intention of this exercise, the revision expanded ODA eligibility for peace and security spending into new areas. Although it is too early to examine the influence of the new DAC rules on aid figures, the risk remains that scarce aid resources will become diverted from other development priorities, such as poverty reduction. The implications for what it will mean if donors begin to align their aid policy more closely to domestic security agendas is not yet clear. However, there are worrying signs, as seen in the EUs rhetoric when discussing the next EU multi annual budget.

EU relying heavily on the private sector to realise the SDGs

It's not new for the EU to resort to the private sector to finance and realise the Sustainable Development Goals. Since 2011, the EU and its Member States have been promoting a growing role for various elements of the private sector in development cooperation. In recent years, this trend has been reflected in the European External Investment Plan (EIP) and its European Fund for Sustainable Development (EFSD). The European Fund for Sustainable Development is expected to mobilise €44 billion in private sector investments with the help of EU ODA.

Looking into the future, it is likely that the EU will be transferring even more EU ODA to Development Finance Instruments (DFIs) and through mechanisms such as blending and guarantees (for example through the EIP and EFSD). Concerns have been raised over this approach, as it is yet to be explained why the EU is allocating its relatively small ODA budget in support of the private sector. For example, in its the current design, the External Investment Plan does not deliver its stated sustainable development objectives.

Evaluations confirm that the design and implementation of EU blending projects generally did not have strong pro-poor dimensions.[3] It is important that ODA is not used to subsidise the European private sector whereby shareholders in Europe – rather than people living in poverty – become the biggest beneficiaries. While a responsible private sector is rightly identified as an important partner to finance and realise the Sustainable Development Goals, rigorous safeguards need to be put in place to ensure that inequalities do not occur.

In addition, it is important that the EU and its member states abandon the "one-size fits all" approach to the role of the private sector in development. Instead they should focus on micro, small and medium enterprises (MSMEs) and social economy enterprises in local and regional value chains and trade.

Conclusion

- The EU remains the biggest donor bloc but is failing to apply the 'leave no one behind principle'. More ODA is being spent on costs within the donor country (for in-donor-refugee-costs) than on the Least Developed Countries and there is a relative shift away from spending on LDCs.
- The EU is still facing the challenge to increase its aid levels to meet the 0.7% target, by only providing genuine aid.

Total EU ODA levels should not depend on unforeseen events and decrease when, for example, refugee costs are decreasing. EU ODA levels should be set on a stable and predictable path for reaching the 0.7% target consistent with Agenda 2030.

- Knowing that gender equality is a prerequisite for sustainable development, it is welcomed that the EU has stepped up its gender commitment. However, progress is slow and the share of projects with gender as a principal objective is at low levels.
- EU ODA is increasingly used to serve EU domestic interests at the expense of people in developing countries. There are concerns that EU domestic security priorities, such as unproven investment schemes and migration control, will overshadow the EU's commitments to promote human rights, sustainable development and the fight against poverty in its development cooperation programmes and actions.
- While a responsible private sector is rightly identified as an important partner to finance and realise the Sustainable Development Goals, rigorous safeguards must be put into place to ensure that inequalities are not amplified and that people living in poverty are the biggest beneficiaries of development efforts implemented by the private sector.

Recommendations

Regarding European aid, the EU and its member states should:

- Ensure that ODA remains focused on poverty eradication in developing countries, through "genuine" ODA consistent with the Busan aid and development effectiveness principles;
- Meet their aid targets (0.7% ODA/GNI by 2030, at least 0.15% of GNI to Least Developed Countries (LDCs) by 2020 and 0.2% of GNI to LDCs by 2025);
- Avoid using aid to cover a country's national costs of receiving refugees and, ultimately, phase out the reporting of in-donor refugee costs as ODA. In the meantime, donors should closely monitor their increased spending on in-donor-country refugee costs by using a transparent reporting system, and should apply existing OECD DAC rules strictly; and
- Ensure that the modernisation of ODA rules is designed primarily to increase the system's consistency and transparency and its alignment with development effectiveness principles. It should not be designed to suit donors by relaxing ODA definitions and restrictions and thereby allowing them to report spending not geared towards poverty eradication and sustainable development as ODA.

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ENDNOTES

1 According to the AidWatch methodology, "inflated aid" refers to all financial flows that – although formally reported as aid by donors under DAC rules – do not genuinely contribute to development. https://concordeurope.org/wp-content/uploads/2017/10/CONCORD_AidWatch_Report_2017_web.pdf p.

2 CONCORD Europe report "*Partnership or conditionality? Monitoring the Migration Compacts and EU Trust Fund for Africa*" (January 2018)

3 Evaluation of Blending, Final Report, Volume 1 – Main Report, December 2016, p.14 (available at: https://ec.europa.eu/europeaid/sites/devco/files/evaluation-blending-volume1_en.pdf)

Will Emmanuel Macron Make French Aid Great Again?

Michael Siegel, Oxfam France

Introduction

Some might argue that since the election of Emmanuel Macron as President, France is back in the game of development cooperation. In Oxfam's view, this might just be a smokescreen. With 10.08 billion Euros allocated to Official Development Assistance (ODA) in 2017, France is proud to state that it is the fifth largest donor in volume. But let us not forget that at 0.43% of its Gross National Income (GNI) in 2017, France remains the tenth contributor in terms of its ODA performance, well behind its European neighbors.

In September 2018, Emmanuel Macron's commitment to allocate 0.55% of French GNI to ODA by 2022 generated considerable applause within the UN General Assembly. It would seem that the UN had forgotten France's 1970 commitment to allocate 0.7% of GNI to ODA, a pledge that was not realized. Nonetheless, the fact that Emmanuel Macron is willing to increase French aid could be seen as positive news if only he would not systematically link aid to the need to promote French security, migration management and economics interests abroad.

Macron: The new champion of development aid?

Prior to the election of Emmanuel Macron development cooperation had fallen off the political agenda in France. But with France's new president there is renewed political interest with President Macron committing to "escalate ODA" and reach 0.55% of GNI for ODA by 2022, up from 0.43% in 2017. His Government has made it clear that 0.55% is only an intermediary target towards achieving the 0.7% international norm by 2025.[1] The Government has also promised to adopt a new Development Cooperation Law that would set out a roadmap to achieve this 0.7% target.[2] Although French civil society would prefer that the 0.7% target be reached by 2022, the expected increase in French aid has been positively welcomed, particularly since aid had been systematically cut since 2010.

The new Government has also committed to target French aid towards Least Developed Countries (LDCs), in particular 19 "Priority Countries", primarily francophone LDCs. This is positive news.[3] During his electoral campaign, Mr. Macron promised to fulfill the Addis Ababa commitment of allocating 0.15% of GNI to LDCs by 2022,[4] up from 0.10% in 2016. Two months after his election, he launched the Sahel Alliance and committed to intensifying development efforts in Mali, Niger, Chad, Burkina Faso and Mauritania –some of the poorest countries in the world.

The new French Government has also clarified its priorities for French development aid policy in the next 5 years. These include health, education, climate change, gender equality, and humanitarian

aid - all key sectors to reduce poverty and fight inequality. On the international scene, Emmanuel Macron likes to portray himself as a political leader on these issues. He hosted the One Planet Summit in Paris (December 2017) during which he announced an extra 300 million Euros for climate change adaptation, in addition to the 1.2 billion Euros promised by François Hollande during the 2015 Paris Climate Summit(COP 21). At the Global Partnership for Education (GPE) Replenishment Conference in Dakar (February 2018), he stated that France would multiply by 10 its contribution to the GPE between 2018 and 2020. And a few months later, Mr. Macron's office announced that France would host the Global Fund Fifth Replenishment Conference in 2019. But despite all these rosy declarations, the reality of French aid is complicated by many troubling aspects.

Profitable loans, at the expense of the poorest

Emmanuel Macron is excellent at making commitments in favor of development aid. But in practice, it's a very different story. The reality is that his beautiful speeches are often filled with empty words and little money. Only two months after his election, the Government announced a cut of 136 million Euros in the development aid budget that had been adopted by the previous Parliamentin2017. The aid budget introduced by Emmanuel Macron's Government for 2018 was only increased by 100 million Euros when 1 billion Euros were actually needed for France to be on the right track to achieve the 0.55% target by 2022. The new Government has also decided to reduce the scope of the French Financial Transaction Tax that could have generated between 2 to 4 billion Euros for development aid in 2018.

Although the French Government committed to increase aid to social services in LDCs, current trends reveal a very different picture. French aid to LDCs has shrunk from 26% in 2015 to 22% in 2016. Only one LDC (Senegal) is amongst the top 10 recipients of French aid, alongside emerging economies such as China, South Africa and Brazil. Furthermore, French bilateral aid to basic social services dropped from 37% in 2014 to 31% in 2015. These figures are actually inflated since 72% of the ODA that was reported for the education sector in 2017 never reached developing countries and was in facts pent on school fees for students who come to study in France.

The decreasing share of French aid to essential services in LDCs is mainly due to the increase of loans in French ODA. These loans are generally directed towards productive sectors (primarily extractive industries, finance, and infrastructure) in emerging economies. In 2016, the grant element of French aid was 81.4%, down from 85.6% in 2015. The grant element of French aid therefore stands below the OECD norm of 86% and is far from the DAC average of 94.4%.[5] With loans comprising 50% of its bilateral aid France is the OEDC DAC country with the second worst grants/loans ratio. Furthermore, the level of concessionality of French loans is extremely low (at 53.8%).

As a matter of fact, the spectacular increase of almost 15% in French ODA in 2017 was in fact mainly due to a rise in bilateral and multilateral loans.[6] Furthermore, the expected increase in French ODA in 2018 needs to be taken with a pinch of salt as it will likely be the result of further increases in bilateral and multilateral

loans combined with the implementation of the new OECD reform on the way loans are reported as ODA. Given these trends in the structure and nature of French aid, the poorest countries are unlikely to reap the benefits of the 0.55% commitment.

Protecting national interests, the new goal of French aid

Since Emmanuel Macron's election there has been a strong push from the Government to link aid with France's economic, security and migration management interests. In his election pledge, Emmanuel Macron indicated that development policies were central to "the role of France in the world, its influence and its companies". A few months later, in Ouagadougou, he called upon private insurance companies to help fill the gap in strengthening health systems in Africa. Similarly, a report from the Finance Commission of the French Parliament specifically recommended that ODA should "benefit the French economy and its companies."[7] Blending public finance with private finance is increasingly being portrayed by French policy makers as innovative funding for development.

Such a move could threaten France' strong track record on formally untying aid. In 2016, 96% of French aid was untied, well above the OECD DAC average of 80%.[8] The increasing use of public funds to support the private sector risks diverting more development funds from essential services. Whilst AFD's activities in support of the private sector grew from 14% to 19% between 2016 and 2017, its support for the health and education sectors shrank from 7% to 4% during the same period.[9]

The OECD is contemplating the inclusion of private sector instruments in ODA reporting. Such a reform would artificially inflate French ODA at the expense of the poorest. For example, the reform would allow France to report part of the 1.4 billion Euros portfolio handled by the French Development Finance Institution, Proparco, as ODA. But given its mandate to support the private sector, only 2% of Proparco's activities are directed to the health and education sector.[10] Moreover, Proparco does not have an accountability mechanism, unlike the French Development Agency. Without sufficient safeguards on blending finance, the privatization of aid could widen inequalities and threaten the basic social, economic and environmental rights of the poorest people in developing countries.

The rise of the of the 3D policy (Diplomacy, Defense and Development) since Emmanuel Macron's election risks further diverting precious ODA funds from access to social services in LDCs to French geopolitical interests. During the first inter-ministerial meeting on development cooperation (February 2018), the French Government endorsed a securitized approach to migration. This aims to use ODA to fund border control management and the return of migrants to their countries of origin. Emmanuel Macron has been actively promoting the security-development nexus through his Sahel Alliance initiative, which puts forward development projects with security objectives, including the fight against terrorism, transnational organized crime and human trafficking. French operators such as the AFD or

Expertise France have already started to implement the 3D policy through projects funded by the EU Emergency Trust Fund for Africa. The overall objective of these projects is to contain migration and prevent violent extremism. As the foundation for these initiatives France needs to champion better governance, accountability and human rights by supporting internal/external checks and balances in the G5 Sahel countries, working with parliaments, independent media, civil society organisations and judiciary bodies. Otherwise, the nexus security-development promoted by the Sahel Alliance risks further destabilizing the Sahel region.

Conclusion

In the current global context of rising nationalism, France's President Emmanuel Macron might seem like an obvious leader for development cooperation. But one must dig deeper behind the President's public pronouncements and speeches. Whilst France continues to fail to uphold its commitments on aid quantity, it is pushing the international community in the wrong direction in terms of aid effectiveness. By systematically promoting development cooperation approaches that benefit national interests at the expense of essential services in Least Developed Countries, France is undermining the very essence of aid.

ENDNOTES

1 Response of Emmanuel Macron to ONE's survey during the 2017 Presidential Election (page 2) : https://s3-eu-central-1.amazonaws.com/one-vote-france-2017/wp-content/uploads/2017/04/20164102/PDF-EM-R%C3%A9ponseAnalyse-ONE.pdf

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Germany's Engagement in Development: Struggling with ODA, migration and security interests at the European level

Dr. Martina Fischer, Bread for the World

Along with other OECD-member states Germany, has agreed to increase "Official Development Assistance" (ODA) and to guarantee that 0.7 % of its GNI will be spent for this purpose until 2030. In 2016 the German Government proudly announced that it had achieved the 0.7% target, having failed to reach this goal the previous year.

The majority of Germany's ODA spending (around 37%) is generated by the Ministry for Development Cooperation (BMZ). Other institutions, such as the Federal Foreign Ministry (8%), have also contributed by covering the funding for university grants for students from the Global Southand the "Bundesländer" (Federal States in Germany) (5%). The Development Bank, "Kreditanstalt für Wiederaufbau," generates 25%, and 10% is transferred to the EU (European Development Fund).[1]

Germany's achievement of the 0.7% goal in 2016 was largely due to the fact that it could count the costs for newly arriving refugees. For Germany these costs made up 17% of its ODA spending in 2016/17.[2] In practice, it meant that a significant proportion of ODA funds from Germany have been spent in the donor country (Germany) itself and have not contributed to traditional development activities such as poverty reduction, fight against hunger, health care or education within the poorest or most fragile countries.

Because of these distortions, Germany's government has often been criticized by CSOs for "whitewashing" the figures. In 2017, the 0.7% UN goal was not achieved, partly due to the decreasing number of refugees seeking asylum in Germany and it seems unlikely that this goal will be achieved again in the near future. In fact, the CSO-Platform VENRO predicts that Germany's ODA performance will be less than 0.52% of GNI in 2018.

An examination of the 2018 budget proposed in May 2018 shows promising developments, with an increase in spending on development assistance of €900 million over the 2017 budget. This contradicts the German Government's Mid-term Planning ("MittelfristigeFinanzplanung") proposal that implied that funding for development cooperation would decrease in both 2019 and the following years. New figures for the 2019 budget, presented in July 2018, include an increase in the national development budget, with €300 million being added, bringing the budget to€9.7 billion for 2019.[3] This was accompanied by a proposal to increase the Defence Budget to reach €44 billion (or 1.3% of GNI), which Chancellor Merkel and Defence Minister von der Leyen have confirmed will increase to 1.5 % of the GNI by 2024.

Germany's Government still maintains that it will increase development funding to achieve the 0.7% goal. CSOs and independent development experts are skeptical and have expressed concern that this promise will not be fulfilled. VENRO, Bread for the World, and other Church-

related organizations have published statements and appeals to raise awareness among Members of Parliament and to obtain substantial increases. Otherwise Germany's ODA-funding will fall under 0.5% in 2019, and shrink even more in the years to come.[4]

Development experts have emphasized that there is an urgent need for Germany to substantially increase its development engagement in response to the deep shifts emerging in the financial architecture of the European Union. There is fear that Brexit and UK leaving the Union may be followed by a decrease in development funds. In reaction to this, the EU Commission wants to reorganize its funding system and suggests major shifts in the financial structure for external engagement after 2020.

1. European Commission plans to restructure the EU budget post-2020

From May to July 2018, the EU-Commission published its plans for the next Multiannual Financial Framework ("MFF 2021-2027"), along with related legal documents. According to these proposals, the European Development Fund (EDF) will be integrated into the EU-budget as set out by the MFF. The EDF, together with the Development Cooperation Instrument (DCI), will be merged with other instruments (such as the Instrument for Stability and Peace, the Instrument for Democracy and Human Rights, and the Neighborhood Instrument) to form one single "Mega-Instrument" for external action. The title of the new instrument is "Neighborhood, Development and International Cooperation Instrument" (NDICI). This instrument will utilize the tried and tested instruments for human rights and democracy, stability and peace and aim to control migration. It shall have a budget of €89.5 billion according to the Commission.[5]

1.1. Background: The "Multiannual Financial Framework" (MFF)

With the Multiannual Financial Framework (MFF) EU member states have the power to decide how much money they wish to provide for Community tasks over a seven year's period as well as the maximum amount that should be spent in various policy areas. It serves a framework for the EU's annual budget planning. As member states need to agree unanimously on this framework, extended debate can be expected.

On 2 May 2018, Commission President Jean-Claude Juncker and Budget Commissioner Günther Oettinger unveiled their proposals for the next EU budget post-2020.[6] The Commission recognises that more money must be provided by fewer member states for this Community budget as a consequence of the "Brexit" and UK leaving the Union. The Commission proposes that the 2021-2027 MFF should amount to €1,279 billion (in current prices which consider the inflation until 2027; in fixed prices this is equivalent to €1,135 billion for 2021-2027) – €186billion (approx. 11 %) more than was agreed in the MFF for 2014-2020. Unfortunately, because of both the different calculation methods and the restructuring of the budget headings by the Commission, direct comparison of the proposed items with those adopted for the current funding period is almost impossible.

According to the Commission's calculations, more funding will be allocated for

strengthening the EU's external borders. These changes will include a fivefold increase (to 6,000) in the number of staff employed by the European Border and Coast Guard Agency, FRONTEX, as well as a stronger focus on defence, research and youth. Almost all the other EU programmes will be subject to cuts, including spending on agriculture and structurally weak regions, although these two items will continue to be the largest areas of expenditure, accounting for 34.5% and 29.7%, respectively.

For migration (Asylum and Migration Fund), the Commission has penciled in €10.4 billion, with a further €9.3 billion for an Integrated Border Management Fund. Proposed spending on security and defence is €18 billion, including €13 billion for the European Defence Fund, launched in 2018. These budget proposals are connected to plans for a comprehensive restructuring and refocusing of the EU's financial instruments.

The total amount for external action of the EU will amount to €123 billion, including the new "Neighborhood, Development and International Cooperation Instrument," as well as investments in Humanitarian Aid, Common Security and Defence Policy, Cooperation with Oversees Countries and territories, and Pre-accession Assistance. The Neighborhood, Development and International Cooperation Instrument will be allocated €89.5 billion, with a further €11 billion for Humanitarian Aid, €3 billion for the Common Foreign and Security Policy, € 0.5 billion for Cooperation with Oversees Countries and Territories and €14.5 billion for Pre-accession Assistance.

When Commission President Jean-Claude Juncker and Budget Commissioner Günther Oettinger unveiled their proposals for the next EU budget post-2020 in May 2018,[7] the figures sparked heated debate in the European Parliament. This was partly because the method used for their calculation was very different than previous budgets. Another problem was that many budget lines have been newly arranged and shifted. As an example, in the new Multiannual Financial Framework, the European Commission proposes to merge and restructure previous standalone budget lines, notably the instruments for development, democracy and human rights, and civil conflict management.

1.2. The new "Neighborhood, Development and International Cooperation Instrument"(NDICI)

The new "Neighbourhood, Development and International Cooperation Instrument" (NDICI) willreplace well-established, and hitherto independent mechanisms, such as the European Development Fund (EDF). The latter is not currently part of the EU budget and is replenished separately by member states. It would also affect the Development Cooperation Instrument (DCI), the European Neighborhood Initiative (ENI), the Instrument for Democracy and Human Rights (EIDHR), and the Instrument contributing to Stability and Peace (IcSP). This latter mechanism was established in 2014 to support crisis prevention, civil conflict management and peacebuilding/ reconciliation. It has provided funding for civil society projects around the globe.

