Trends and insights on development finance

What insights can be gleaned from this year’s profiles of development co-operation providers, OECD statistics on official development assistance (ODA) and private development finance, recent publications and DAC Peer Reviews?

- **Overall net ODA flows from DAC members decreased in 2017 and preliminary data show they also fell in 2018**, standing at USD 147.2 billion and USD 143.2 billion respectively compared to USD 147.6 billion in 2016 (2017 prices). Although ODA excluding in-donor refugee costs and debt relief is steady, current levels of ODA do not match the collective ambition of the 2030 Agenda for Sustainable Development or the international commitments set out in the Addis Ababa Action Agenda.

- **ODA rose in 17 DAC members in 2018, but fell in 12**. Of the 17 providers beyond the DAC that report to the OECD, 16 have increased their ODA levels since 2014 and these providers now represent 10% of ODA reported to the OECD.

- **The 26 private philanthropic foundations sharing data with the OECD provided USD 6.1 billion for development in 2017**. Foundations allocated USD 3.7 billion to health and population in 2017, making them the second most important source of development finance in this area after the United States.

- **Half of DAC members have updated their development co-operation policies and strategies since 2017**. The new policies and strategies identify how members will contribute to achieving the Sustainable Development Goals in developing countries – both directly and by addressing global challenges – while also serving their national interests in areas such as trade and security.

- **DAC members’ ODA budgets are managed across an increasing number of government departments and agencies**. This broadens the pool of expertise available to solve development challenges, but brings with it challenges of co-ordination and coherence.

- **The share of bilateral ODA that is programmed at the country level has decreased. DAC members are increasingly funding multilateral and global entities** to address global challenges and public goods, as well as using multilateral
channels to directly support country programmes. Peer reviews find that this has advantages in achieving scale and reducing direct transaction costs, but it can make it more challenging for DAC members to sustain dialogue and build partnerships with partner governments and local implementers.

- **The expectation of the 2015 Addis Ababa Action Agenda that unlocking private capital could convert billions of ODA to trillions of development finance is not yet being met.** Although increasing each year, the USD 33.9 billion mobilised from the private sector in 2017 by official development finance interventions remains modest in scale, less than a quarter of ODA volumes for the same year. Furthermore, foreign direct investment in developing countries fell by USD 70 billion, or 11% between 2015 and 2016.

As in previous years, the development finance statistics for 2017-18 tell a complex story. The following section explores eight development finance trends in more depth.

## ODA is rising, but too slowly to meet international commitments

![Net ODA from DAC members](image)

*Notes: Preliminary figures for net ODA in 2018 are presented here on a cash-flow basis.*


Net ODA from DAC members more than doubled between 2000 and 2016. However, in 2017 – in spite of positive economic growth in all but two DAC member countries – it fell by 0.3%, and preliminary data show it fell a further 2.7% in 2018. Excluding aid spent on processing and hosting refugees, total ODA was stable from 2017 to 2018.
For 12 DAC members, ODA in 2018 was lower than in 2017. In-donor refugee costs – which fell in all DAC members except Canada, the Czech Republic, France, Hungary, Slovenia and Spain – account for most of the recent fluctuations in total ODA. In Japan and the United States, the fall in ODA reflects cuts in their funding to the multilateral system. Seven countries met the UN target to provide 0.7% of gross national income (GNI) as ODA in 2017 and 2018. While peer reviews have repeatedly reported DAC members’ intentions to increase ODA budgets to 0.33-0.7% of gross national income (GNI), no member has published a plan to reach their respective target by 2030.

Providers reaching international ODA targets 2017-18


DAC peer reviews track, and hold members to account for, progress towards meeting international commitments and formal DAC recommendations.
How did DAC members perform on untying and loan terms in 2017?

The Development Assistance Committee monitors how members are meeting OECD recommendations on an annual basis:

- Most DAC members provide ODA in the form of grants, meeting the requirements of the 1978 DAC Recommendation on the Terms and Conditions of Aid (OECD, 2019b), whereby members agreed to raise the average annual grant element of loans to at least 86%. France failed to meet the Recommendation in 2016 and 2017 and Japan in 2017. The special measure in the Recommendation for the group of least developed countries was not met by France and Poland in 2016 and 2017 and by Japan in 2017.

- Six DAC members (Australia, Denmark, Iceland, Ireland, Norway and the United Kingdom) report 100% of their ODA as untied under the 2001 DAC Recommendation on Untying Official Development Assistance (OECD, 2019c). The poorest performers against this Recommendation in 2017 were Austria, Czech Republic and Korea.