1.3. Migration control and "capacity development" for partners' armed forces

The Neighborhood, Development and International Cooperation Instrument is intended to contribute not only to peace, security, development and stability, but it

also has an objective "*to address irregular migration*" and "*fight its root causes*":

> "Migration is a priority which will be identified and addressed across the instrument and in the different pillars, including by drawing on unallocated funds."[8]

The Communication also notes that budgetary flexibility ("rapid-response pillar with worldwide scope") will enable funding to be provided for the *training and equipping of the security apparatus in partner countries*.[9] This expenditure will primarily focus on armed forces in African partner countries that have been specially selected for "Capacity Building for Security and Development," with an emphasis on counterterrorism, organised crime, drug and human trafficking, border management and control of migration. Specific mention is made of the possibility of making fast and flexible use of unallocated funds "to address migratory pressures ... but also to address unforeseen events, stability needs and new international initiatives and priorities". Additional "capacity building" programs in training and equipping military and police institutions will be funded through the "European Peace Facility", an off-budget instrument proposed outside the Multiannual Financial Framework.[10]

Bread for the World views the changes proposed for the NDICI with considerable concern. It worries that long-term funding for mechanisms with good track records for supporting development, civil crisis prevention, and human rights protection will give way to the EU's short-term security interests. It is convinced that development policy should focus on ending poverty and improving social and economic prospects in the world's poorest countries. With this new Instrument there is a strong possibility that funding will primarily benefit countries that are willing to cooperate with the EU on reinforcing borders and controlling migration. This trend is evident in various agreements recently with governments in North Africa and the Sahel region, whose human rights records are problematic.

Another concern is that the new external financing instrument weakens civil crisis prevention and civil society support.

1.4. The new external financing instrument weakens civil crisis prevention and civil society support

Two EU funding lines have been very much appreciated and considered as crucial for the funding of civil society activities, in the view of European CSOs: The Instrument contributing to Stability and Peace (IcSP) and the Instrument for Democracy and Human Rights (EIDHR).

The IcSP[11] plays an essential role in strengthening civil crisis prevention and peacebuilding at the EU level. With this instrument, 273 peace building projects have been funded in 75 countries[12] in many important areas such as for instance conflict prevention, peace and security; early warning and mainstreaming conflict sensitivity; confidence building, mediation and dialogue; economic recovery, reconstruction and rehabilitation after violent conflict; reintegration of ex-combatants; children, youth and conflict; countering violent extremism; culture, media and conflict; electoral assistance; government and civil society; natural resources and conflict; humanitarian mine actions, disarmament of small arms and

light weapons; rule of law and transitional justice; women peace and security and gender mainstreaming. The IcSP has a strong focus on support for CSO activities. A 2017 evaluation of the IcSP rated it as highly effective and successful.

The EIDHR is crucial in funding projects in the area of human rights, fundamental freedoms and democracy in non-EU countries. It was designed to "support civil society to become an effective force for political reform and defence of human rights."[13] It included an emergency fund for "Human Rights Defenders at Risk" (small grants program), and programs for medium and long-term support for human rights organisations. Furthermore, under the EIDHR Human Rights Crisis Facility direct awards could be granted to finance civil society actions in the most difficult situations. Thus, the EIDHR so far has proven to be very flexible and accessible for CSOs working under very threatening and difficult conditions. The EIDHR has provided targeted support for local initiatives, civil society and the media in social dialogue. As a very flexible instrument it can make important contributions to anti-discrimination and protection of human rights activists even in times of crisis.

As mentioned above, the EU Commission plans to dissolve the IcSP and EIDHR and transfer tasks that have been served by these budgets to the new external financial instrument, the NDICI. It is still very unclear how civil society support will be organized within this future Mega-Budget, whether small grants will be available in the future, and whether and how access will be guaranteed also for CSOs that are not operating on an international but on a local level and cannot absorb huge amounts of money or implement very expensive projects.

In June 2018 the Commission published detailed regulations for the various policy areas, including a breakdown of the numbers. The draft regulation for the NDICI foresees a 50% reduction of spending in the area of civilian crisis prevention, post-conflict regeneration and peacebuilding. In the MFF 2014-2020 the "Instrument for Stability and Peace" had a budget of €2.3 billion. In the new Instrument, support for crisis prevention and post-conflict peacebuilding would be less than €1 billion. Given this prognosis, it is unsurprising that some important activities that were funded by the IcSP in 2014-20 will no longer be included in the NDICI draft regulation for the MFF 2021-27. Among these tasks are: transitional justice and dealing with the past activities, social reintegration of ex-combatants and re-socialization of child soldiers, de-mining programmes in post-conflict areas, civilian oversight of the security sector, support for the potential of women in peacebuilding, support for civil society in peacebuilding, and support for peace research.[14]

There is a huge risk that, if the EIDHR and IcSP budgets should disappear as independent funding lines, support for civil society projects will be drastically reduced. It is already very difficult for many CSOs working at the grassroots in regions of crisis to access sufficient funding. Integrating these EU funding mechanisms into a larger general budget line would, without question, reduce CSOs' access even more. Not only would funds be disbursed in much larger tranches but this type of mechanism would also be

unlikely to have the capacity to provide ad hoc support in emergencies.

Given that the scope for civil society engagement is already extremely limited in many countries, it is irresponsible to further curtail these organizations' access to funding. Therefore, Bread for the World views the scrapping of funding mechanisms for civil society, particularly the Instrument contributing to Stability and Peace (IcSP) - which is the only instrument that has been explicitly dedicated to conflict prevention and peacebuilding - as a massive setback. Bread for the World is also critical of the proposal to integrate the European Instrument for Democracy and Human *Rights, which is indispensable as a flexible budget to support human rights defenders,* into the new NDICI framework.

2. Political demands and alternatives[15]

Despite these well-founded concerns, it is important to note that these draft regulations are still in the proposal stage. They must be discussed and voted on by Member States, the Council of the EU, and the European Parliament. The German Government could influence discussions within the Council on the future for the instruments for development, human rights and peacebuilding. The Government should advocate that they be retained as separate funding mechanisms within the MFF, as proposed by European CSOs. Members of the European Parliament (MEPs) should vigorously lobby for this outcome as well.

In addition to Bread for the World, CSOs advocating for these changes include the European Confederation for Relief and Development (CONCORD), the Human Rights and Democracy Network (HRDN), and the European Peace Liaison Office (EPLO). Specifically, CSOs are proposing the following changes:

Maintain the *Instrument contributing to Stability and Peace (IcSP)* and the *European Instrument for Democracy and Human Rights (EIDHR)* as standalone funding mechanisms to support civil/civil society conflict prevention, peacebuilding and the protection of human rights defenders;

- Increase spending on international aid and retain a self-standing financing instrument oriented solely towards development (poverty reduction, education, health, etc.), with the merging of the EDF and DCI if appropriate;
- Achieve 100% alignment of the development instrument with the OECD's ODA spending criteria and ensure compliance with international aid effectiveness principles with a priority given to the LDCs and to safeguarding a geographical balance; and
- Establish scrutiny mechanisms to ensure that development spending is ODA-compliant in all cases and genuinely benefits those in need.

3. Further perspectives and challenges: preventing ODA from being abused for donors' security interest

The EU and most of its member states have placed a strong focus on "migration" (particularly "migration control"). It is important that CSOs and parliamentarians critically examine these policies and guarantee continuous monitoring on development funding. In the past there has been a distressing tendency to

appropriate civilian and development funding instruments to obtain support for migration control and border management in so-called partner countries.

A good example of how funds can be contorted is seen in the recent experience with the IcSP. When it was established in 2014, the Instrument's stated aim was to increase the effectiveness of EU policy in the fields of crisis response, conflict prevention and peacebuilding. The IcSP's wide and ambitious remit was accompanied by a much less modest budget – €2.338 billion for 2014-2020.

Two years later, in July 2016, the EU Commission launched a proposal to amend this Instrument to pay for equipment and training for armies in partner countries.[16] This move was directly contrary to the Instrument's original objective. The following year, in 2017, almost a third of the IcSP funds were earmarked for flexible and rapid crisis response measures and for migration "management" and border protection in Turkey.

The Commission was also eager for IcSP funds to be used for capacity building of armed forces. In response to these demands against a limited budget, the Commission proposed that IcSP budget be increased by €100 million to 2020. One option initially discussed was to draw the full amount from the poverty reduction reserves. In a later proposal the Commission suggested the cash could be obtained from four separate development policy and civil budget lines.

Both the Committee on Foreign Affairs and the Development Committee accepted the Commission's proposal and it was also accepted in the plenary by a majority of the European Peoples Party, the Social Democrats and Liberals. The Greens/ European Free Alliance and European United Left - Nordic Green Left voted against it. It was only due to the pressure from CSOs and a minority of MEPs that the decision was amended by a supplement that appeals to the Commission not to spend money that had been earmarked for poverty reduction on training and equipment for military assistance.

The German Government played a crucial role in the redefining the use of IcSP by the Commission. It supported the Commission's initiative to re-purpose the IcSP for the benefit of the military from the very beginning, and can even be seen as a driving force behind this plan. In 2015, it set up a national budget line to "enhance the capabilities" ("Ertüchtigung") of partner countries' armed forces. It was clearly eager for these types of initiatives to be funded through the EU, which is why Germany and other member states sent a non-paper and letter to the Commission pushing for these changes.

Supporters of the Commission's proposal have pointed out that it does not allow for the supply of arms and munitions. However, the text does not specify the types of equipment that can be provided or its purpose. Given this vagueness, it could include anything from uniforms to IT infrastructure, the establishment of military bases or the provision of an array of equipment used in the waging of war. The Commission's proposal has been justified by citing the threat of instability across entire regions and the need for a "comprehensive" approach to conflict management. The structural causes of conflict, however, are rarely analysed, let alone addressed.

On the contrary, the proposed repurposing of the IcSP points in a very different direction, reflecting the broader trend away from peaceful preventive policy-making that addresses root causes, and towards a primarily military understanding of security.

Over the past decade, the EU has begun to subsidise defence research. The Preparatory Action envelope of the Common Security and Defence Policy opens the way for a joint defence research program with €90 million initially earmarked for this purpose, and a further €500 million per year coming from member states in future.[17] The proposed research program will be flanked by comprehensive agreements on more intensive defence policy cooperation in a so-called "Permanent Structured Cooperation" (PESCO), and "European Defence Fund" already being established by the Commission and a number of member states. The defence industry and its associations have welcomed these moves in general and are particularly poised to exploit the potential new markets which will open up with EU-funded "capacity building" programs.[18]

European CSOs are convinced that peace and security is not created by providing armed forces with better equipment or by mixing budget lines. What is needed, instead, are cross-cutting policies and coordinated action which aims to prevent the escalation of violence and addresses the causes of conflict. In other words, the need is for policies, which give precedence to civil conflict management over the expansion of military capabilities. There is a growing resistance to these trends in the EU, with groups such as the European Network against Arms Trade (ENAAT) speaking out against the use of EU funds for military research and development. The EU, it says, should be a peace project, not a subsidy-generating machine for the arms industry. In the ENAAT's view, EU funds – which are public money - should go to projects that help resolve and prevent conflicts and address their root causes – and do so non-violently.

4. Conclusions

The development community should be highly critical of the re-purposing of development funds for military purposes that – in reality – are fulfilling donors' security interests. They should insist that EU member states interested in providing training and equipment for partner countries' armed forces should do so through multilateral initiatives beyond the EU-budget with additional funding. At the same time, they should clearly state the criteria that they are using to select partners and explain how they intend to ensure that assistance complies with human rights, democratic standards and peace policy. These measures require careful scrutiny and reliable governance structures at the local level. They should not be implemented at the expense of civil conflict prevention and development.

ENDNOTES

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12 For a global overview on issue areas and project descriptions see https://icspmap.eu/

13 See https://ec.europa.eu/europeaid/how/finance/eidhr_en.htm_en. See also Regulation (EU) No 235/2014 establishing a financing instrument for democracy and human rights worldwide for the period 2014-2020; https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0235&from=EN

14 See Martina Fischer, EU-Finanzplanung gefährdet zivile Krisenprävention, Blog, 14.7.2018 https://info.brot-fuer-die-welt.de/blog/eu-finanzplanung-gefaehrdet-zivile

15 Further information and assessments of EU policy are available here https://info.brot-fuer-die-welt.de/blog/dr-martina-fischer

16 See Martina Fischer, EU Development funds to be used for the military, July 5, 2017 https://info.brot-fuer-die-welt.de/blog/eu-development-funds-be-used-military

17 See Martina Fischer, EU-Pläne zur Förderung von Rüstungsforschung, 22 February 2018, https://info.brot-fuer-die-welt.de/blog/eu-plaene-zur-foerderung-ruestungsentwicklung

18 In a position paper dated 20 June 2016, the AeroSpace and Defence Industries Association of Europe welcomed the revision of the IcSP and recommended focusing on border surveillance, counter-terrorism, organized crime and protection of critical infrastructures, based on repurposing part of the development budget. "Up until now," the Association states, "IcSP has funded mainly activities of international organizations, NGOs, Think Tanks, etc. We believe that the natural partner for the supply of EU-funded equipment and services should be European industries." With that aim in mind, it is proposing a "structured dialogue" with industry. See AeroSpace and Defence Industries Association of Europe (ed.), Considerations on 'Capacity building in support of security and development (CBSD) in third countries, 20 June 2016, https://www.asd-europe.org/sites/default/files/atoms/files/ASD_Position_Paper_on_CBSD.pdf

Development cooperation to the test in a new political reality

Luca de Fraia, Action Aid Italy

Overview

A broad reform of Italian development cooperation was introduced in 2014. Since then, its implementation has been progressing in the face of global and national challenges as well as policy and budget constraints at the domestic level. Because this reform was long overdue, it was welcomed as a positive change to align Italy with current trends in development cooperation. There has also been an increase in the level of Italy's aid, but at the same time in-donor refugees costs have also gone up and thus played a significant role in these increases.

Development cooperation policies reflect the political environment in both Europe and Italy. Italy's general elections in 2018 ushered in a new political reality, one that has brought together former political foes the Five Stars Movement and the League. Such an unprecedented alliance has found common ground in an anti-establishment narrative and populist agenda. A core piece of this political alchemy is a strong message against refugees and migrants as well as the NGOs that support them.

Italian development cooperation seems to have come to another turning point with a load of unexpected challenges. NGOs have found themselves at the center of a public debate where their roles and accountability are being questioned. This is an abrupt change from previous perceptions of charity operations. Will NGOs survive? And, more importantly, will development cooperation weather the storm and stay true to its core principles and values?

Major changes

According to the DAC preliminary figures for 2017, Italy's ODA was 0.29% of its GNI, which is on track with the 0.30% target agreed to internally for 2020. As a member of the EU, it has committed to reaching the 0.7% target within the time framework of the Agenda 2030, which, as noted by CSOs, implies postponing the original agreements by another 15 years.

Italian ODA is largely inflated according to the CSO methodology that reviews donors' performance to assess their 'real aid'. Such inflation is not new for Italy. In the 2000s, the country's performance significantly reflected debt cancellation agreements. While this responded to a global cry for debt cancellation, it also served donors as it allowed them to increase their ODA in relation to debt obligations, which often would never have been paid.

Since 2011, inflation of Italy's ODA is primarily a function of **in-donor refugee costs** (IDRCs). With the Arab Springs and the regime change in Libya in particular, more and more refugees have fled their home countries to launch a trek to Europe across the Mediterranean Sea. For many, Italy is the first port of a call.

The numbers speak for themselves. In 2017 (the latest year for data), Italy's total ODA was US$5.7 billion of which US$1.8 billion was absorbed by in-donor refugees costs, namely 31% of the total. Such numbers for 2016 were similar, accounting for 32.7% of total aid and 68% of the bilateral streams. Thus, Italy is the first beneficiary of its own ODA. Refugee costs are likely to account for more than 40% of total aid in 2018. In terms of budget arrangements, it is important to note that the resources to cover IDRCs sit within the Ministry of Interior. Even if this is not a case of diversion, this a blatant example of aid inflation, which casts doubt as to Italy's capacity to meet the agreed targets in case of a different political scenario (domestically and globally) that leads to a reduced number of migrants or diminished assistance during their stay in Italy.

There is no formal policy that conditions ODA allocations to partner countries' obligations in the area of migration and security. But because of its position and the recent high number of refugees entering the country, Italy was one of the most vocal players at the EU level regarding new approaches based on *migration compacts* with partner countries (April 2016). The expectation was that various policies and instruments would be bundled together by EU donors in order to gain partner countries' support and assistance to manage migration. These approaches have been reflected in many elements of the new EU Consensus on Development (2017) and, before that, in the EU Africa Trust Fund (2015). Notably, Italy established its own Africa Fund in 2017, where development and other interests were merged in one instrument.

In terms of geographic allocations, the largest slice of Italy's aid goes to Sub-Saharan countries: 38% of the gross flows with specific regional targets, according to the DAC data for 2015/2016. Italy's performance lags behind on **Least Developed Countries (LDCs) with only about 0.05% of its GNI targeted to these countries in 2015/2016**.

There is some good news to consider. In fact, while the overall ODA landscape has been steadily influenced by migration management policies and the related political agendas and tensions, the Italian development cooperation system is going through some positive changes.

The vast reform program that was introduced in 2014 (Law 125/2014) is now delivering on its promises. The new **Italian Agency for Development Cooperation Agency (AICS)** began its operations in 2016.[1] It has been progressing by developing its own policies and structures, including local offices in partner countries. National budget allocations for the Agency reached 488 million Euros for 2018, up from 392 million Euros in 2017.

Regarding **stakeholders**, **CSOs** are officially acknowledged as *subjects* (or actors) of Italian development cooperation according to the sector legislation of 2014. Norms that regulate access to Agency funds were revised in 2017 to better acknowledge the variety and richness of the CSO community beyond the traditional role of development NGOs. It is worth noting the prominence and the space given to migrant diaspora organizations, which are acknowledged as development actors in their own right. Through the National Council for Development

Cooperation, CSOs have a consultative role in the planning process. As well, the Agency contacts them on regular basis to discuss policy and regulative issues. Core support to national CSOs has increased from 94 million Euros in 2014 to 137 million Euros in 2016, according to the Agency's reports.

Private companies can also be part of the development cooperation system on the condition that they operate in a manner that is consistent with global human rights standards; the sector legislation makes provisions for soft loans to foster partnerships with companies from Partner countries. The *subjects* of the Italian development cooperation system from CSOs to private companies, from academia to national Ministries and local governments – are consulted through the National Council and its working groups, which are directly managed by the non-executive actors.

A **financial development facility** has been accommodated within *Cassa Depositi e Presititi*- a publicly owned financial institution, managing postal savings – with the ambition to mobilize resources from the private sector including through blending operations and partnerships with the European institutions and facilities to this end. Financial support for the private sector and blending are areas of business still in their early stages.

In terms of **aid effectiveness**, the most comprehensive data on forward spending is reported in a dedicated *addendum* to the annual budget law. It provides information on allocations to development cooperation for the following three years (e.g. 2018 to 2020) from all relevant ministries, from Foreign Affairs to Interior. This addendum was introduced with the sector reform of 2014. On actual expenditures, a report is presented annually by the operational structure to an Inter-ministerial Committee on Development Cooperation, which should also consider policy coherence. Work to improve transparency include an association with the International Aid Transparency Initiative (IATI) as well as new website to disseminate information on funds and projects in a timely manner.[2] Notably, CSOs have launched their own transparency initiative[3]with the aim of providing the most comprehensive picture of their activities and working structures.

Current legislation (L. 125/2014) incorporates provisions for development cooperation projects to be based on **local procurement** as the first option. This is in accordance with international regulations and the EU frameworks to ensure effective standards. There is an explicit reference to the principle of **country ownership**. In some countries, Italy participates in the Joint Programming of the EU and in others, the Italian Agency of Development Cooperation drafts country programs with partner governments.

The way ahead: development cooperation at the centre of a political storm.

The 2018 general elections significantly changed the national political landscape. On June 1st, a new Government was sworn in by a new Parliamentary majority. The new coalition comprises political parties and movements that struggled against each other during the electoral campaign and openly proclaim their populist and nationalist agendas. The outgoing legislature, which generated such a dramatic turnaround, embraced a season of reform for some social sectors, including

development cooperation; the contrast between the two governments has left many with a strong sense of bewilderment and concern about the future.

Despite the apparently rosy scenario of the reforms of the years 2013 to 2018, radical changes were in the making with the political landscape moving quickly and deeply. The migration crisis had been brewing since 2011. The political implications from this crisis, coupled with the long-term impact of the economic crash of 2007/2008, have been significant. At the EU level, the response was far below what was required, which exposed the weaknesses of the European partnerships. As tensions reached their peak, CSOs found themselves at the centre of the storm. Beginning in April 2017, they became caught in the middle of a political and media campaign led by groups that are now holding the rein of power.