The share of loans in ODA is rising with the cost of some lenders’ loans increasing

The share of ODA provided in non-grant form – as loans, equity or private sector instruments – has increased for DAC members over the last decade, rising from 11% of gross bilateral ODA in 2008 to 18% in 2017. In 2017, France, Germany, Japan, Korea and the EU institutions provided more than 20% of their gross bilateral ODA in non-grant form.

In particular, loans as a proportion of ODA have significantly increased over the last decade for France (from 13% to 38%) and Germany (from 8% to 18%), which lend primarily to lower and upper middle-income countries (LMICs and UMICs), as well as Japan (from 47% to 62%) and Korea (from 42% to 55%), which offer more concessional loans, primarily to LMICs.
Loan conditions – a composite of grace period, maturity and interest rate – vary widely among DAC members. For example, in 2017 average interest rates ranged from 0.2-0.3% for Italy, Korea and Poland; to 1.8-1.9% for France and Germany; and to 2.1-2.2% for Portugal and Spain.

The *Addis Ababa Action Agenda* acknowledges that lenders have a responsibility to lend in a way that does not undermine a country’s debt sustainability. This is pertinent, as the number of developing countries at high risk or in debt distress escalated from 13 to 24 between 2013 and 2018 (OECD, 2018a).

Recent work on transition finance (Piemonte et al, 2019) examines how the mix of development finance, including concessional and non-concessional loans from different sources, changes as the level of per capita income increases. It found that the share of external finance that was provided through ODA for the period 2012-16 dropped from 65% for countries at the lower end of the LMIC band (USD 996 per capita) to 35% for countries at the upper end (USD 3895 per capita). Countries are vulnerable to high indebtedness during this transition period. For example, after graduating to an LMIC in 2011, Zambia’s public and publicly guaranteed debt increased from roughly 20% in 2011 to 60% of its gross domestic product (GDP) in 2015 (Kim et al, 2018). Similarly, loans to Cabo Verde tripled following its graduation to an LMIC in 2007, leaving it at “high risk” of debt distress (IMF, 2018). (Morris, Cattaneo and Poensgen, 2018).

Understanding country contexts and what external financing they can access is thus key to designing appropriate loan instruments, particularly for least developed countries (LDCs) and LMICs.
Multilateral development banks are important providers of concessional and non-concessional loans. In 2016, concessional and non-concessional financing provided by multilateral actors reporting to the DAC amounted to USD 33 billion and USD 68 billion respectively. The LMICs received 50% of total multilateral concessional finance while non-concessional finance is directed towards LMICs (41%) and UMICs (52%) (OECD, 2018a).

ODA to least developed countries remains well below historic levels

ODA has a critical role to play in LDCs, where it represents 60% of external finance compared to 13% for non-LDCs (OECD, 2018a). ODA (bilateral and total) to LDCs peaked in 2010, representing at that time 30% of DAC donors’ bilateral ODA and nearly 32.5% of total ODA, or 0.10% of their combined GNI. Since then, the share of bilateral ODA to LDCs has dropped to 26% and of total ODA to 29%. In 2017 prices, this represents a fall from USD 27.4 billion in 2010 to USD 24.9 billion in 2016. ODA to LDCs rebounded in 2017 back to 2010 levels, but preliminary data indicate another dip in 2018.

While pledges made at the Monterrey Financing for Development Conference in 2002 and the 2005 Gleneagles G8 Summit to increase ODA flows to LDCs, and to Africa in particular, proved instrumental, the commitment in the 2030 Agenda for Sustainable Development to leave no one behind is not yet translating into more resources for countries in need (OECD, 2019b).
Significant changes in country level ODA allocations 2016-17

As discussed below, aid to fragile contexts is increasing. The share of ODA for fragile contexts which benefits LDCs has also grown over time, although increased funding to fragile contexts in 2004-07 and 2015-16 mainly reflected increased allocations to fragile contexts that were not LDCs.

It is encouraging that the share of bilateral concessional loans from DAC donors to LDCs is rising - from 2.5% in 2010-11 to 8.1% in 2016-17. However, LDCs receive a lower share of non-ODA flows, largely due to barriers they face in accessing capital markets and attracting foreign direct investment. In addition, LDCs received only 8% of all private finance mobilised through ODA between 2012 and 2017 (OECD, 2018a).

Donors are focusing their attention on crises and fragile contexts

ODA remains a critical source of financing for fragile contexts. In 2017, fragile contexts received 68% of earmarked ODA, or USD 74.3 billion - the highest share in six years. Over the year 2016-17, ODA from DAC countries to fragile contexts increased by 8%, ODA from non-DAC providers decreased by 3% and ODA through multilateral channels increased by 11.5%.