During this period (2017 onwards), the smear campaign against CSOs was considerable. They were called "the taxi of the sea", or "migrant taxi", with the inference that they were colluding with migrant traffickers, although there was no evidence to prove such allegations. The government in place at the time reacted by introducing a Code of Conduct on search and rescue, which implied that CSOs were at least partially culpable. Now, with a new government in place, the demonization of CSOs continues to be a recurring preoccupation in political debates.

For the future, it is expected that Italy's performance will get closer to the nationally agreed ODA/GNI performance targets with a significant proviso. According to the official projections, Italian ODA is likely to remain highly inflated with the in-donor costs related to the management of refugees. Given the dramatic change in the political landscape, it will be crucial to closely monitor any change at the government level, which will have an impact on development cooperation, including priorities and resources. Thus, it is important to prioritize efforts to ensure that:

- ODA volumes stay on track to realize the agreed-upon calendar of increases, including the achievement of 0.30% by 2020. Just as important is the new intermediate goal for 2025 on the road to 0.7% by 2030;
- A new effectiveness plan is established that comprises ODA and a wide array of development cooperation modalities and actors as well as finance for development;
- Provisions from the sector legislation (L.125/2014) that institutionalize space for CSOs and other stakeholders are upheld including recognition that CSOs should be consulted on key decisions such as multi-year plans and programmes;
- Development cooperation is not seen or used as a stop-gap to stem migration flows to Italy and Europe. This requires a multi-level approach from cooperation to search and rescue to integration policies; and
- Decisions on the EU multi-year budget for 2021 – 2027 respect the integrity of development cooperation and protect it from attempts to use it to address short-term issues in security or migration.

ENDNOTES

1 See -https://www.aics.gov.it/language/en/

2 Seehttp://openaid.aics.gov.it/en/

3 See https://www.open-cooperazione.it/web/

Emphasizing SDGs but Increased Instrumentalisation Under the New Development Cooperation Charter

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Overview

- According to the OECD-DAC preliminary ODA figures for 2017, Japan's ODA in 2017 was US$11.48 billion, representing a 13.9% increase from 2016. This accounts for 0.23% of Japan's GNI, up from 0.20% in 2016.[1] Although this is far below the internationally agreed target of 0.7% Japan is, nonetheless, the fourth largest donor among the members of the DAC.
- The main characteristics of Japan's ODA are as follows: 1) geographically it is focused on Asian countries; 2) sectorally, economic infrastructure and other growth-oriented actors are emphasized; and 3) loan modalities are a major modality. While these approaches have been criticized by CSOs, they have not changed significantly since the first *Reality of Aid* report was released in 1993.
- The current policy framework for Japan's aid is the Development Cooperation Charter, approved by the cabinet in February 2015. It was a revision of the 1992 ODA Charter, which was later revised in 2003. When the process for the second revision started in March 2014, the Ministry of Foreign Affairs (MoFA) made it clear that the new Charter should be aligned to the Abe government's security policy, announced in December of the previous year, as well as Japan's economic revitalisation plan. In other words, the amendment of the ODA Charter was aimed at further instrumentalising aid for Japan's security and commercial interests. At the beginning of the process, the Vice Foreign Minister said, "ODA will play a role in security-related fields."[2] In JANIC's chapter to *Reality of Aid 2016* it was noted that CSOs had three major concerns with the new Charter: 1) securitisation of aid; 2) dominance of growth-centered vision and 3) (re) commercialisation of aid.[3]

In the past three years since the new Charter was announced, what has really taken place? This chapter focuses on how a growth-centered view is reflected in Japan's ODA policy and allocation. It also examines how aid policy and programs have been instrumentalised for the country's security and commercial self-interests.

SDGs and Japan's Aid Policy

Following the adoption at the UN General Assembly in September 2015 of Agenda 2030, including the SDGs, the MoFA and the Japan International Cooperation Agency (JICA), the implementing agency for Japan's ODA, emphasized Japan's role in implementing the SDGs. While this commitment is welcomed, a major concern is that their views on SDGs are too growth-centered, as noted in JANIC's chapter in *The Reality of Aid 2016*:

> "While the 1992 and 2003 Charters both had poverty alleviation and

> growth as priorities, the new one puts forward "'quality growth' and poverty eradication through such growth. The new Charter maintains that "quality growth" must be inclusive, sustainable and resilient, but these statements give the impression that the assumption is that growth is the priority and poverty reduction is the result of growth."[4]

An examination of MoFA and JICA publications reveals that their views on SDGs reflects Japan's emphasis on "'quality growth' and poverty eradication through such growth," rather than directly addressing conditions affecting poverty eradication. This view is reflected in the sectoral allocation of Japan's ODA – more than half of Japan's ODA goes to economic infrastructure -- which will be described later in this chapter.

The Japanese Government's 2017 Annual Report on ODA (published by MoFA) has a section on roles Japan's ODA has been playing in achieving the SDGs. It highlights the fact that Japan has mainstreamed SDGs both in domestic and international cooperation policies covering issues such as climate change, universal health coverage and peace-building. The Report elaborates details on Japan's aid programs, including aid for infrastructure and human resource development, support for sectors such as health and population, water and sanitation, quality education as well as the empowerment of women. But, this section is titled "Quality Growth and Poverty Eradication through Such Growth," and its preface emphasizes that while it must be inclusive and sustainable, growth is an indispensable premise for poverty eradication.[5]

In September 2016, "*JICA's Position Paper on SDGs: Toward Achieving Sustainable Development Goals*" was launched. That JICA produced a paper on SDGs is significant. The paper maintains that SDGs are consistent with JICA's philosophy of "realizing 'human security' and 'quality growth' in order to contribute to peace, stability, and prosperity of the international community."[6] JICA, however, cautions that there are differences between SDGs and Japan's aid philosophy:

> "The SDGs do not clearly specify the securing of diversity with respect for each country's cultural and social values. Japan has experiences of supporting various development patterns respecting partner countries' different cultural and social values, which should be further strengthened from the viewpoint of peace, stability and prosperity of the international community."[7]

It is not clear what this qualification really means in practice. Depending on the interpretation of "respecting each country's cultural and social values," it could undermine the universality principle of Agenda 2030.

JICA also describes its "scenario" for achieving the SDGs by merging the seventeen goals into the following five, while also arguing that the seventeen goals are indivisible:

1. Goals that JICA contributes through comprehensive response: Goals 1 (End poverty), 5 (Gender equality), 10 (Reduced inequalities), and 16 (Peace and governance);
2. Goals that JICA approaches as core development areas: Goals 3 (Health),

4 (Education), 2 (End hunger) and 6 (Water and sanitation);
3. Goals that JICA plays the key role: Goals 2 (End hunger), 3 (Health), 4 (Education), 6 (Water and sanitation), 7 (Energy), 8 (Economic growth), 9 (Industry and infrastructure), 11 (Sustainable cities), 13 (Climate actions), and 15 (Forests and biodiversity);
4. Goals that JICA considers necessary means of implementation: Goal 17 (Partnerships); and
5. Goals that JICA plays a catalytic role working with civil society and the private sector: Goals 8 (Economic growth) and 12 (Sustainable consumption and production)

It could be questioned why Goals 1 (End poverty), 5 (Gender equality) and 16 (Peace and governance) are not considered as "key" or "core" development areas (SDGs in area two above). It gives the impression that instead of directly tackling poverty or gender equality, they will be mainstreamed and achieved as results or by-products of efforts in the four "core" or ten "key" goals.[8]

Regarding Goal 5 (Gender equality), 37% of Japan's ODA was directed to support gender equality and women's empowerment, only slightly less than the DAC average of 40%. But if we look at aid with gender equality and women's empowerment as the *principal objective*, while the DAC total is 4.4%, for Japan it is only 0.8%.[9] Given the critical importance of gender equality, why would JICA not add Goal 5 in its "key" or "core" areas to enhance Japan's efforts on gender equality?

In MoFA and JICA policy papers, little attention is given to human rights-based approaches (HRBA). MoFA's publications mention human rights as important values but there are few references to HRBA. JICA's position paper on SDGs says nothing about human rights.

Aid Volume in 2017

Around the time the first *Reality of Aid* report was published in 1993, Japan was the largest donor among the OECD-DAC members. But since 2001 and the government's decision to cut the aid budget because of a budget deficit, Japan's aid volume has generally been in decline.

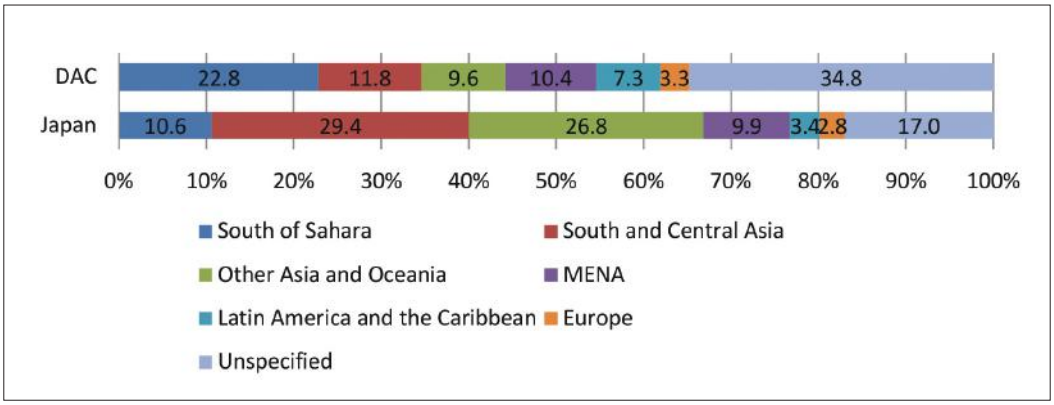
According to the DAC preliminary figures for 2017, set out in April 2018, Japan's ODA in 2017 was US$11.48 billion, representing a 13.9% increase from 2016. This level of aid accounts for 0.23% of Japan's GNI, up from 0.20% in 2016 but far below the internationally agreed target of 0.7%.[10] The OECD says that the increase was "due to an increase in its bilateral aid to least developed countries as well as loans."[11] Whether other factors contributed to this increase is unknown as up to date statistics from the OECD or the Japanese government are not yet available.

Aid Allocation

Geographically, Japan's has emphasized aid for Asian countries. As shown in Figure 1, Japan allocates over 55% of ODA to Asian countries. While DAC members allocate 22.6% for Sub-Saharan Africa, Japan provides only 10.6% of its aid to the sub-continent.

The top ten recipients in 2015-16 were countries in Asia: India, Vietnam, Bangladesh, Iraq, Indonesia, Myanmar, Philippines, Afghanistan, Thailand and Pakistan. Distribution for LDCs was only 20.8% (gross disbursement). However,

Figure 1 Geographical Allocation of Japan's Aid Compared with Total DAC (2015-16: Gross Disbursment)



Source: OECD Development Finance Data

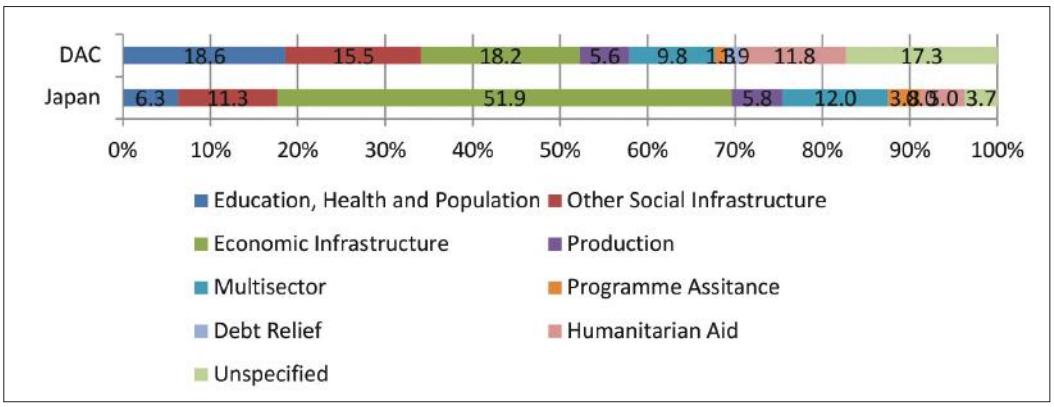
according to the OECD, it is likely that this figure went up in 2017.

Sectorally, most DAC members emphasize aid for social development sectors such as health, education and population as well as other social infrastructure, especially government and civil society. Japan's emphasis has always been on economic infrastructure such as transportation, communication and energy. In fact, the share of aid for economic infrastructure has been increasing in the past few years. In late 2000's and early 2010's, it was around 40%, while in the last few years it has been over 50%. This may be the result of the recent government's emphasis on "'quality growth' and poverty eradication through such growth."

Only 27.2% of Japan's ODA was provided as grants. In contrast, 77.2% of DAC members' aid was given as grants and the percentage of grants was over 95% for 21 countries, including 13 countries that provided all of their aid as grants.

In Reality of Aid, 1993, JANIC criticized Japan's aid program as being both too

Figure 2 Sectoral Allocation of Japan's ODA Compared with Total DAC (2015-16: commitment)



Source: OECD Development Finance Data

focused on Asia and on growth-oriented sectors rather than sectors directly related to poverty reduction. It also stated that the share of loans was too great.[12] Sadly, throughout the 25 years history of the Reality of Aid, the writers of the country report of Japan, have continued to raise this issue, with little or no change.

Instrumentalisation of Japan's Aid

An examination of the ODA policy of the Abe government (in office since December 2012) reveals that aid has strongly aligned to the government's security and domestic economic policy.

Securitisation of Aid

Among the four principles of the ODA Charter (approved by the Cabinet in 1992 and revised in 2003) was "any use of ODA for military purposes or for aggravation of international conflicts should be avoided." In the second revision of the Development Cooperation Charter, approved in February 2015, the idea of avoiding the use of aid for military purposes was retained. However, a sentence was added to open ways to possibly support for armed forces or members of armed forces in recipient countries:

> Avoidance of any use of development cooperation for military purposes or for aggravation of international conflicts: Japan will avoid any use of development cooperation for military purposes or for aggravation of international conflicts. In case the armed forces or members of the armed forces in recipient countries are involved in development cooperation for non-military purposes such as public welfare or disaster-relief purposes, such cases will be considered on a case-by-case basis in light of their substantive relevance. (Emphasis added by the author)[13]

Despite the Vice Foreign Minister's acknowledgement that aid would play a role in security-related fields, after parliamentary debates, the final 2015 Charter only allows aid for armed forces or their personnel in cases of public welfare or disaster-response purposes. However, CSOs are concerned that there is potential for the government to expand the scope of its military-related aid. CSOs also fear that equipment provided for non-military purposes could be converted for military purposes in the future.

In the past three years under the new Charter, there have been cases where ODA was provided for projects involving the armed forces or their members of the recipient countries. For the most part, these were projects related to disaster prevention although there have also been several big projects that support the marine coast guards in several Asian countries.

At the ODA Policy Council of the NGO-Ministry of Foreign Affairs Regular Consultation Meetings in July 2017, securitisation of aid was one of the issues discussed.[14] MoFA disclosed a list of aid projects and programs that involved the recipient country armed forces or their members and another list of major projects and programs related to anti-terrorism, public security and maritime security.[15]

According to the MoFA's list, there have been 23 projects and programs that have involved recipient countries' military or their personnel after the Charter was announced in February 2015. Several analytical points are apparent from this list:

- Twelve (12) of the 23 projects and programs have been aimed at disaster prevention;
- In twenty (20) out of the 23 projects and programs, military personnel were part of the participants in training programs, or the military was part of the beneficiaries among various ministries and departments involved;
- In the three cases where the military was directly supported, two gave assistance to the Military Band of Papua New Guinea (PNG). In another case the military was in charge of disaster prevention; and
- Three projects in Indonesia and Malaysia aimed to support the coast guard in its capacity for information gathering, and military members were included among the participants. This support could possibly aggravate geo-political tensions in the South China Sea.

To date, the principle of avoiding Japan's aid being used for direct military purposes, or the aggravation of international conflicts, has been observed. But it is important to continue monitoring this area, to ensure that the government does not expand the scope of its military-related aid or that the equipment and knowledge provided for non-military purposes through aid is not converted or used for military purposes in the future.

The list of major projects and programs related to anti-terrorism, public security and maritime security included the names of 32 initiatives in 16 countries. Most of the projects for African countries (Côte d'Ivoire, Nigeria, Mali, Mauritania, Kenya and Rwanda) and two MENA countries (Jordan and Morocco) were for public security. Included in the Nigerian plan was a project to prevent human-trafficking. Projects for countries in South Asia (Bangladesh, Sri Lanka, Pakistan and Maldives) entailed several objectives: anti-terrorism, anti-piracy, maritime safety and security and prevention of crimes such as drug trafficking. All projects related to anti-terrorism, public security and maritime security in the above-mentioned countries were supported through either financial grants or technical cooperation.

The most controversial initiatives are probably the loan projects to Vietnam (signed in June 2017 for 38.4 billion Yen (US$350 million) and to the Philippines (October 2016 for16.5 billion Yen (US$150 million). In both cases, patrol boats were provided to enhance the capacity of these countries' coast guards in maritime law enforcement, again potentially compounding tensions in the South China Sea.[16]

When the discussion to revise the Development Cooperation Charter were initiated in spring 2014, there was a media report that the intention of the Abe Government was to lift the ban on the use of ODA for military purposes. One example given was the support to the Philippines and Vietnam (both having territorial disputes with China) to construct military-civilian ports.[17] These intentions were later denied by the government.

In the case of Vietnam, the coast guard was part of the navy until 2013 when it was reclassified as an organization independent of the military. According to a media report, it was Japan that proposed this restructuring as a way of getting around the previous Charter ban on support to the military.[18] During the process of the 2014-15 revision of the Charter, there was a speculation that one reason why the Abe government wanted aid to play roles in

military-related fields is to prevent a similar situation – asking the recipient countries to restructure their governmental agencies – in happening again.

In November 2016, the governments of Malaysia and Japan signed an Exchange of Note, which granted two patrol vessels used by the Japan Coast Guard (scheduled to retire) to the Malaysian Maritime Enforcement Agency (MMEA) and to provide grant aid aimed at contributing to the improvement of maritime safety and security.[19] While the aid is described as part of ODA, the provision of the two patrol vessels is not.

Vietnam, Philippines and Japan all have ongoing territorial disputes with China. Malaysia, too, is a country that faces the South China Sea. Japan considers China a threat and responding to China's growing influence in the region has been a key priority of Abe's government foreign policy. The provision of patrol ships to Vietnam and the Philippines as well as the grant to Malaysia could be seen as an indication that Japan's ODA is increasingly aligned to its security interests. In its relations with the Philippines and Vietnam, it should be noted that, although it will not be counted as ODA, the Abe government has been expanding technical cooperation and the provision of equipment to the militaries of both countries.

(Re)commercialisation of Aid

1. Issues relating to Tied Aid

In the early days of Japan's aid program, up until the 1970's, government policy documents explicitly stated that the major objective of the country's aid programs was to promote Japan's export and investment: commercial self-interest was unapologetically dominant. At one point, more than 95% of Japan's bilateral aid was tied to Japanese suppliers. Following criticisms of the country's huge trade surplus, Japan started to untie its aid. In the mid-2000's, DAC statistics (which excludes technical aid) demonstrated that 90% to 95% of Japan's aid was formally untied, approximating and sometimes above the DAC donor overall performance.

But this performance was not sustained. The business community has always been advocating for the government to increase tied aid. In 2016, as a result of increased pressure, 77.4% of Japan's ODA was untied, 12.4% tied. Japan did not report the tying status of 10.2% of its aid.[20]

There are also issues with how the Japanese government reports to the DAC on the tying status. According to the *DAC Peer Review Report* in 2010:

> "Japan considers a project to be untied even if it requires the primary contractor to be Japanese. It justifies this on the grounds that the primary contractor is the project manager and is able to sub-contract freely. However, where primary contractors have to be Japanese and can act as both agents and suppliers of goods or services (including management) Japan should report such aid as tied."[21]

As of yet the Japanese government has not taken any measures to respond to this recommendation.

Another issue is the STEP Yen Loan scheme (Special Terms for Economic Partnership). According to JICA, "STEP was introduced in

July 2002, with a view to raising the visibility of Japanese ODA among citizens in both recipient countries and Japan through best use of advanced technologies and know-how of Japanese firms."[22] Although the interest rate is much lower than for ordinary yen loans, it is *tied* to the procurement of Japanese goods and services.

Notably, an increasing number of large STEP projects have recently focused on the transportation sector. Examples include:

- Improvement of the Philippine National Railway and construction of the subway in Metro-Manila;
- Improvement of roads in Metro-Manila;
- High-speed train construction in India;
- New airport terminals in Hanoi and Ulaanbaatar; and
- Improvement of the commuter train system in Jakarta

The 2010 *DAC Peer Review Report* raised concerns about STEP loans, saying that they "can act as an incentive for partner countries to choose tied conditions." The Report recommended "Japan should ensure that its untied loans are as favourable as its tied loans. Further roll out of the STEP scheme could also threaten the progress Japan has made in untying. If Japan is to untie further, it will need to phase out STEP loans."[23]

The 2014 *DAC Peer Review Report* recommended, "Japan should look for opportunities to reverse the decline in untied aid." Japan was criticized for not implementing the recommendations around tied aid presented in the 2010 review. Concerns raised in the 2014 review around tied aid include the following:

- Although reporting the tying status of technical aid is not mandatory, most DAC members do. Japan does not. Since there is an agreement that all members should report the tying status of all aid, Japan should report the tying status of its technical aid.
- Despite the 2010 recommendation Japan, still reports to the DAC aid as untied that must be procured through Japanese prime contractors.[24]

From a CSO perspective, Japan's aid should be untied, and there should be a fundamental reconsideration—including complete termination -- of the STEP scheme. CSOs also maintain that Japan should follow the DAC peer review recommendations regarding tying status reporting.

2. Development Cooperation Charter

At the beginning of the 2014/15 process to revise the ODA Charter to the new Development Cooperation Charter, "*Japan's Revitalization Strategy*" was presented as a justification and foundation for the new Charter, although not explicitly stated in the final version. Among the Charter's basic policies and principles, "dialogue and collaboration based on Japan's experience and expertise" and "cooperation that takes advantage of Japan's strength" were identified. Use of Japan's experience and expertise is common to the idea behind the STEP. While the Development Cooperation Charter does not mention STEP, new commitments for STEP loan projects were significantly increased in FY 2015; from 90 billion Yen (US$800 million) in the previous year to 831 billion Yen (US$7.5 billion). However, it dropped to 134 billion Yen in FY 2016.[25] It will be

important to monitor whether the new Development Cooperation Charter will bring about mid and long-term increases of STEP loan projects.

Also, noted in the previous JANIC's chapter in *Reality of Aid 2016*, the new Charter refers to the possibility that Japan would be "proactively presenting proposals while giving full consideration to policies, programs and institutions" of developing countries. The Japanese government has always maintained that its aid is implemented under the "request-based principle." Instead of Japan's aid agencies proactively proposing projects or programs, they respect the requests by partner countries' governments, thereby respecting ownership of developing countries. Ironically, given the current increased global consensus on developing countries' ownership for development effectiveness, the Japanese government, as a result of pressure from the business community, now talks about a donor's proactive proposal.

In addition to the Charter, the JICA's SDGs position paper also refers to the utilization of Japan's knowledge and experience in achieving the SDGs.[26] While not to reject this idea all together, it is important to note that it was proposed by the business community as one way to align Japan's aid with its commercial interests. Depending on how Japan's knowledge and skills are practically utilized, this approach could prove to be at odds with the ownership principles repeatedly agreed at a series of high level forums and meetings on aid and development effectiveness in Accra (2008), Busan (2011). Mexico City (2014) and Nairobi (2016).[27]

Climate Change and Japan's ODA

MoFA's annual report on ODA in 2017 emphasized that Japan plays an important role in tackling climate change.[28] In the DAC annual report, Japan is named as one of the countries that has "maintained strong financial commitment to the environment and climate change." In 2015, 52.7% of bilateral allocable aid supported the environment (DAC average: 33.2%), and 48.8% focused on climate change (DAC average: 26.2%).[29] While this is commendable, the other reality is that Japan has been criticised for supporting coal-fired power plants in emerging economies such as Vietnam and Indonesia.

In early 2018, the Advisory Panel to the Foreign Minister on Climate Change was organized. In its final report, the Panel recommended that "Japan should focus on energy efficiency and renewable energy deployment for providing support to developing countries. Japan should aim for the immediate end to the public assistance for the export of coal-fired power."[30] The report noted that this would be consistent with the world's trend to focus on renewable energy.

Conclusion

The Japanese government has been emphasizing the SDGs in both domestic and international aid policies. However, in reality, the policies and approach of Japan's aid agencies on the SDGs and Agenda 2030 have tended to stress "quality growth" and view poverty eradication as the by-product or result of "quality growth." The reality is, that under the new Development

Cooperation Charter, announced seven months before the adoption of Agenda 2030 at the United Nations, Japan's aid programs have increasingly been instrumentalised for security and commercial objectives.

Instrumentalisation of aid is also part of Japan's response to China's growing influence particularly its "Belt and Road" strategy, which is considered by Shinzo Abe's government as a security threat. Commercialisation and securitisation of Japan's aid could be considered as a response to the economic dimensions of this Chinese strategy in the region. The increase of STEP loans in the transportation sector in Asian countries is particularly relevant as it is a measure that competes with an increase in China's tied aid in the same sector and the same countries.

Aid should not be seen as an instrument that competes with or counters the strategies of a neighboring country that is increasing its influence in terms of both military and economic power, and is also emerging as an aid donor. From the CSO perspective, aid policies should focus on action plans to achieve the SDGs, while emphasizing principles that aim to end poverty, leave no one behind, promote environmental sustainability, gender equality and human rights-based development. A fundamental shift in Japan's aid policy is indispensable to achieve these goals.

ENDNOTES

1 OECD, "Development aid stable in 2017 with more sent to poorest countries," Press Release, 9 April 2018.

2 *Asahi Shimbun*, April 1, 2014.

3 Akio Takayanagi, "Japan: Recent Trends in Aid Policy and Technical Cooperation," *The Reality of Aid 2016*:

4 Ibid.

5 MoFA, *White Paper on Development Cooperation 2017: Japan's International Cooperation.*

6 JICA, "JICA's Position Paper on SDGs: Toward Achieving Sustainable Development Goals," 2016.

7 Ibid.

8 This paper maintains that Japan's efforts in ODA in gender equality and governance have not been good. In 2015, 41.2% of Japan's bilateral aid had gender equality and women's empowerment as a principle and significant objective, above the DAC average 36.3%. But only 1.5% of aid had gender equality as a principle objective, far below the DAC total of 5.0% (OECD, *Aid in Support of Gender Equality and Women's Empowerment: Donors Charts*, 2017.). Also allocation of Japan's ODA to government and civil society was only 2.1% while the DAC total was 9.6% in 2016. (OECD, "Development Finance Data.")

9 OECD, *Aid in Support of Gender Equality and Women's Empowerment: Donor Charts*, 2018.

10 OECD, Press Release, 9 April 2018, op.cit.

11 Ibid.

12 Akio Takayanagi, "Japan," *The Reality of Aid: An Independent Review of International Aid*, 1993.

13 Government of Japan, "Development Cooperation Charter: For Peace, Prosperity and a Better Future for Everyone," 2015.

14 In Japan, regular policy dialogues between CSOs and Ministry of Foreign Affairs (MoFA), and Japan International Cooperation Agency (JICA: the implementing agency of Japan's ODA programs) have been institutionalized

since the late-1990s. The "NGO-Ministry of Foreign Affairs Regular Consultation Meetings" has two subcommittees: ODA Policy Council and the Partnership Promotion Committee. The former discusses aid policy while the latter focuses on MoFA's support schemes for CSOs. Both meet three times a year in addition to a general meeting held once a year. The NGO-JICA consultations are held four times a year.

15 Although it is only in Japanese language, the list is accessible on MoFA's website.

16 Press releases on the two projects (http://www.mofa.go.jp/press/release/press4e_001617.html and http://www.mofa.go.jp/press/release/press4e_001323.html: accessed 27 February 2018.)

17 *Asahi Shimbun*, 1 April 2014.

18 *Sankei Shimbun*, 8 May 2013.

19 http://www.mofa.go.jp/press/release/press4e_001355.html (accessed 27 February 2018)

20 OECD Development Finance Data.

21 *OECD Development Co-operation Peer Reviews: Japan: 2010*. p.21.

22 https://www.jica.go.jp/english/our_work/types_of_assistance/oda_loans/step/index.html (accessed 23 March 2018)

23 OECD Development Co-operation Peer Reviews: Japan: 2010. p.70.

24 OECD Development Co-operation Peer Reviews: Japan: 2014. pp.60-61.

25 https://www.jica.go.jp/activities/schemes/finance_co/about/step.html (accessed 24 March 2018. In Japanese language)

26 JICA, op.cit.

27 Akio Takayanagi, "Japan: Recent Trends in Aid Policy and Technical Cooperation," op.cit.

28 MoFA, *White Paper on Development Cooperation 2017*, op.cit.

29 OECD, *Development Co-operation Report 2017*.

30 Advisory Panel to the Foreign Minister on Climate Change, "Recommendations on Energy: Promote New Diplomacy on Energy through Leading Global Efforts against Climate Change," 2018. (http://www.mofa.go.jp/mofaj/files/000335204.pdf: accessed 13 April 2018)

The Netherlands: A mixed message on ODA

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Key messages

- Official Development Assistance (ODA), which began to decline in 2010, has now reached an all-time low;
- In 2017 The Netherlands provided 0.6% of its GNI towards ODA. This represents the lowest performance for Dutch aid since 1974;
- Dutch GNI has seen its highest growth in a decade, growing at about 3% for the last 2 years;
- A new center-right government was installed in October 2017;
- The new Government has agreed to increase ODA investments with €1.8 billion in the coming 4 years and to correct ODA upwards[1], given The Netherlands' strong economic growth;
- While this marks an important turning point, Dutch ODA performance is projected to continue to decline until 2022 with an expected drop to 0.54%;
- The aid decline is a result of a structural aid cut of €1 billion annually. This policy was adopted by the Rutte 2 Government in 2013. Indirect aid cuts have also had an impact;
- Aid diversion to in-donor refugee costs is a concern but has been brought to a halt;
- About half of the ODA allocated towards The Netherland's private sector instrument, is made available to Dutch businesses

1. Overall ODA trend: The Dutch 2017 ODA budget at its lowest point since 1974

Since 2010, Dutch ODA has sharply declined (Figure 1). This decline is the result of a deliberate policy agreement to cut ODA by two consecutive governments led by Prime Minister Mark Rutte, the so-called RutteI and Rutte II Governments (2010-2013, 2013-2017). The most consequential cut to ODA, €1 billion annually, was implemented in 2013 by the Rutte II cabinet, a coalition of the Center-Right Liberal Party of PM Rutte and the Dutch Labor Party (PvdA).

This policy change was underpinned by a lack of a political commitment to public development finance and development cooperation as a policy instrument. Under pressure from populist parties on the right, the Rutte 1 and 2 Governments promoted a view that development aid was no longer needed and private development finance and private sector development were better suited to help the poorest countries progress.[2] The policy yielded to development skeptics who insisted that effectiveness of Dutch aid and the development programming it finances could not be guaranteed and therefore it was time to scale down development cooperation.

Up until 2010, The Netherlands had a reputation as a generous and supportive donor, contributing 0.8% and more of its GNI to ODA. The rise of populists within and outside mainstream political parties changed this approach as they, persistently questioned the validity and effectiveness of Dutch oversees engagement. A decades-long tradition, one that enjoyed a consensus of support amongst policy makers, came to an end. As figure 1 shows, Dutch aid decline has been gradual until

recently, masking the full extent of the downward spiral. For example, although Dutch ODA dropped from 0.8% of GNI in 2010 to 0.67% of GNI in 2013, yet in 2013 The Netherlands remained close to the 0.7% target.

With the exception of 2015, when the Dutch aid budget rose above the 0.7% mark due to a stark increase in in-donor refugee costs, the aid budget declined consistently reaching an historic low point in 2017. For the first time since 1974, Dutch ODA dropped to 0.6% of its GNI being allocated to ODA.[3]

As a result of this aid decline, The Netherlands is no longer among the top five OECD-DAC donors, and currently stands at 7th place among these donors (Figure 2). Its development programming has also faced severe pressure due to rising humanitarian needs. This pressure was most evident in 2015 with the so-called 'migration crisis'. In keeping with ODA reporting rules, The Netherlands charged 100% of its costs for supporting refugees during their first year in the country. This resulted in an expenditure of about €1.2 billion to cover in-donor refugee costs, about €700 million higher than the amount originally budget. This unexpected over-expenditure, threatened the delivery of existing Dutch development commitments with bilateral, multilateral and CSO partners. At the same time, the structural aid cuts remained in place. The situation was so severe that the Dutch parliament adopted a motion requesting the government to protect existing development commitments from additional aid cuts. In response to this request,the Minister for Development Cooperation decided to "borrow" money from future ODA funds. In doing so, the Government created a substantial financial gap in the current aid budget that will take years to repair.

In addition to the direct budget cuts of €1 billion annually The Netherlands is also applying indirect cuts to its ODA budget. While these are smaller in volume, they have contributed an annual loss of about €400 million. These have taken several forms.

First, The Netherlands calculates its ODA contribution on the basis of a lower GNI

Figure 1: ODA contribution by The Netherlands 2010-2022[4]

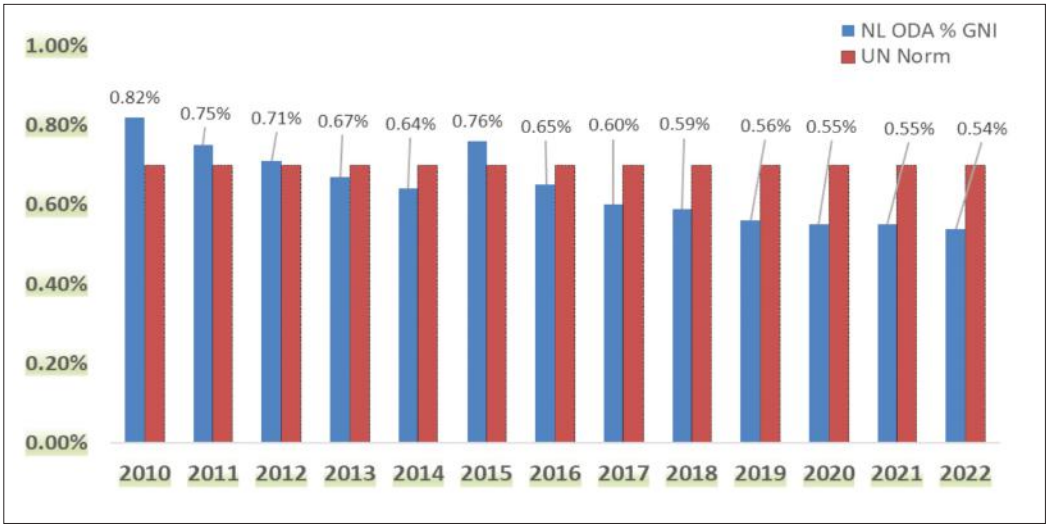
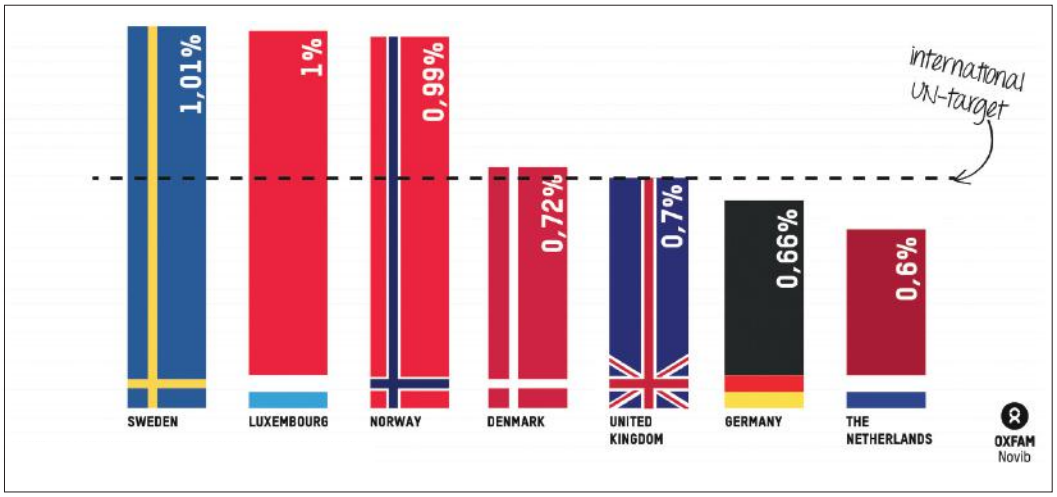


Figure 2: The Netherlands' ranking among the top 7 OECD-DAC donors



Source: http://bit.ly/OECD-cijfers-2017

than its actual economic performance. In 2010, the EU agreed to a common European System of Accounts (ESA), which harmonizes the way EU members calculate their GNI. On the basis of this new accounting framework, The Netherlands had to correct its GNI upwards. The resulting accounting adjustments were applied to all sectors of government and economic policy making. However, it was not applied to the calculation of ODA. In fact, the government uses its pre-2010 GNI, which is lower than its current GNI, to calculate its ODA contribution. The result is that the ODA budget is reduced by €264 million annually from what it should be, according to information provided through the budget and in response to parliamentary questions.[5]

A second indirect cut is the result of The Netherlands' Foreign Ministry[6] charging its aid budget to cover rising administrative costs from inflation and increases in staff salaries. Together these expenses have amount to €48.7 million annually.[7]

Through a combination of direct and indirect cuts, therefore, the Dutch ODA budget loses about €1.4 billion annually based on the 0.7% of GNI benchmark.

2. ODA forecast until 2022: downward trend despite investment by a new Government

In October 2017, a new Rutte III government was installed, led by Prime Minister Mark Rutte in his third term. It consists of four coalition partners: 1) the center-right liberal party of PM Rutte, VVD; 2) the Dutch Conservatives, the CDA; 3) the Centrist D66 party and 4) the progressive Christian party, CU.

In contrast to the two previous Rutte governments, the October 2017 coalition Government Agreement includes a clear commitment to development cooperation and ODA. Both the CU and the Centrist D66 party were keen to forge an in-principle agreement to end the downward ODA spiral. In a compromise with the other two parties, the new Government agreed to invest €1.8 billion in the ODA budget between 2018 and 2021. The new Government has also agreed to leave the annual structural aid cuts of €1.4 billion

in place.[8] Under the leadership of the new Minister for Trade and Development Cooperation, Sigrid Kaag, the ODA budget has also been corrected for GNI growth several times. This scenario- a 'yes' and a 'no' to ODA- has not fully stopped the downward trend in Dutch aid, but it will have a softening effect.

Even with these policy measures, Dutch ODA is projected to reach another historic low point by 2022, with an expected ODA contribution of 0.54% of GNI (Figure 1).[9] This performance comes at the same time that the Dutch economy is growing at the highest rate since the 2008 economic crisis. with GNI rising by about 3.2% in 2017. According to the Dutch Bureau for Economic Policy Analysis, CBP, this trend will continue in 2018 and 2019, with a projected growth of 2.7% in 2018 and 2.9% in 2019.[10] The preliminary OECD Development Co-operation Report 2018, released in July this year, confirms the trend we have witnessed in The Netherlands: While DAC donor's economies are growing, this economic performance has not translated into ODA growth.[11]

The new development and trade policy presented by Minister Kaag in May 2018, may provide the government with more policy space to increase ODA. The new policy document includes a commitment to return to an ODA contribution of 0.7% by 2030. However, the timetable for the realization of the Sustainable Development Goals (SDGs) is the same year – 2030. The Netherland's return to 0.7% in 2030 will be too late. The Minister and other coalition parties, along with some opposition parties, have signaled that would like to see this return happen as soon as possible. Advocating for this measure will be a priority for Oxfam Novib and our partners in the coming years.

3. Dutch aid diversion to in-donor refugee costs and the private sector

Pressure on the Dutch aid budget and development programming has been exacerbated in recent years by aid diversion to in-donor refugee costs and the Dutch private sector.

In-donor refugee costs

In line with OECD-DAC rules, The Netherlands is financing the first twelve months of sustenance, education and language courses for refugees -- the so-called in-donor refugee costs -- out of the aid budget. This did not pose a political problem when the costs were lower, accounting for some 7% of the aid budget. Since 2014, however, these costs have risen steadily as many people fleeing war have sought refuge in Europe. In 2015, The Netherlands welcomed a large number of refugees, almost 60,000 people.[12] As the government finances the first 12 months of substance for refugees seeking asylum in The Netherlands 100% out of the aid budget, development programming came under severe pressure. Approximately €1.2 billion was charged to The Netherland's ODA fund, almost a quarter (23%) of its total allocation (Table 1). These funds were spent in The Netherlands, not oversees.

A change in the calculation method has meant that these costs dropped slightly in 2016. However, they rose again in 2017, making up about 17% of the ODA budget. In the coming years, in-donor refugee costs are expected to level off at around 10% of the aid budget.

The impact of fully financing in-donor refugee costs to the ODA budget is a cause for great concern. Firstly, charging these

costs to the development budget, even if allowed under DAC rules means people in the poorest countries are essentially footing the bill. The Netherlands is one of the largest economies in the Eurozone and worldwide. Surely, it can finance these costs out of the general budget or pool funding from other line ministries.

Secondly, as the in-donor refugee costs may vary considerably from one year to the next, as noted above. It is hard to predict what they will be going forward. This volatility has huge consequences for development program planning and security of funding levels to governments, CSOs, multilateral agencies and other development partners. It makes Dutch aid less predictable, a key pillar of aid effectiveness. Also, for the Minister of Development Cooperation whose mandate it is to oversee the proper implementation of Dutch development policy financed by ODA, predictability is vital.

There is also a governance issue. In-donor refugee costs are made by the Ministry of Interior and charged to the ODA budget.[15] The Minister for Development Cooperation has no influence over the calculation or the accounting of these costs. Each year the Ministry of Development presents a projection of these costs for the coming 3-4 years, which is included in the annual presentation of the ODA budget. However, there can be a significant difference between the projected costs and the actual ones.

Given the difficulties associated with budgeting these costs, particularly the huge fluctuations, a funding gap in the budget can easily emerge in just one year. In 2015, the funding gap between budgeted in-donor refugee costs and spent in-donor refugee costs was more than €700 million.[16] Uncertainty about available development finance not only undermines the predictability of ODA for partner countries, but also ultimately poses huge challenges for the fulfillment of the Minister of Development Cooperation's mandate.

To address these issues, it is vital that refugee costs are limited in the aid budget, for example through establishing a ceiling. Ultimately, they must be phased out from the aid budget entirely and covered by appropriate domestic budget lines. Political parties in the Government and the opposition are paying close attention to the issue. Over the past two years, two motions have been tabled in the development committee of the Dutch parliament calling for the installment of a ceiling for these costs in the ODA budget.

ODA for the Dutch private sector

Under the Rutte II government, The Netherlands adopted the Agenda for Aid

Table 1: In-donor refugee costs between 2013-2021: total and as percentage of The Netherland's ODA budget[13]

Year	2013	2014	2015	2016[14]	2017	2018	2019	2020	2021
In-donor refugee costs charged to the ODA budget (in million€)	274.3	697.4	1.185	392	750.81	**534.25**	**441.45**	**348.13**	**334.65**
	7%	17%	23%	9%	23%	**11%**	**11%**	**8%**	**8%**

and Trade,[17] which merged the roles of the Minister of Development Cooperation and the Minister for Trade, responsible for the promotion of Dutch commercial interests abroad, into one. The new Government has continued this approach with the Dutch development policy, stipulating that success for Dutch businesses abroad is a policy goal, along with the reduction of poverty. Since 2010, the Dutch private sector instruments program, which is presented as part of the development cooperation budget, has risen from 4% in 2010 to about 11% in 2017.[18] The overall instrument consists of a multitude of smaller programs and funds, each implementing different policy objectives. About half of these ODA funds are made available as finances and subsidies for Dutch businesses.

In 2018, €406 million of ODA was budgeted for the private sector instruments budget line.[19]According to information provided by the Minister for Development Cooperation, about half of these funds, (€190 million) has been allocated to the Dutch private sector-both small and medium enterprises (SMEs) and multinationals.[20] This support includes loans, export credits, mezzanine finance and subsidies. A large part of these funds has been made available through blending of ODA with private finance. The Dutch Good Growth Fund (DGGF) is a prominent example of such a blending facility.

When the DGGF was set up in 2014, the argument for using ODA was that of "catalyzing" more development finance through a blending facility. The DGGF is a revolving fund with the idea that ODA loans disbursed to the private sector, including Dutch companies, would flow back in higher volumes into the Fund. So far, these expectations have not been met. While the DGFF is costing about €140 million each year, reflows remain far below the levels of ODA investment with a projected income for 2018 of €500.000.[21] Four years after the establishment of the Fund, financial additionality is also yet to be demonstrated as the Minister for Development Cooperation confirmed in her response to questions by Parliament.[22] Despite this lack of evidence for development and financial additionality, in its new Development Policy (presented May 2018) the Government announced its intention to use blended finance to mobilize additional development finance.

4. Conclusion

Over the past few years, Dutch ODA policy has undergone significant changes. These have had an enormous impact on aid modalities. In 2017 ODA levels reached an historic low and aid diversion to the Dutch private sector and in-donor refugee costs are increasing the fragility of the aid budget. The new Government has turned around the anti-ODA trend by recommitting to the 0.7% target and announcing investments in the ODA budget. After years of aid cuts and a negative narrative around public development finance and development cooperation, this is a positive and welcome development. However, the downward spiral of Dutch aid performance continues, partly because direct and indirect budget cuts have not been reversed.

The current "yes and no" approach to ODA is a threat to Dutch development and foreign policy objectives as well as the reliability of The Netherlands as an international partner and responsible donor. The Minister and the Parliament must work together to return its ODA contributions to 0.7% of GNI within the coming five years, instead of waiting until 2030 as the policy currently stipulates. It must also and take concrete steps to limit and significantly reduce aid diversion.

ENDNOTES

1 The Netherlands calculates its 0.7% towards ODA contribution based on current GNI, then subtracts the structural cuts of 1,4 bn EUR of the figure based on 0.7%. If there is a variance then between projected ODA growth and budgeted ODA for example because the economy grew stronger than expected, the difference is added onto the aid budget. In doing so, the budget is "corrected upwards"

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4 For 2010-2017 figures see OECD (2018), Net ODA (indicator). doi: 10.1787/33346549-en (Accessed on 15 June 2018). 2019-2022 figures reflect the ODA current projection by the Dutch government as presented in the new development policy note "Investing in global prospects" https://www.government.nl/documents/policy-notes/2018/05/18/investing-in-global-prospects, Last viewed 21 August 2018

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6 The Department of International Cooperation, DGIS, is part of the Ministry of Foreign Affairs. The Ministry is headed by two Ministers, the Minister of Foreign Trade and Development and the Minister of Foreign Affairs.

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9 2018 Dutch Development Policy " Investing in Global Prospects", https://www.government.nl/documents/policy-notes/2018/05/18/investing-in-global-prospects,p.100,Last viewed 22 August 2018

10 Dutch Bureau of Economic Policy Analysis, CBP, Press Release of 19 June 2018, https://www.cpb.nl/persbericht/groei-houdt-aan-politieke-risicos-toegenomen

11 OECD (2018), Development Co-operation Report 2018: Joining Forces to Leave No One Behind, OECD Publishing, Paris, https://doi.org/10.1787/dcr-2018-en., p.21

12 The Netherlands Ministry of Immigration and Naturalization, Statistical Data, https://ind.nl/en/Documents/AT_December_2015.pdf, Last viewed 22 August 2018

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15 Algemene Rekenkamer (Dutch Court of Auditors), Aandachtspunten bij de ontwerpbegroting 2018 (hoofdstuk XVII) van de minister voor Buitenlandse Handel en Ontwikkelingssamenwerking, 9 Oktober 2017, p. 9, https://www.rekenkamer.nl/publicaties/kamerstukken/2017/10/10/aandachtspunten-bij-de-ontwerpbegroting-2018-hoofdstuk-xvii-van-de-minister-voor-buitenlandse-handel-en-ontwikkelingssamenwerking, Last viewed 22 August 2018

16 Projected in-door refugee costs for 2015 were 296.955 million. See: Ministry of Foreing Affairs, HGIS-nota 2015 HomogeneGroepInternationalSamenwerking https://www.rijksoverheid.nl/binaries/rijksoverheiddocumenten/begrotingen/2014/09/16/hgis-nota-homogene-groep-internationale-samenwerking-rijksbegroting-2015/homogene-groep-internationale-samenwerking.pdf, p. 33, Last accessed 22 August 2018

17 See the 2013 development policy note of the Rutte II cabinet, “A world to gain: A new agenda for aid, trade and investment”, https://www.government.nl/documents/letters/2013/04/05/global-dividends-a-new-agenda-for-aid-trade-and-investment, Last viewed 21 August 2018

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What next for the long-standing champion of high aid levels?

Irene Dotterud-Flaa, Save the Children Norway

Overview

- Norway has consistently exceeded its commitment to provide 0.7 percent of GNI as ODA. For the past nine years, Norway has maintained an aid-level of around 1% of GNI,[1] as well as its commitment to provide 0.15-0.20 percent of GNI to the Least Developed Countries (LDCs). Current aid spending, at 1 percent of GNI, enjoys support from both the government and Parliament.
- Norway has a long-standing commitment to development effectiveness: It has managed to fully untie aid. However, progress has been slow in other areas such as the use of country systems, and medium-term predictability of ODA.
- Norway's ODA is organized around five thematic priorities: 1) Education (particularly primary education, with a focus on girls' education); 2) Health (with around half going to primary health care); 3) Humanitarian assistance (primarily emergency relief, with around 8 percent directed to disaster prevention and rehabilitation); 4) Private Sector (most of which is channeled through Norfund); and 4) Climate change (the majority to the protection of the environment).[2] Education and humanitarian assistance have seen the largest increases under the current government since 2013: Between 2013 and 2017, aid to education rose from 5% to 9.3% of total ODA, and humanitarian rose from 8% to 13%.[3]

  In 2014, a process to restructure Norwegian aid was initiated. The aim was to reduce the number of recipient countries and agreements. Since 2013, the number of recipient countries has been reduced from 116 to 84, while the number of aid contracts has been halved (from over 7,700 in 2013, to around 3,300 in 2017).[4] This process is still being finalized, and it is unclear what the level of concentration will be.
- Norway has 24 prioritized partner countries: Eight (8) countries for long-term development cooperation; Ten (10) that are directly or indirectly affected by conflict; and Six (6) that are central to efforts to address global challenges.[5] In June 2018, the government published a new white paper outlining the strategic thinking on partnerships with proposals to reduce the number of partner countries.[6] This has not yet been reviewed by Parliament.
- Following the inclusion of the Liberal Party into the Solberg-government as of January 2018, the post of Minister for International Development was reinstated, five years after it had been abolished. Civil society, as well as many opposition parties, had called for the post to be reinstated, citing several concerns – that Norway was losing its influence in global forums; that efforts on broader development challenges had been deprioritized; and that aid

and development policy was under increased risk of becoming a vehicle for Norwegian interests.

- One of the first initiatives taken by the new Minister for International Development was a reform of the current aid management model. This reform has been well received, with the recognition that it may enhance the effectiveness of Norwegian ODA. But there are concerns that the new model may keep aid expertise separate from aid management and thus put ODA under further political control. The reform process is expected to conclude in late 2018.
- A parliamentary majority has repeatedly voted to protect the integrity of Norwegian ODA and to keep its purpose firmly centered on poverty reduction and development. However, under the current government, national interests such as migration control or national security have taken a more prominent role in the aid and development policy. The most recent example includes the government's plan to make aid conditional on the creation of repatriation agreements.[7]
- As Norway is not a part of the European Union, its aid is not strongly integrated into the EU's development cooperation framework. But since 2015, Norway has increased its partnership with the EU, particularly on migration and security via contributions to the EU Emergency Trust Fund for Africa (EUTF), where Norway holds a seat on the board, and in its participation in the Valetta-agreement. There are plans to further increase support to the fund (pending evaluations), and to pursue other avenues of development cooperation with the EU.[7]

Introduction

Norway's aid imperative has traditionally been centered somewhere between altruism, solidarity, and national interests. Governments across the political spectrum have invested substantial financial and political capital towards the protection of the world's poorest and most vulnerable as well as the promotion of their rights. This has included both aid contributions and participation in international negotiations. Norway's role as a major humanitarian and development actor has contributed to the opening of doors and opportunities in bilateral as well as multilateral arenas, which would otherwise not have been available.

With some exceptions, there is a general consensus and broad ownership by Norway's citizens over the key priorities for Norwegian aid. Following the 2013 national elections, the social democratic coalition (consisting of the Labor Party, the Socialist Left and the Centre Party) lost the majority they had held for eight years. The election was ceded to a minority coalition of the Conservative Party and the right-wing Progress Party, which was joined by the centrist Liberal Party following the 2017 elections.

Support for aid, particularly the level of 1% of GNI, has traditionally been challenged by the Conservatives and the Progress Party. The former has always held that a focus on aid levels diverts attention from an examination of the quality of aid, while the latter is skeptical about the effectiveness of aid in general. With the exception of humanitarian aid, the Progress Party has consistently opposed high aid spending. Despite this, the 2013 change in government has not lead to

lower aid levels. In fact, the government has maintained a near 1% of GNI to ODA since it came into power five years ago.

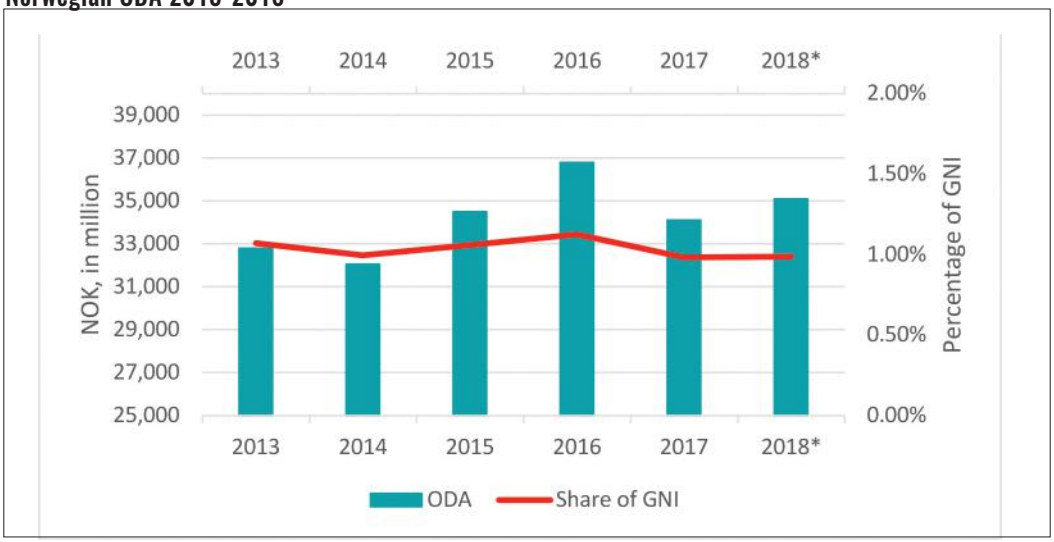
The lack of reduction in aid levels can partly be attributed to the fact that the government is a minority, which depends on the Christian Democrats for continued support in Parliament. The Christian Democrats are staunch supporters of a high financial and political engagement in development issues. Furthermore, the process by which aid and development policies are determined entails considerable transparency, public engagement and parliamentary ownership of and control over decisions made on aid. Parliament enjoys substantial supervision of Norwegian ODA, including its priorities, strategic direction and budget.

Norway is one of only a handful of donors to have met the UN commitment to provide at least 0.7% of GNI as ODA. It is also one of few donor countries to have allocated above 0.15% -0.20%of GNI in ODA to the Least Developed Countries (LDCs). Norway has maintained above 0.7% target for more than four decades,[8] and in recent years, aid levels have remained stable at around 1% of GNI. Debates on aid levels have differed substantially from those happening in most other donor countries. In Norway they have focused on whether the country should maintain or exceed the current 1% level, while ensuring aid is effective and genuine. In 2015/16 there was a breakthrough when the Parliament reached a majority consensus (opposed by the governing parties – the Conservatives and the Progress party) to protect aid spending at 1% of GNI. In 2018, the government (including the aforementioned Conservatives and Progress Party) included the pledge in its new political platform.

Commitment to effectiveness and results for the poorest

The overarching goal of Norwegian ODA is to contribute to poverty reduction and sustainable development. Additionally,

Norwegian ODA 2013-2018



Source: Norad's aid database

there are four cross-cutting considerations deemed crucial for poverty reduction and development that are key criteria for aid allocations and agreements: human rights; women's rights and gender equality, climate and environment, and anti-corruption.[9]

While the government has reaffirmed its commitment to the implementation of development effectiveness principles, progress remains slow in some areas. A commendable feature is that Norway is one of few donor-countries that has 100 percent untied aid, a key policy to ensure aid effectiveness. The OECD has pointed out that the cost of tied aid is between 15 to 30 percent, and up to 40 percent in tied food aid.[10] The recent white paper (2018) on partner countries in Norway's development cooperation, identifies national ownership as an underlying principle for cooperation, although the government notes that it can be difficult to remain true to the principle in fragile and conflict-affected states.[11]

But, according to the Global Partnership for Effective Development Cooperation (GPEDC), there is room for improvement in other areas. For example, medium-term predictability of ODA remains low (55% of aid to the government sector), and the use of country systems has declined slightly in recent years (down from 62% of aid to the government sector in 2010, to 56% in 2016).[12]

Norwegian aid allocations and broader development efforts are guided by thematic priorities that have evolved and changed over the past decade. Notable changes include the emergence of climate and health as prominent thematic priorities and inequality and redistribution as an overarching priority – both are developments under the social democratic Stoltenberg II-government (2005-2013). Also, a greater emphasis has been placed on education, with a particular focus on primary education and girls, as well as an increased role for the private sector under the conservative Solberg-government (2013 to present).

Norway currently has five long-term thematic priorities that Parliament in 2017 agreed following the white paper on Norway's development efforts in the wake of Agenda 2030 and the SDGs.[13] These include health, education, climate and environment, private sector and job creation, and humanitarian assistance. In terms of geographical priorities, the government launched a new white paper on partner countries in June of 2018. The government has proposed 16 partner countries (ten countries are defined as countries for long-term development cooperation, and six are defined as countries in fragile contexts). Almost all bilateral aid will be allocated to these countries going forward. Aid to Norfund, support to strengthen civil society, and humanitarian assistance are not restricted geographically.

A recent assessment of Norwegian aid and its coherence to Agenda 2030's 'Leave No One Behind' pledge (LNOB) was undertaken by the Overseas Development Institute (ODI) on behalf of Save the Children Norway. It confirmed that Norway's thematic and geographical priorities broadly align with a focus on the world's poorest people and countries.[14] The prioritized sectors – particularly primary education, health care and humanitarian assistance – are key to the achievement of LNOB. The study also found that a high percentage of Norway's partner countries

are defined as either Severely Off-Track Countries[15] (countries most at risk of being 'left behind' on extreme poverty in 2030) or countries with a large share of refugees and/or internally displaced people. The ODI evaluation cautioned against a focus on migration-related challenges and the potential shift whereby efforts are made to hinder migration, rather than to support refugees.

Increasing optimism for 'catalytic' aid: DRM and private sector

The 2017 white-paper on development has served as a policy platform to determine the ways Norway's development efforts can and should contribute to sustainable development in line with the landmark global agreements of 2015: Agenda 2030, the Addis Ababa Action Agenda, and the Paris Agreement on Climate Change. These agreements are part of the increased optimism around 'catalytic aid'. While not a new concept, catalytic aid – the notion that relatively small public contributions can generate additional (and often private) investments – has gained traction. Coupled to this is the understanding that massive investments are needed to finance the SDGs ('moving from billions to trillions') as well as the realization that the relative importance and size of aid vis a vis other sources of development finance has reduced.[16]

In terms of Norwegian ODA, this optimism is evident in the increased emphasis on the potential of the private sector and a renewal of efforts to support domestic resource mobilization (DRM). Norway's Tax for Development aid program, which focuses on the improvement of tax systems and increased tax revenues in developing countries, has had some successes since its establishment in 2011. But under the leadership of the 2013-2017 Minister of Foreign Affairs it received less political and financial attention.

At the Addis Ababa Conference in 2015, Norway pledged to double its support to technical cooperation for DRM from 2015 to 2020. Unfortunately, progress to achieving that commitment is off track. In the two years following the ATI-pledge, aid to tax reform was more than halved. Things are looking up in 2018 as this is the first year where the allocations are larger than the baseline year, and Norad has recently signed a five-year agreement on technical cooperation with the Norwegian Tax Authority. The Minister for Development has reaffirmed that the support will be doubled by 2020, and has expressed a firm belief in the potential of relatively small aid contributions to strengthening tax systems.

The bulk of Norway's aid to the private sector and job creation is currently channeled through Norfund, Norway's Development Finance Institution. By year-end 2017, Norfund's committed investment portfolio was NOK 20.4 billion.[17] It primarily focuses on investments to countries in Sub-Saharan Africa. There are four main areas of interest: clean energy, financial institutions, food and agribusiness, and small and medium enterprise (SME) funds.

In its annual reports, Norfund provides a descriptive overview of the development effect realized as reported by the businesses, financial institutions and sectors (e.g. clean energy) in which it has invested.[18] The current reporting methodology only allows for aggregated quantitative results across all companies, without a clear baseline or reporting on

unintended consequences (such as risks of crowding out local businesses). There is need for documentation that examines development effects beyond taxes paid and jobs created, as well as for financial additionality of these investments. In a follow-up note to Norfund's 2015 evaluation, dated April 2018, the Ministry of Foreign Affairs reports that some changes have been made and others are underway, including measures to strengthen development impact and a related indicator framework. While inclusive economic growth and job creation are crucial components in the fight against poverty, and it is clear that the private sector has a key role to play, efforts supported by public aid should be accompanied by clear expectations of financial additionality and development impact.

Looming threats in the horizon: What works for development or what works for Norway?

ODA plays a unique role in the development finance landscape. It is the only international financial flow with an expressed **mandate to reduce poverty and promote development. It is therefore a major concern when shifts emerge whereby aid is being** used more explicitly to advance the foreign policy and security objectives of donor countries. Aid is also being increasingly spent to prevent migration and to cover refugee costs in donor countries. Norwegian ODA has sadly not been immune to these shifts.

1. The use of ODA to cover in-donor refugee costs

As with most other DAC-donors (with a few honorable exceptions), Norway reports a share of in-donor refugee costs (IDRC) as ODA. In the fall of 2015, following a large number of refugees seeking asylum in Norway, the government proposed that a record 20 % of the 2016 aid budget be allocated to cover IDRC. These costs were to be covered by slashing support to civil society by two-thirds, and by reducing the support to multilaterals and UN agencies. No assessments or considerations were made on the potential long-term consequences of these unexpected cuts. The proposal faced massive backlash from aid organizations, the government's coalition partners and several opposition parties and was finally overturned. Instead the Parliament opted for an extraordinary increase to the aid budget (to 1.1 percent of GNI), to cover the increased IDRC. The 2016-budget shows how vulnerable the aid budget can be. Apart from the smaller opposition parties there is little support for excluding or limiting the reporting of IDRC as ODA to protect the predictability of long-term aid.

Save the Children Norway and many other civil society organizations have repeatedly called on the government to stop this practice. Their arguments against using ODA to cover in-country refugee costs include three main points. First, while Norway has a responsibility to receive and care for people seeking asylum, the costs of doing so do not contribute to poverty reduction and sustainable development in developing countries, and should therefore be covered outside the aid budget. Second, the commitment to spend 1 % of Norway's GNI on ODA is often viewed as a ceiling, making allocations a zero-sum game. In choosing to report IDRC as ODA, less long-term aid is available to the poorest people and countries. And finally, IDRC is a volatile and unpredictable expenditure – great

changes from one year to another are likely to be followed by an increase or reduction in other parts of the aid budget. This has the potential to hamper the efficiency and results of long-term aid. Kharas (2008) has suggested unpredictable and unstable aid has a high inefficiency cost.[19] Recognizing that there is a strong pressure for in-country refugee costs to be included as part of ODA, one alternative would be to agree to a maximum of 5% of ODA to cover these eligible expenses.

The government's current method of calculation of IDRC is unclear. The updated guidelines approved by the OECD DAC in October 2017 will hopefully lead to more clarity on the methodology of calculating costs. The MFA has confirmed that the new directive will be implemented in the 2019 budget.

Currently, IDRC as a share of Norwegian ODA is among the lowest it has been in the last decade. This is not due to a more restrictive calculation methodology but rather to the government's increasingly restrictive refugee-policy, which have been supported by joint EU efforts to close off external borders.

2. Allowing Norwegian national interests to seep into aid decisions

Apart from the long-standing tradition of spending a chunk of the aid budget domestically, recent years have also seen a change in focus and narrative on the potential benefits of aid. Norway like all countries has its own foreign interests and the government has many ways to promote these interests, while ensuring policy coherence. Reducing poverty, building institutions, contributing to increased stability and human security– in short laying the foundations for sustainable development – are in the interest of every country, rich and poor alike. The use of ODA to build this foundation is perfectly acceptable, and even welcomed. The problematic side of national interests arises when the needs of donors move away from, or even hamper, efforts to build sustainable development, and when scarce ODA is diverted away from its core purpose of poverty reduction. Two areas of concern stand out for Norway: migration and security.

Around the time the white paper on SDGs and development was published in 2017, another white paper on foreign policy and security was launched. The two white papers, which were adopted by Parliament in June 2017, illustrate that sometimes the lines between these interests are not clearcut. Both papers include an increased priority on vulnerable states to support their respective goals. Prioritizing aid to fragile states may be important from a development perspective as many of these countries are severely off-track to meet the SDGs by 2030 and they have huge struggles in trying to mobilize other sources of finance.

The government has demonstrated an acceptance of the risks associated with prioritizing ODA to conflict-affected and fragile contexts, which has been welcomed by CSOs. On the other hand, the geographical focus remains close to Europe and with countries where large numbers of refugees come from (e.g. Afghanistan). The MFA's new strategic framework for engagement in fragile contexts and regions (2017),[20] as well as the 2018 budget, demonstrate how Norwegian interests related to migration and security have partly shaped the rationale and geographical

focus for this ODA commitment as well the measures taken.

The strategic framework outlines how repatriation shall be linked to aid, stating that:

> "Flight and migration from vulnerable states and regions affect the influx to Europe and Norway. Repatriations and migration shall therefore form an integrated and central part of the relationship to important countries of origin. It is expected that countries that receive Norwegian aid respect their obligation to accept their own citizens."

The government's 2018 political platform pledges that Norway will trade aid for repatriation agreements. Not only is this an unacceptable use of ODA, it is unlikely that this relatively small amount of aid is an effective tool to apply pressure for acceptance of repatriation. It is also a poor use of ODA. Making aid conditional on acceptance of repatriation agreements can make aid more unpredictable and hamper effectiveness.[21] Trading aid for repatriation can result in long-term aid programs, such as health or education programs, being cut short if the government of the developing country does not agree to repatriation, which in the end harms the poorest population.

Norway is a signatory to the 2016 Valletta Declaration and its corresponding Action Plan, which aims to strengthen cooperation between European and African countries and address current challenges and opportunities of migration. It also provided aid to the EU Emergency Trust Fund (EUTF) for Africa, the financial instrument for the Valletta cooperation. Norway also has a seat on the Fund's board. In its 2018 work program for cooperation with the EU, the government states that further contributions to EUTF would be considered based on an assessment of the Fund's results and documented needs.[22] Several analyses and case-studies have pointed to serious weaknesses with EUTF. These includes poor transparency; a lack of adherence development effectiveness principles; and multiple examples where the short-term interests of donor countries have preceded the long-term development plans and needs of developing countries.[23,]

Conclusions

There is much to be commended in Norway's aid and development strategies and commitments: the protection of 1% of GNI to ODA and 0.2% of GNI to LDCs; faithfulness to development effectiveness principles; the prioritization of countries that are at risk of not achieving the SDGs; and increased aid spending to areas that are key building blocks of inclusive societies, such as health, education and strengthening of tax systems.

Still, the past few years have brought some changes that may hamper the future effectiveness and pro-poor direction of Norwegian aid. The reluctance by the government and Parliament to separate IDRC from ODA (or to even set a ceiling) continues to negatively impact aid effectiveness as well as the spending to the poorest countries. The government's willingness, and sometimes eagerness, to add Norwegian interests in the aid-mix is a concern, particularly when it steers the focus towards areas beneficial to Norway at the expense of the long-term development needs and plans of developing countries.

There is need for continued engagement to ensure that aid is protected and spent where it is most needed. As protectionism and national interests are increasingly setting the tone in many countries, it is even more important for countries such as Norway to provide a counterweight and to protect the integrity of international development efforts.

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Decreasing ODA funds, increasingly spent on migration and public-private partnership

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Key points:

- In 2015, Switzerland achieved the objective set by Parliament to spend 0.5% of its Gross National Income for ODA. This was mainly reached however through a massive increase in in-donor refugee costs (IDRC). In 2017, the ODA ratio fell again to the 2013 level of 0.46%.
- In the last two years, ODA, exclusive of IDRC, decreased from 0.44% (2015) to 0.41% (2017). This is the result of two consecutive budget cuts in development cooperation.
- There is a strong demand from right-wing politicians to link migration with development cooperation. A clear example of this linkage is the push to make Eritrea a priority country for Swiss development projects. In recent years, Eritreans have represented the largest group of asylum seekers in Switzerland.
- The Swiss government is unwilling to entertain innovative or new sources of financing to reach its fair share in international climate finance. Instead, the funds are to be sourced from *existing* development cooperation budgets complemented by (up to now unspecified) "private contributions."

Keeping ambitions high without dedicating the necessary means

In 2011, the Swiss parliament set an ambitious target for increasing Swiss ODA performance as a share of Gross National Income (GNI) to 0.5%. This goal was achieved in 2015, made possible because of growing budgets for development cooperation programs, but most particularly, by increasing expenditures for asylum seekers in Switzerland. According to international standards set by the OECD Development Assistance Committee (DAC), costs for asylum seekers for their first year in the donor country can be counted as a development expenditure.

Last September (2017), the National Council confirmed, with a clear majority, its intention to maintain the 0.5% target. However, current figures reveal that Switzerland has actually fallen back to 2013 levels, with the ODA ratio at 0.46% of GNI in 2017. This declining performance is the result of a reduction in asylum applications as well as two successive austerity programs. Civil society organizations (CSOs) have also repeatedly criticized the use of shrinking ODA for public-private partnerships and climate finance without any exploration of additional or innovative sources of financing.

Mismatch between strategy and financial resources for development aid

In 2016, the Swiss Parliament adopted the *Dispatch on Switzerland's International Cooperation,* the main strategy guiding Swiss aid activities for 2017 – 2020.[1] It sets priorities and pledges for the funds allocated in the federal budget for the implementation of the Swiss aid

program. The main controversies during the parliamentary debate at the time of its adoption continue to be at the heart of current debates: What is the amount of financing available for development cooperation? And should development cooperation be linked to migration policy?

The strategy for Swiss development cooperation is strongly oriented towards Agenda 2030 for Sustainable Development. It focuses on fragile states and countries in southern Africa. An important objective is to increase commitments to vocational training and cooperation with the private sector.[2] After the strategy was defined, however, a large-scale austerity program was launched (stabilization program 2017-2019). The right-wing majority in Government (the Swiss Federal Council is by definition a Grand Coalition) prevailed with its demands for savings and was supported by the equally right-wing majority in parliament.

The austerity program has had a disproportionate impact on development cooperation. With a share of just under 4% of the federal budget, it contributed 28% of the austerity measures. Compared to the original financial plan, the implementation of the strategy in the years 2017-2019 will therefore be reduced byUS$143 million, US$200 million, and US$243 million per year respectively.[3] Overall the strategy will need to be implemented with a cut of almost US$600 million. But the strategy has not been adjusted to take into account the significantly reduced resources.

The austerity measures have affected the various instruments of Swiss development cooperation in varying degrees. The Swiss Development Cooperation Agency's (SDC's) bilateral cooperation has been massively cut back, with austerity measures translating to an absolute cut in resources. This has resulted in a mismatch between planned activities and available funds at the beginning of the implementation period. Instead of being able to expand programs as planned, programs have had to be significantly reduced.

Additional budget cuts beyond the austerity cuts described above were also made in the 2018 budget. Once again, development cooperation was hit disproportionately hard, resulting in a contribution ofapproximately20% of the savings measures. This means that between 2018 and 2020 there will again be a shortfall of US$150 million per year. Compared to the total amount originally planned, this means that more than one billion Swiss francs are missing for the implementation of the strategy defined in 2016, or approximately 8% of the funds originally allocated.

In its Foreign Policy Report 2017, the Federal Council pointed out the consequences of these austerity measures: "For this reason, Switzerland must cut back existing programs ahead of schedule and can only expand its commitment to stabilization and conflict prevention in fragile contexts more slowly than planned. There will also be cuts in the education portfolio. The withdrawal from Bhutan, Vietnam and Pakistan must also be initiated early."[4]

Switzerland's ODA performance ratio had reached 0.5% of GNI for the first time in 2015. With the first austerity program, the ODA target was adjusted downwards. By 2020, the Federal Council set itself the target of maintaining an ODA/GNI ratio of 0.48%. In 2017, some members of Parliament called for a complete break

with an ODA target, and for expenditure on development cooperation to be based purely on the state of the federal finances. In September 2017, however, a clear majority of the National Council rejected this demand and implicitly re-confirmed the ODA target of 0.5%.[5]

The latest figures for 2017 show that the austerity measures - together with a decline in asylum applications –have reduced the ODA ratio to 0.46%. While budgetary measures affected the ODA performance, the decline in the ODA ratio is primarily a function of the reduction in the costs for asylum seekers. But the ratio for development cooperation itself (excluding support for asylum seekers) has also declined for the third year in a row. In 2015 this ratio was still 0.44%, and in 2016 it fell to 0.43%. In 2017 it fell again to 0.41% of GNI. The most recently published data clearly indicates where the austerity programmes have hit hardest: In 2017, SDC, the Swiss development agency had almost US$175 million less available for long-term development cooperation than in 2015, a decline of 10%.

Civil Society: Mobilising for the 0.7% UN target

In the run-up to the 2016 parliamentary debate on the current strategy, civil society mobilised against the planned cuts with a "wake-up call against hunger and poverty". Seventy-five (75) organizations demanded that Switzerland finally implement its promises and allocate 0.7% of its GNI to development. The campaign received broad support. One positive result was that the parliament, by majority vote, opposed further cuts. But Switzerland still does not have a plan or clear date by when it hopes to achieve the ODA target of 0.7%.

20% of Swiss ODA spent in Switzerland to cover costs for refugees in 2016

Switzerland's ODA ratio has been trending upward since 2003. However, as of 2004, its in-donor refugee costs have been making up a substantial portion of this improved ratio, which is really intended to measure expenditure on official development assistance, not costs for asylum seekers. Since 2004 Switzerland has been including refugee costs in its calculation of ODA, and on average these costs make up 14% of ODA, increasing to 16% since 2008. In 2016, every fifth franc that was declared to be development funding actually went to cover refugee costs in Switzerland. Due to recent decreasing asylum applications, the proportion fell to 9.2% in 2017.

To make an international comparison, the proportion of its in-donor refugee costs for Switzerland is just below the average for countries represented in the OECD Development Committee (DAC) at 9.7%. For the first time in a long while, it is no longer one of the countries that counts the highest percentage of non-development costs as development funds.From2004 to 2013, Switzerland consistently had the highest share of refugee costs in its ODA as compared to other donor countries.

Calls for ODA-conditionality in field of migration

In 2016 there was a fierce debate on the need to make explicit links between the provision of ODA and the agreement of partner countries to accept rejected asylum seekers. A motion to this effect was very narrowly defeated in Parliament. However, a majority in parliament succeeded in softer variant

with a motion combining development cooperation and migration. This motion calls for strategically linking international cooperation and migration policy - where it is in Switzerland's interest – by addressing the causes of conflict and migration. While it is still unclear how this initiative will be implemented it could result in stronger agreements and partnerships between development cooperation and migration.

In recent years, the minority parties at the national level have repeatedly advocated for this explicit link between development cooperation and migration policies, but have failed. However, right-wing bourgeois parties in the canton of Zurich have narrowly pushed through a similar demand in their cantonal law. This recently adopted law requires that the canton of Zurich makes its support for development projects dependent on whether the government of the developing country is prepared, at least in principle, to take back rejected asylum seekers. There is concern that the passing of this law at the cantonal level will give new impetus to the demands at federal level.

Right-wing politicians are calling for Switzerland to make Eritrea a priority country for development cooperation in the context of migration issues. Eritrea has been the country of origin for the largest number of asylum seekers for many years. Certain politicians hope to use development cooperation to negotiate re-admission agreements with the Eritrean dictatorship. Essentially, this would mean that Switzerland would withdraw development funds if Eritrea does not agree to take back its refugees. Switzerland stopped development programs years ago in both public and private development cooperation for Eritrea since the political conditions did not permit meaningful development work to take place.

Politicians who are calling for a resumption of this funding fail to recognize that this could be fraught with difficulties. Development cooperation with Eritrea solely based on the aim of obtaining a readmission agreement for rejected asylum seekers would not lead to meaningful projects. Instead it is likely to just finance projects in the interests of the authoritarian regime. Development cooperation must not be instrumentalized in this way. Under constant pressure from Parliament, however, the SDC has now initiated its first projects in Eritrea.[6] It will evaluate whether conditions are sufficient to allow for a larger commitment.

Funding Switzerland's fair share in climate finance: No more support for "new and additional"

With the ratification of the Paris Climate Agreement in 2017, Switzerland agreed to support the poorest and most vulnerable countries and communities in the fight against climate change and its growing impacts. This Agreement obliges "developed country parties" to scale up their financial support "to achieve the goal of jointly providing US$100 billion annually by 2020."[7] Each country must determine and communicate its individual contribution "on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities."[8]

In February 2018, the Swiss Federal Statistical Office published new data, stipulating: "More than 60% of the greenhouse gas footprint originates abroad."[9] This statement confirms that Switzerland is directly responsible for 2.5 times as many emissions as was reported in the national greenhouse gas inventory. It corresponds to approximately1% of the

world's total emissions, which is about the same magnitude of Switzerland's respective (economic) capability (e.g. GNI) compared to other developed countries.

In spite of the fact that Switzerland's fair share contribution to international climate finance amounts to approximately US$1 billion per year, the government intends to mobilize onlyUS$470 million – US$635 million per year as of 2020. As well, the government appears to be ignoring the climate framework convention's call for "new and additional funding." In its May 2017 report, the government proclaimed – for the first time explicitly – that funds would be sourced from *existing* development cooperation budgets and (up to now unspecified) "private contributions." This contradicts the findings of a 2011 study, where the Swiss government identified potential innovative financial sources adhering to the polluter-pays principle, concluding that mobilizing adequate new and additional public climate finance was, in principle, possible.

In view of continuing cuts in ODA and its growing diversion of these funds to climate finance, there is great risk that Switzerland's climate finance allocations will undermine other commitments to poverty reduction. In the absence of any viable private funding sources, the once proclaimed allocation of 12.5% of the ODA for climate-related interventions (US$ 300 million per year) may soon be surpassed.[10] Further, if Switzerland responds to growing international pressure by increasing its contributions to climate finance so that they are more aligned to its true responsibility and capability, the growing diversion of existing ODA towards climate finance may eventually reduce SDCs budget by up to 35-40%.

Partnerships with the private sector

As in other countries, the Swiss development agency is increasingly seeking partnerships with the private sector. The current dispatch/strategy explicitly states that the number of such partnerships will double by2020. This objective is problematic for several reasons. Instead of seeking out local partners in the South and supporting Southern small and medium enterprises, SDC is mostly partnering with Swiss multinationals, such as Nestlé, Holcim, Swiss Re or Syngenta. Projects created through these partnerships are usually based in middle-income countries such as Vietnam, India or Latin American countries rather than in the poorest places that should be a priority for development aid. Rationales for partnerships with the private sector are centered on incentives for Swiss based private companies, ones that decrease risks associated with unknown, less stable markets in developing countries. This approach essentially subsidizes the entry of Swiss companies into new markets, under the generally positively umbrella of development cooperation. In the worst-case scenario, a big Swiss player takes over a market segment, undermining the possibility for a local market to develop and grow. To date, a comprehensive analysis of these risks is lacking.

Instead of offering incentives to Swiss multinationals by supporting their implementation of projects with a development focus, a better approach would be to insist that Swiss-based multinationals respect human rights and environmental rights throughout their value chain. Offering decent jobs, respecting people's rights and providing

for a healthy environment would greatly contribute to meaningful development and peoples' agency.

Agenda 2030 and policy coherence for development?

As mentioned above, the Swiss development strategy is strongly linked to Agenda 2030 for sustainable development. In order to realise the seventeen SDGs, Goal 17.14 is central –"Enhance policy coherence for sustainable development." It would guarantee that the implementation of Agenda 2030 would be done in a coherent way with the aim of fostering comprehensive sustainable development. Trade-offs between single SDGs must not be accepted. These targets require that all policy decisions, whether in trade, tax or security, must promote sustainable development.

Switzerland still has a long way to go to realize this approach to achieving the Goals. Its aggressive international tax policy, for example, which leads to an erosion of public funds available in developing countries, only exacerbates a disappointing trend of incoherence.

A major concern in the context of Agenda 2030 is the fact that the Swiss government is not prepared to put additional financial resources to support the implementation of this Agenda. According to the Federal Council (Swiss government), the Agenda must be implemented with the funds currently available. As shown in the analysis above, the current reality is decreasing means for international cooperation, pitting the costs for climate finance against the funding for development cooperation.

In the end, the ambitious global objectives set out in Agenda 2030, and their adoption by the Swiss government, will remain a paper tiger, in the absence of the appropriate funds and the political will for strong policy coherence for (sustainable) development.

ENDNOTES

1 See Dispatch on Switzerland's International Cooperation 2017–2020. Key points in brief

2 Ibid.

3 Bundesgesetz über das Stabilisierungsprogramm 2017–2019, March 17, 2017, in: federalgazette 2017, p. 2449

4 Bundesrat, Aussenpolitischer Bericht 2017, in: federalgazette 2017, p. 1836[author'stranslation].

5 The National Council rejected the proposal of itsFinanceCommissiontoabandonthe 0.5% ODA-target, cf Motion 17.3362 „Fixation du montant du financement de l'aidepublique au développement"

6 Bundesrat, Aussenpolitischer Bericht 2017, in: federalgazette 2017, p. 1837.

7 UNFCCC (2015): The Paris Agreement, COP Decision CP1/15, Art. 115, p. 17. FCCC/CP/2015/10/Add.1

8 UN (1992): UN Framework Convention on Climate Change, Art. 3.1, p. 4. FCCC/INFORMAL/84

9 FSO News (Feb 2018): "More than 60% of the greenhouse gas footprint originates abroad." (https://www.bfs.admin.ch/bfs/en/home/statistics/territory-environment/environmental-accounting.assetdetail.4322945.html; accessed March 22, 2018)

10 Dispatch on Switzerland's International Cooperation 2017-20, in: federal gazette 2016, p. 2389.

"Aid in the national interest" – in the interest of the poorest?

Mike Green, Bond

Overview

- The UK government has continued to meet its legislative commitment to spending 0.7% of GNI on ODA in 2016 (£12.1 billion[1]) and in 2017 (£13.93 billion[2]) and all the main political parties pledge to keep the 0.7% commitment during the 2017 snap election.
- At the October High Level Meeting of the DAC in 2017 the UK advocated for changes in ODA eligibility criteria, with suggestions of further changes being hinted at.
- The split of UK multilateral and bilateral contributions has remained roughly in line with previous years, with bilateral ODA at 62.4% and multilateral ODA at 37.5%.
- Multilateral aid has grown faster than bilateral aid in relative terms at 8.1% (£391 million) to £5,234 million, with bilateral aid increasing by 1.9% (£164 million) to £8,698 million.
- In the realisation of the 2015 UK aid strategy, the amount of ODA spent outside the Department for International Development (DFID – the national development platform) continues to decrease. DFID's relative share of the aid budget it manages declined to 72.5% down from 74.0% from 2016. In absolute terms, it was an increase of £234million.
- Other government departments and funds have received significant criticism from independent bodies for having poor transparency, effectiveness, coherence and accountability. These departments and funds are routinely used as the main vehicles for the Government's increasing focus on 'aid in the national interest', which has involved increased funding and priority of areas including economic development, trade and security.
- The new Secretary of State for International Development, Rt Hon Penny Mordaunt MP, has been in post since November 2017. Her vision for UK Aid includes positive pledges such as ensuring that 'aid money cannot be better spent' and 'finding new ways to help other departments make their spending more effective'. She makes increasing references to spending aid 'in the national interest' such as: "Aid helps create self-sufficient economies and our trading partners of the future" and "Britain's security and prosperity depends upon international development."[3]
- Political focus on international aid and development has been superseded with issues around Brexit. The resignation of former Prime Minister David Cameron, whose Government bought in 0.7% legislation, has meant the loss of support and political leadership from the Head of the Government.
- In early 2018 the aid and development sector was significantly damaged by historical revelations that aid workers

from various NGOs had sexually exploited vulnerable people they were working with. In some instances, attempts were made at the time to cover this up this abuse.

Introduction

Since the Brexit vote in 2016, the issue of Britain's withdrawal from the EU has dominated the UK's political landscape. Aid and development are no exception, with a number of questions on future contributions to and on receiving of funding from European Union mechanisms. While the nuances of the UK's future relationship with the EU have not been directly addressed, aid relationships are recognized as one of the many issues that need to be discussed and agreed upon in the UK-EU negotiations.

The political narrative of Brexit and 'taking back control' have increasingly permeated the narrative of aid and development. This has led to unprecedented media attacks and campaigns to 'take back' money currently used under the aid budget. As well, there is a record level of public scepticism around the aid budget and the 0.7% commitment at a time when political commitment to it has also waned.

In parallel to these developments, the 2015 aid strategy "tackling global challenges in the national interest" continues to be implemented, seeking to achieve objectives before the 2020 deadline. The strategy is committed to strengthening global peace, security and governance, resilience and response to crises and to promoting global prosperity, tackling extreme poverty and helping the world's most vulnerable. To realize these objectives, the Government has pledged to spend 30% of the total ODA budget outside of DFID by 2020. To date, this goal is very much on target. In 2017, DFID's proportion of the total ODA budget had declined to 72.5%, down from the 2016 level of 74.0% while the relative share of aid that other government departments manage and contribute to grew from 26.2%.to 27.5%.

To meet the UK's aid strategy objectives, a new cross government ODA fund was established, and an existing fund was bolstered with significant increases. The Prosperity Fund was established to achieve the promotion of global prosperity objective, which is working in middle-income countries to remove barriers to economic growth. A secondary benefit is that reforms brought about by supported programs have the potential to create opportunities for international business including UK companies.[4]

The Conflict, Stability and Security Fund (CSSF) was created in April 2015. In 2016/2017, its budget was £1.1 billion, with a mix of ODA and non-ODA funding (£517.8 million ODA and £586.4 million non – ODA).[5] The CSSF, which focuses on strengthening global peace, security and governance, utilizes its resources to deliver and support security, defence, peacekeeping, peace-building and stability activities.

The Government cites both funds as examples of where aid is being used 'in the national interest'. This has been an increasingly part of the narrative of Penny Mordaunt, the new Secretary of State for International Development , who came into office in November 2017. In answering questions from the House of Commons International Development Select Committee, she said *"I would like to have projects which deliver a much more explicit*

win for the U.K.'s interests as well, because without that we won't be doing aid well."[6]

The funds themselves, however, have come under significant scrutiny and received criticism for their lack of transparency, aid effectiveness, value for money, cross government coherence and poverty focus (see below: *Increasing non-DFID ODA*).

Another pledge in the UK's 2015 aid strategy was to change the definition of ODA at the OECD's Development Assistance Committee. This was also an election manifesto on which the Conservative party were elected to Government. The manifesto noted, "We do not believe that international definitions of development assistance always help in determining how money should be spent, on whom and for what purpose, and we will work with like-minded countries to change the rules so that they are updated and better reflect the breadth of our assistance."[7]

The commitment in the aid strategy received a warmer welcome, probably because the stated reasons for the rule change were to ensure ODA reflected the breadth of the new international development agenda set by the UN Global Goals, and fully motivated other countries to meet these goals. In contrast, the 2017 Conservative party manifesto rationalized a change in the rules so "they are updated and better reflect the breadth of our assistance around the world." If the change was not implemented, the manifesto promised unilateral action through domestic legislation to allow for a "better definition of development spending."[8]

Increasing non-DFID ODA

At this point, DFID is still the UK's primary aid channel. However, the 2015 aid strategy predicted that "to respond to the changing world, more aid will be administered by other government departments, drawing on their complementary skills."[9]

By 2020, one third of the UK's ODA will be spent by government departments outside of DIFD. As well, all UK ODA, regardless of which department spends it, will be ranked as either 'good' or 'very good' on the international aid transparency index. The Government is on track to reach its target that 30% of ODA will be managed outside DFID. The rationale is this move will harness the expertise of other government departments and encourage a holistic approach to aid and development that DFID might not be able to realize on its own. Examples of the value of this strategy can be seen in the Department of Health's management of the "Ross Fund," which draws on in-house expertise in supporting research into diseases with epidemic potential, such as Ebola, as well as other neglected tropical diseases. Despite legitimate reasons for increasing the number of departments and funds involved in the management of ODA, the figure of 30% has never been justified. There have been arguments that the arbitrary nature of this number means that departments, who are neither as equipped or experienced as DFID, are having to handle a sudden increase in the overseeing of hundreds of millions of pounds of ODA.

Prosperity fund

An examination of the cross government Prosperity Fund demonstrates some of the problems that can arise. The Fund, which is not a government department, was set up as part of the 2015 Aid Strategy's emphasis on supporting economic growth. As noted

above, its primary work is in middle-income countries, where a portfolio of investments seeks to better enable economic growth, with the secondary benefit of creating opportunities for UK companies and international business.[10] It was originally allocated £1.3 billion to deploy to this end. The Prosperity Fund's main geographic focus lies with Middle Income Countries (MICs), which are DAC recipients such Colombia, India and South Africa. In 2016 the Fund spent £38 million that was ODA-eligible.

The Independent Commission for Aid Impact, the body responsible for formally scrutinising UK aid spending, launched a study of the Fund. Among a number of concerns, it stated that:

> "The planned scale and pace of its aid spending poses a number of risks. Chief among them is the risk that those lead government departments with little experience of large aid programmes may struggle to design and deliver programs capable of achieving intended results."[11]

As a result the originally planned deployment of £1.3 billion was revised to £1.2 billion from 2016/17 to 2021/22.

Conflict, Stability and Security Fund (CSSF)

The CSSF's mandate is to promote the economic development and welfare of developing countries by strengthening peace and resilience where there is actual, or a risk of, conflict and instability. This purpose aligns with national security objectives of "Protect our People" and "Project our Influence". In 2016, the CSSF's budget was £1.127 billion, of which £600.9 million was spent on ODA-eligible activities.

The rationale for blending ODA and non-ODA funding is that it enables a wider range of departments to deliver on instructions from the National Security Council, which administers the Fund. This, in turn, facilitates a more holistic and integrated UK approach to conflict and instability. As a result, the CSSF can respond to NSC priorities as they evolve as opposed to being restricted purely to ODA eligible activities.

However, this good theory has had difficulties in practice. In March 2018, ICAI published a performance review of the Fund, which gave it a red/amber rating.[12] Specific areas of concern included inadequate results management, inconsistencies in the quality of the programming and erratic human rights risk management.

A lack of transparency was also highlighted, which was made more complicated by the CSSF's blend of ODA and non-ODA activities. Large tranches of information were redacted for national security reasons, making it difficult to assess the quality of significant elements of programming. The ICAI stated that:

> "Sometimes sensitivity and confidentiality are used as arguments for the decision not to share information … Although this may be valid in specific circumstances, our evidence indicates that this justification is over-used …we found that different people classified CSSF documents in different ways, with some restricting access as the default option, and others not.[13]"

Transparency:

A common criticism of ODA managed by other government departments is that they do not meet the historical levels of transparency that DFID has achieved. The importance of this critique has been recognised by the Government. In response, it is requiring that all government departments that spend ODA must achieve a 'good' or 'very good' rating on the International Aid Transparency Index.

In June 2018, Publish What You Fund released their 2018 *Aid Transparency Index*. The *Index* is the only independent measure of aid transparency commitment for the world's major development agencies. It ensures that donors disclose information on how they use aid, enabling the public to hold them accountable for making good on their aid commitments, and encouraging progress where it is needed.

DFID was rated as "very good" with a score of 90.9 out of 100, meaning it ranked 3rd out of 45 global donors. However, the Foreign and Commonwealth Office, scoring just 34.3 out of 100, was rated "poor" and ranked 40th out of 45 donors. The "poor" rating repeated the status acquired when the FCO last appeared in the index in 2014.

The results paint a worrying picture for the Government and its commitment to having not just the FCO, but all of its ODA spending departments reach the level of good or very good in the next 18 months before 2020.

Conclusion: Aid outside DFID – A valuable resource?

The management of a share of ODA by relevant government departments, not just the main aid agency, is a growing trend internationally. For example, in Switzerland, 38% of ODA spending in 2016 was delivered by departments other than the Swiss Agency for Development and Cooperation. In Sweden, which spends 1% of GNI annually on ODA, only roughly half of ODA spending was managed by Sida (the Swedish government authority for development cooperation). The majority of other ODA eligible expenditures were undertaken via its Ministry for Foreign Affairs. In fact, the UK is the only DAC donor to have an independent government department headed by its own senior minister to administer ODA.

These are complicated issues, Despite the valuable experiences other departments can bring to UK aid and development, the numerous problems that these departments and funds have incurred around transparency, aid effectiveness, secondary purposes, cross-government coherence and poverty focus, create a worrying picture at a time when their ODA budgets are set to increase.

Only some of these problems have been touched upon. Technical problems in delivering ODA outside the main aid agency are compounded when mixed with a narrative of providing 'aid in the national interest.' Dual objectives of national interest alongside poverty reduction can create an inherent tension, which results in secondary national interests eclipsing ODA's primary aim of reducing poverty. Taking this to its furthest conclusion, an increasing emphasis on the promotion of UK interests can distract from the rightful emphasis of ODA on poverty reduction. It also has potential to be a worrying step toward the return of tied aid.

ODA is both an invaluable and finite resource. While relevant government departments can have a role to play in delivering ODA, this must be done cautiously, with ODA's core objectives in mind. To that end, DFID should play a primary role in developing the skills and capacities of ODA-administering departments across Whitehall, while also ensuring consistently high standards for ODA administration.

ENDNOTES

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13 ICAI (2018) The Conflict, Security and Stability Fund's Aid Spending: https://icai.independent.gov.uk/report/cssf/

The challenges and opportunities of US Foreign Assistance under Trump

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Overview

- The Trump administration has successfully shifted some aspects of US foreign assistance towards a more self-serving agenda. Fortunately, the "America First" rhetoric has not completely devastate the poverty-fighting potential of US Foreign Assistance. A number of key initiatives remain intact or are gaining support.
- Congress rejected the administration dramatic foreign assistance cuts.
- Efforts inside development agencies hold the promise to increase attention towards ownership, more transparency, and to better mainstream a focus on gender.
- There are also promising efforts to increase the link between US foreign assistance and other forms of development finance, including a strengthened focus on aid for domestic revenue mobilization (DRM) and congressional introduction of a bill that would consolidated and expand the US's development finance institution.

Introduction

During the 2015-2016 presidential campaign, then-candidate Donald Trump consistently returned to a familiar sentiment, that the United States should "stop sending foreign aid to countries that hate us." This anti-aid mantra sent chills down the spines of anti-poverty activists who understood what a weakened US foreign aid profile meant for the global fight against poverty. Many foreign policy experts worried what these statements meant for US security interests.[1]

Once Trump became president, his administration successfully shifted aspects of the US's foreign assistance towards a more self-serving agenda. But the aid supporters in Congress have, so far, effectively blocked some of his more audacious proposals. As a result, the US continues to be a leading aid donor and has taken strides towards linking its aid to other forms of development finance. Yet, the administration continues to beat the anti-aid drum, and this may ultimately lead to regressive aid practices.

US Foreign Assistance

Given that the US is a significant actor in the fight against global poverty any changes to US foreign assistance will have major consequences. Although the US only spends 0.18% of its Gross National Income (GNI) on Official Development Assistance (ODA), which represents less than 1% of the US federal budget,[2] it is the world's largest bilateral donor.[3] In addition, the US is still the largest provider to least developed countries, responsible for 37% of all DAC ODA provided to LDCs in 2016.[4]

While it still requires congressional approval, the administration's proposed State, Foreign Operations, and Related Programs (SFOPS) for fiscal 2019, gives indications as to future geographic allocations for US foreign assistance, which includes more than traditional ODA.[5] Nearly 45% of all foreign assistance would go to the Middle East and North Africa region, 34% to Sub-Saharan Africa, 8% to South Central Asia, 7% to the Western Hemisphere, and the remaining 6% to Europe/Eurasia and East Asia and the Pacific.[6]

In its foreign assistance, the US tends to prioritize countries where it has a strategic interest. In that regard, Israel would continue to be the largest beneficiary of US foreign assistance ($3.3 billion), followed by Egypt ($1.38 billion,) Jordan ($1.28 billion), Afghanistan ($663 million,) Kenya ($624 million,) Tanzania ($553 million,) Uganda ($461 million), Zambia ($440 million), Nigeria ($352 million) and Pakistan ($336 million).[7]The United States Agency for International Development (USAID), the country's primary development agency, accounts for the largest share (39%) of US foreign assistance, followed by the Department of Defense (31%), the State Department (12%), and a host of other agencies and programs spanning from the Department of the Treasury to the Centers for Disease Control and Prevention.[8]

The US Administration's Anti-Aid Push

During his campaign, candidate Trump promised to implement an "America First" foreign policy. He used the term without irony, even though it meant adopting the slogan of groups considered anti-Semitic and pro-Nazi in the run up to World War II.[9] Upon taking office in January 2017, Trump has moved to implement this pledge. By December, Trump issued a new National Security Strategy that fleshed out the America First approach.[10]The policy included a decidedly reduced commitment to multilateralism,[11] including reduced US funding for the United Nations.[12] In 2018, the Administration doubled down on the approach, imposing retaliatory trade sanctions for alleged unfair trade practices on traditional US allies such as Canada and the European Union.

The Administration has shifted to an emphasis on defense over diplomacy and development. This approach is in contrast to the Obama administration's calls for balance among these three pillars of foreign policy. This change is apparent in the lack of formal policy-making officials at USAID (presidentially appointed and Senate confirmed) other than administrator Mark Green, 17 months into the administration.[13] These posts remain vacant or in the hands of career officials who hold them on an acting basis, with limited authority. At the same time, political appointees who do not require Senate confirmation (with titles such as "special assistant") wield outsized policy authority. A similar situation exists at the State Department[14] and the Millennium Challenge Corporation,[15] where the Senate has yet to confirm the nominated CEO.

The administration has threatened to cut off aid to governments that fail to vote with the United States in the United Nations.[16] It has also revived and broadened the so-called Mexico City policy, severely restricting the use of US aid funds for family planning and women's reproductive health.[17] This policy has significantly limited local health organizations' abilities

to perform their activities or access funds, even if the finances for their family planning activities are not obtained from the US.[18]

In April 2017 Trump issued an executive order requiring government agencies to "buy American and hire American"[19] and ordered compliance by September. For USAID, the move contrasted sharply with the approach of the Obama administration, which passively supported special exemptions[20] and permitted procurement from developing-country firms.[21]

President Trump's clearest anti-aid signal is demonstrated in his annual budget proposals, which have called for steep cuts in the FY18 and FY19 budgets. Fortunately, these cuts were blocked by Congress. For example, in fiscal 2018, the administration proposed a cut of 32%.[22] If these cuts had been approved, they would have disproportionately affected anti-poverty and gender equality programs. In FY18 details, the administration put forward a 40% cut for low-income countries, deeper than the proposed 32% reduction to the entire international affairs budget. In these budgets, rule of law and human rights, water and sanitation, and education would have been cut by approximately 45%.[23] Programs that protect vulnerable populations would have been cut by over 80%. Global health programs fared a little better in the proposed budget with a 26% cut, still a devastating blow that would mean that thousands of people who struggle to meet basic needs would lose access to critical health services such as HIV treatment or maternal health care.[24]

The President's proposed budget would have had a disproportionate impact on women. The FY18 proposed budget contained severe cuts (and in some cases eliminated) funding for accounts that address the needs of women in the developing world and drastically cut poverty-fighting programs. Both would have had a disproportionate effect on women.[25] Programs with an exclusive focus on gender equality and women's empowerment were to be cut by 61%, another clear sign that women would be hurt most.[26] While these cuts were blocked by congress, the administration tried again in their proposed FY19 budget calling for a 30% cut from the approved FY18 budget.[27] As discussed later in this chapter, congress again blocked these steep cuts.

The administration has also demonstrated a lack of support for US foreign assistance by failing to elevate the role of development as a pillar of national security. The Obama administration began to rhetorically prioritize development alongside diplomacy and defense as part of a broader national security strategy.[28] But these ambitions fell short of elevating the USAID administrator to the National Security Council or the President's cabinet, or to grant the development budget parity with diplomacy and defense. The Obama administration did, however, propose a single coherent US global development policy, the Presidential Policy Directive on Global Development,[29] something the current administration has not done. Without a single coherent policy, US implementation of foreign aid suffers from duplication, political competition and varied implementation of good donor practice, including compliance with development effectiveness principles.

Shortly after assuming the office, the new administration called for a reorganization of the State Department and USAID.[30] The call

sparked concern and strong engagement from the CSO community, fearful that it signaled intent to subsume USAID under the State Department and thus further debilitating USAID's ability to fight poverty.[31] In response, aid advocates offered proposals to strengthen development and prioritize the developmental purpose of US foreign assistance.[32]

Reasons to be hopeful

While the picture on US development investments may seem bleak, there is reason to be hopeful. The drastic cuts proposed by the administration were essentially blocked by Congress, even with that body under the control of Trump's own party. The approved appropriation bill for FY 2018, essentially, Congress's response to the administration's proposed budget and which was ultimately enacted, indicated only a slight 6% cut to the International Affairs Budget compared to 2017. While still a cut, it is far from the administration's proposed 32% reduction.[33] Congress has also maintained spending on key anti-poverty accounts, especially global health programs, including $6 billion to combat HIV/AIDS. The most recent reorganization proposals keep USAID independent while creating internal efficiencies.[34] While the lack of an overall development strategy inhibits a consistent approach consistent with aid effectiveness principles and support for gender equality, internal bureaucratic pressure exists to improve the poverty-fighting potential of US aid.

US aid and development effectiveness

The current USAID leadership intends to reform USAID operations, offering opportunities to build on the Obama administration's efforts and to improve transparency, ownership, and locally led planning. Former USAID administrator Raj Shah had introduced a series of internal reforms, known as USAID Forward. These aimed to strengthen USAID's approach to building local partnerships, through the fostering of innovative development approaches, being more results oriented, and allowing for more in-country based strategic planning through a Country Development Cooperation Strategy (CDCS).[35] A number of these reforms, especially an effort to provide more US aid directly to local organizations,[36] were codified into USAID's operational guidance.[37]

Current USAID Administrator Green has embarked on his own reform agenda, entitled Journey to Self-Reliance (JTSR).[38] This proposal focuses on supporting countries' own ability to solve development challenges, and includes a set of self-reliance metrics measuring a country's commitment and capacity. While initially the metrics were to identify countries ready for a changed bilateral relationship with USAID, with less focus on bilateral ODA, the metrics are now intended to guide country level strategy and programmatic choices through the CDCS process.

The Millennium Challenge Corporation (MCC) continues to embed the development effectiveness principle of ownership in its operational model.[39] However, many of these efforts are threatened by understaffing and implementation challenges because those appointed to prominent positions lack development expertise.[40]

USAID[41] and MCC[42] have both adopted gender policies to inform their work.

However, these agencies face operational challenges,[43] and need to ramp up gender spending. In 2015, only 6% of US aid was spent on programs with a primary purpose of addressing gender inequality, leaving the US at 11th place among other top donors.[44] Even expanding the scope to include projects that consider gender issues but not as the primary objective, the figure only rises to 20% of US aid, which put the US in 21st place in 2015.

Congress has joined efforts to improve US foreign aid, passing the Foreign Aid Transparency and Accountability Act (FATAA) in 2016.[45] The bill ensures that all US aid providing agencies measure and report their activities and their impact to determine what is and is not working in US foreign assistance. In compliance with the Act, an increasing share of US foreign assistance is regularly reported to the US Foreign Assistance dashboard and relatedly, more US agencies are reporting their activities through the International Aid Transparency Initiative (IATI).

MCC consistently ranks in the top 10 on Publish What You Fund's Aid Transparency Index.[46] USAID, the Department of State, PEPFAR, and the Department of Defense have steadily improved their scores on the index since its inception in 2013. Despite this progress, a number of challenges remain. According to Oxfam research, for example, it was only possible to verify (through IATI) that 7% of US foreign assistance provided to Ghana arrived in the country between 2013 and 2015.[47] One significant reason for this situation was the US Government's failure to require all of its implementing partners to report their activities to IATI, similar to requirements at UK DFID. The US also does not currently report its activities against the IATI gender policy marker, making it harder to track the quality of it programs marked as working towards gender equality.

Aid for Domestic Resource Mobilization (DRM)

Domestic resources are a long way from replacing the need for ODA, considering the rate of DRM growth and the amount of finance required to achieve the SDGs. Still, DRM is a critical aspect of sustainable financing for developmental though DRM activities encompass less than .02% of ODA. The US seems to be moving in the right direction in terms of pushing for more ODA commitments towards aid for DRM by both increasing its own activities and championing aid for DRM efforts in global arenas. According to Administrator Green, DRM is a means towards "passing the baton" to partner countries[48] and has integrated DRM into the Journey to Self-Reliance.

USAID currently spends approximately $29 million per year on aid to DRM in over 30 countries.[49] In addition, the MCC spends around $12 million and the US Department of the Treasury spends around $4 million. While aid for DRM is provided through multiple agencies, the US is the largest aid contributor to DRM activities.[50] The US is also a founding member of the Addis Tax Initiative (ATI), and is currently a co-chair of the ATI Steering Committee. One of the three ATI commitments is for donors to double support for DRM from $223.7 million in 2015 to $447.5 million by 2020.[51] Most donors are not on track to meet this commitment, but the US Congress recently endorsed more DRM spending by approving $75 million for DRM specific line items in the FY19 budget request.[52]

Yet, for DRM activities to be a force against poverty, aid for DRM must go beyond technical assistance and software development to an integrated focus on how revenues are collected as well expenditures. The quality of aid for DRM must also be improved consistent with development effectiveness principles. It should also help support governments to adopt pro-poor/equitable DRM strategies with a stronger focus on gender-responsive budgets.

US and private sector

The US has a history of supporting the private sector in development, and with the Trump administration there is a renewed focus and greater attention on this front. USAID has emphasized projects that contribute to building local private sectors[53] and has fostering more private sector finance through initiatives like the Development Credit Authority (DCA.)[54] Private sector growth is embodied in the MCC's mission "to reduce poverty through economic growth."[55] The MCC puts this mission into practice by assessing all proposed MCC compact activities against a rigorous economic rate of return metric.[56]

In February 2018, Congress introduced bipartisan legislation to revamp and expand the US's development finance institution, the Overseas Private Investment Corporation (OPIC). Created in 1971, OPIC provides loans, guarantees, and risk insurance to US firms that invest in developing countries. The Better Utilization of Investments Leading to Development (BUILD) Act of 2018 would replace OPIC with the US International Development Finance Corporation (IDFC) at double the level of capitalization, with authority to make equity investments. It would roll the DCA into the new agency. The IDFC would continue to give preference to US firms, but would also have the ability to provide resources to non-US companies. One motivation of the bill's sponsors is a desire to enhance the US's ability to compete with China as a source of global development finance.

The initial text of the BUILD Act weakened OPIC's environmental and social safeguards and was vague in ensuring that IDFC projects would advance sustainable development. The legislation would have drastically watered down a 33-year-old prohibition on investments in countries whose governments fail to take steps to uphold labor rights. The House of Representatives took steps to improve the bill in committee, although it did not fully return to the level of standards in the current OPIC authorization. The House passed its version of the bill. In committee the Senate further built upon the improvements in the House bill so that the human rights, labor, and environmental standards in OPIC would remain in the BUILD act and it also included improved transparency requirements. The Senate bill has passed out of committee but has not yet passed the full chamber (August 2018).

Progress in an unfriendly environment

While the signs of an anti-aid agenda from the Trump administration remain mostly signals there is still reason to be concerned. It may only be a matter of time before the anti-aid drumbeat has tangible, adverse effects. Efforts to provide more locally implemented ODA may succumb

to the administration's emphasis on its "buy American" mandate. The push to provide aid to countries that vote with the US at the UN may ultimately create more politicized aid practices. US aid is already highly correlated with UN voting.[57] This may become even more pronounced, depending on the strength of the mandate outlined in internal guidance from US UN Ambassador Nimrata ("Nikki") Haley.[58] The current administration still has some time to fully implement an anti-aid agenda. US organizations advocating for accountable and effective US foreign aid will need to be vigilant and ready to push the administration in the right direction.

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Part 2

Glossary of Aid Terms

ADB - Asian Development Bank

AF - Adaptation Fund

AfDB - African Development Bank

AIIB - Asian Infrastructure Investment Bank

AICD - Africa Infrastructure Country Diagnostic

Aid - see ODA Official Development Assistance

AIMM - Anticipated Impact Measurement and Monitoring is a system that offers an "end-to-end" framework to help IFC managers and its board make decisions about which projects to approve based on a range of quantitative and qualitative information about the project's likely impacts on poverty alleviation and market creation

Alignment - Donors base their overall support on partner countries' national development strategies and co-ordinate development actions

AMP - Aid Management Platform

ASEAN - Association of South East Asian Nations

BDEAC - Banque de Développement des États de l'Afrique Centrale (Development Bank of Central African States)

BF - Blended Financing

Bilateral Aid - is provided to developing countries and countries on Part II of the DAC List on a country-to-country basis, and to institutions, normally in Britain, working in fields related to these countries.

BNDES - Banco Nacional Do Desenvolvimento (Brazilian Economic and Social Development Bank)

Budgetary Aid - is general financial assistance given in certain cases to dependent territories to cover a recurrent budget deficit

CBOs – Community-Based Organisations

CCB – China Construction Bank

CCIC – Canadian Council for International Cooperation

CDC – Commonwealth Development Corporation

CDCS - Country Development Cooperation Strategy

CODA - Climate-related Official Development Assistance

Concessionality Level - is a measure of the 'softness' of a credit reflecting the benefit to the borrower compared to a loan at market rate (cf. Grant Element).

Conditionality - is a concept in international development, political economy and international relations and describes the use of conditions attached to a loan, debt relief, bilateral aid or membership of international organisations, typically by the international financial institutions, regional organisations or donor countries.

COP – Conference of the Parties

CSO – There is no precise definition or category of Civil Society Organizations but generally they are the full range of organizations that are established voluntarily by citizens seeking to promote their concerns.

CSSF - Conflict Stability and Security Fund

DAC - Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD) is a forum for consultation among 21 donor countries, together with the European Commission, on how to increase the level

Glossary of Aid Terms

and effectiveness of aid flows to all aid recipient countries. The member countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, and USA. DAC sets the definitions and criteria for aid statistics internationally.

DBSA - Development Bank of Southern Africa

DCF – Development Cooperation Forum

Debt relief - may take the form of cancellation, rescheduling, refinancing or re-organisation of debt.

DEG - Deutsche Investitions-und Entwicklungsgesellschaft (German Investment and Development Corporation)

DFIs - Development Finance Institutions

DFID – UK's Department for International Development

EBRD - European Bank for Reconstruction and Development

EC - European Commission

EFSD - European Fund for Sustainable Development

EIB - European Investment Bank

EIP – EU's External Investment Plan

ELC - Economic Land Concession is a long-term lease arrangement program under the Cambodian government, allowing a concessionaire to clear land to develop industrial-scale agriculture

ESA - European System of Account

ESF - Economic Support Fund is aid designated to promote economic or political stability in areas where the United States has special strategic interests.

FATAA - Foreign Aid Transparency and Accountability Act

FIAP - Feminist Assistance Policy

FinDev Canada - Canada's new development finance institution, which represents an additional form of non-ODA international assistance

FOCAC - Forum on China-Africa Cooperation

FPIC – Free, Prior and Informed Consent is a specific right that pertains to indigenous peoples and is recognised in the United Nations Declaration on the Rights of Indigenous Peoples.

G20 - Group of 20 Finance Ministers and Central Bank Governors. Established in 1999, it brings together systematically important industrialized and developing economies to discuss key issues in the global economy.

G24 - Group of 24 developed nations meeting to coordinate assistance to Central and Eastern Europe

GAC – Global Affairs Canada

GATT - General Agreement on Tariffs and Trade

GCF - Green Climate Fund

GDP - Gross Domestic Product

GNI - Gross National Income. Most OECD countries have introduced a new system of national accounts which has replaced Gross National Product (GNP) with GNI. As GNI has generally been higher than GNP, ODA/GNI ratios are slightly lower than previously reported ODA/GNP ratios.

GNP - Gross National Product

GPEDC - Global Partnership for Effective Development Co-operation

Glossary of Aid Terms

Grant element - reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to first repayment of capital). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. Thus, the grant element is nil for a loan carrying an interest rate of 10%; it is 100 per cent for a grant; and it lies between these two limits for a loan at less than 10% interest. 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 (cf. Concessionality level) (Note: the grant element concept is not applied to the market-based non-concessional operations of the multilateral development banks.)

IAE – International Assistance Envelope

IDRC - In-donor refugee cost

IBRD - International Bank for Reconstruction and Development

IcSP - Instrument Contributing to Stability and Peace

IEG – Independent Evaluation Group evaluates the development effectiveness of the World Bank Group

IFC - International Finance Corporation

IFFs - Illicit Financial Flows generally refers to cross-border movement of capital associated with illegal activity or more explicitly, money that is illegally earned, transferred or used that crosses borders.

IFIs - International Financial Institutions

IMF - International Monetary Fund

INGOs - International Non-Governmental Organizations

JAS - Joint Assistance Strategies

JICA - Japan International Cooperation Agency

KOICA – Korea International Cooperation Agency

L&D – Loss and Damage

LIC – Low-Income Countries or countries with an annual per capita income of less than US$765 in 1995

LDC - (or sometimes LLDC) Least Developed Countries or the 48 poor and vulnerable countries are defined by the United Nations as having an annual per capita income of less than US$765 in 1995.

LMIC - Lower Middle-Income Countries or countries with an annual per capita income between US$766 and US$3035 in 1995

MDGs - Millennium Development Goals are the international goals for poverty reduction and development agreed by the United Nations in the year 2000. These include the International Development Targets.

MDBs - Multinational Development Banks

MFF – Multi-annual Financial Framework

MIC – Middle Income Countries

MIGA - Multinational Investment Guarantee Agency

MSME – Micro, Small and Medium Enterprise

Multilateral agencies - are international institutions with governmental membership, which conduct all or a significant part of their activities in favour of development and aid recipient countries. They include multilateral development banks (e.g. The World Bank, regional development banks), United Nations agencies, and regional groupings (e.g. certain European Union and Arab agencies). A contribution

Glossary of Aid Terms

by a DAC Member to such an agency is deemed to be multilateral if it is pooled with other contributions and disbursed at the discretion of the agency. Unless otherwise indicated, capital subscriptions to multilateral development banks are recorded on a deposit basis, i.e.: in the amount and as at the date of lodgement of the relevant letter of credit or other negotiable instrument. Limited data are available on encashment basis, i.e.: at the date and in the amount of each drawing made by the agency on letters of other instruments.

Multilateral aid - aid that is channelled through international bodies for use in or on behalf of aid recipient countries. Aid channelled through multilateral agencies is regarded as bilateral where the donor controls the use and destination of the funds.

Multilateral portfolio investment - covers the transactions of the private non-bank and bank sector in the securities issued by multilateral institutions.

Mutual Accountability - Donors and partners are accountable for development results

NABARD - National Bank for Rural Development

NBR - National Board of Revenue

NDICI - Neighborhood, Development and International Cooperation Instrument

NEDA - National Economic and Development Authority, the economic planning agency of the Philippines

NGDO - Non-Governmental Development Organisation

NGO (PVO) - Non-Governmental Organisations (Private Voluntary Organisations) also referred to as Voluntary Agencies. They are private non-profit-making bodies that are active in development work

NIC - Newly industrialised countries

NIPs - National Indicative Programmes (EU)

NPV - Net Present Value

OA - Official Assistance (Aid) is government assistance with the same terms and condition as ODA, but which goes to Countries and Territories in Transition which include former aid recipients and Central and Eastern European Countries and the Newly Independent States. It does not count towards the 0.7% target.

ODA - Official Development Assistance (often referred to as 'aid') of which at least 25% must be a grant. The promotion of economic development or welfare must be the main objective. It must go to a developing country as defined by the DAC

ODAAA - Official Development Assistance Accountability Act

ODF - Official Development Finance is used in measuring the inflow of resources to recipient countries; includes [a] bilateral ODA, [b] grants and concessional and non-concessional development lending by multilateral financial institutions, and [c] Other Official Flows that are considered developmental (including refinancing loans) which have too low grant element to qualify as ODA.

OECD - Organisation for Economic Cooperation and Development (see DAC)

OHCHR - Office of the UN High Commissioner for Human Rights

OOF - Other Official Flows are flows to aid recipient countries by the official sector that do not satisfy both the criteria necessary for ODA or OA.

ODI - Overseas Development Institute

Glossary of Aid Terms

OPIC - Overseas Private Investment Corporation

Ownership - Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions

PDF - Philippines Development Forum

Performance-based aid - is a system of benchmarks which, once reached, trigger additional funding packages.

PFM - Public Finance Management

PPP - Public Private Partnership

Private Flows - are long-term (more than one year) capital transactions by OECD residents (as defined for balance of payment purposes) with aid recipient countries, or through multilateral agencies for the benefit of such countries. They include all forms of investment, including international bank lending and Export Credits where the original maturity exceeds one year. Private flows are reported to DAC separately for Direct Investment, Export Credits and International Bank Lending, Bond Lending, and Other Private (lending)

Programme Aid - is financial assistance specifically to fund (I) a range of general imports, or (ii) an integrated programme of support for a particular sector, or (iii) discrete elements of a recipient's budgetary expenditure. In each case, support is provided as part of World Bank/IMF coordinated structural adjustment programme.

PB - Participatory Budgeting was implemented by the Brazilian City of Porto Alegre with the objective of including a wider part of the population in the process of city budget allocation, through an annual cycle of public consultations and deliberations.

PSIs - Private Sector Instruments

Recipient Countries and Territories - is the current DAC list of Aid Recipients see LDC, LIC, LMIC, UMIC, HIC

RoA - The Reality of Aid Network

SDC – Swiss Agency Development Cooperation

SIDCA - State International Development Cooperation Agency

Smart Power - the combination of “soft” (e.g. development aid) and “hard” (e.g. military) power.

SMEs - Small and medium-sized enterprises

Soft Loan - A loan of which the terms are more favourable to the borrower than those currently attached to commercial market terms. It is described as concessional and the degree of concessionality is expressed as its grant element.

South-South Development Cooperation - refers to the cooperation/relations amongst developing countries; in the AAA, "South-South cooperation on development aims to observe the principle of non-interference in internal affairs, equality among developing partners and respect for their independence, national sovereignty, cultural diversity and identity and local content. It plays an important role in international development cooperation and is a valuable complement to North-South cooperation"

SSA - Sub-Saharan Africa

SSDC – South-South Development Cooperation

STEP - Special Terms for Economic Partnership Yen loan scheme was introduced in July 2002, with a view of raising the visibility of Japanese ODA among citizens in both recipient countries and Japan through best use of advanced technologies and know-how of Japanese firms

TA/TC - Technical Assistance/Technical Cooperation includes both [a] grants to nationals of aid recipient countries receiving education or training at home or abroad, and [b] payments to consultants, advisers, and similar personnel as well

Glossary of Aid Terms

as teachers and administrators serving in recipient countries (including the cost of associated equipment). Assistance of this kind provided specifically to facilitate the implementation of a capital project is included indistinguishably among bilateral project and programme expenditures, and is omitted from technical cooperation in statistics of aggregate flows.

Tied Aid - is aid given on the condition that it can only be spent on goods and services from the donor country. Tied aid credits are subject to certain disciplines concerning their concessionality levels, the countries are to which they may be directed, and their development relevance designed to try to avoid using aid funds on projects that would be commercially viable with market finance, and to ensure that recipient countries receive good value.

TNC - Transnational Corporation

UMIC - Upper Middle Income Countries or countries with an annual per capita income of between US$3036 and US$9385 in 1995

UN - United Nations

UNAIDS - Joint United Nations Programme on HIV/AIDS

UNCED - United Nations Conference on Environment and Development, Rio de Janeiro 1992

UNCHS - United Nations Centre for Human Settlements

UNCDF - United Nations Capital Development Fun

UNDAC - United Nations Disaster Assessment and Coordination

UNDAF - United Nations Development Assistance Framewor

UNDP - United Nations Development Programme

UNEP - united Nations Environment Programme

UNFCCC - United Nations Framework Convention on Climate Change

UNESCO - United Nations Educational Scientific and Cultural Organisation

UNFPA - United Nations Fund for Population Activities

UNHCR - Office of the United Nations High Commissioner for Refugees

UNICEF - United Nations Children's Fund

UNRWA - United Nations Relief and Works Agency

United Aid - Official Development Assistance for which the associated goods and services may be fully and freely procured in substantially all countries.

USAID - United States Agency for International Development

Vertical Programmes - also known as vertical funds, global programmes and global initiatives, are defined by OECD and the World Bank as "international initiatives outside the UN system which deliver significant funding at the country level in support of focused thematic objectives"

WB - World Bank

WFP - World Food Programme

WHO - World Health Organization

WID - Women in Development

WTO - World Trade Organisation

Sources consulted include: Reality of Aid, Annual Development Cooperation Report of the DAC

Part 3

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