The challenges in fragile contexts are too great for one set of actors to address alone, therefore all actors must work in a more coherent way if there is to be a shift towards
stability in these places (OECD, 2018c). Accordingly, in February 2019, the DAC adopted a new DAC Recommendation on the Humanitarian Development Peace Nexus, calling for a shift in co-ordination, programming and financing to allow diverse actors to prioritise “prevention always, development wherever possible, humanitarian action when necessary” (OECD, 2019e). Of the total 2017 ODA funding from DAC members to fragile contexts, 25% was humanitarian assistance, 62% was development programming and 13% was for peacebuilding efforts, of which 2% for prevention.2

Overall, humanitarian assistance increased by 144% between 2010 and 2017, as global humanitarian needs have escalated, despite a small 8% dip between 2017 and 2018 (preliminary figures).

Geographically, the Syrian Arab Republic was the largest fragile recipient in 2017 – with USD 10.4 billion, or 14% of all aid to fragile contexts – followed by Ethiopia (6% or USD 4.1 billion) and Afghanistan (5% or USD 3.8 billion). Following closely behind was Bangladesh, with 5% or USD 3.8 billion, reflecting new commitments for the Rohingya refugee crisis. Indeed, DAC donors spent at least USD 25.98 billion supporting refugees and host communities in developing countries between 2015 and 2017, using both development tools and humanitarian assistance, with most respondents to a recent OECD survey intending to either increase or maintain their ODA to programmes and projects supporting refugees and their host communities in the future (Forichon, 2018). This is important given that 85% of refugees are hosted in developing countries.

One area of underinvestment is conflict prevention – especially given its potential to save both lives and money (UN, WB, 2018). In 2017, only 2% of ODA to fragile contexts (USD 1.8 billion) was spent on prevention. Ukraine was the largest recipient of prevention ODA, with USD 204 million in 2017, followed by Colombia with USD 138 million. Prevention is a key focus area for DAC members for 2019-20, following on from the International Network on Conflict and Fragility’s collective position in 2018 (INCAF, 2019).

DAC members are investing more in the environment and adapting to climate change

In 2017, a third of bilateral ODA from DAC members (USD 40.1 billion) supported the environment and a quarter (USD 30.7 billion) focused on climate change. While budgets addressing climate change adaptation increased from 12% to 15% of ODA, ODA for climate change mitigation dropped from 19% to 17%.

As evident from the figure below, overall levels of ODA supporting environmental sustainability and climate change have increased over time. Top performers among DAC members for ODA supporting the environment in 2017 were Iceland (72%), followed by France (62%), Japan (52%) and Germany (47%). The same four countries were top performers for ODA supporting climate change in 2017 (France, 52%; Japan, 39%;...
Germany, 38%; and Iceland, 37%). While the proportion of ODA focusing on climate change is increasing, ten DAC members had less ODA supporting climate change in 2017 compared to 2016 and a slightly different ten members had less ODA supporting the environment.

ODA that is channelled by DAC members through multilateral development banks, for example through capital replenishments, plays a key role in financing major infrastructure and investment projects for climate adaptation and mitigation.

Development finance is the major source for cross-border climate finance reported to the United Nations Framework Convention on Climate Change (UNFCCC), including in relation to commitments DAC members have undertaken for international climate finance to developing countries. The majority of these flows come from ODA budgets (OECD, 2015), an approach which is criticised by civil society and recipient countries in view of the commitments for international climate finance flows to be new and additional.

![Graph](http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/idsonline.htm)

**Source:** OECD (2019a), “Development finance statistics” (database)
Funding for gender equality is at an all-time high, but remains inadequate

In 2017, a total of USD 46.4 billion from DAC members, corresponding to 39% of their combined bilateral ODA, addressed gender equality as either a principal (dedicated) or a significant (integrated/mainstreamed) objective. Top performers in 2017 in terms of the percentage of their ODA supporting gender equality were Canada (87%), Ireland (87%), Sweden (87%) and Iceland (79%). Both the share and the volume of ODA addressing gender equality have increased over the past decade, and in particular over the past few years, and are today at an all-time high. The data nonetheless confirm that 61% of DAC members’ ODA in 2017 did not address gender equality and women’s empowerment.

In addition, only USD 4.52 billion, corresponding to 4% of bilateral ODA, were dedicated to gender equality as a principal objective in 2017, a figure that has not increased over recent years. DAC members thus have some way to go in effectively implementing the twin-track approach to gender equality and women’s empowerment that UN member states committed to in Beijing in 1995.

Encouragingly, Canada, the European Union and France have set ambitious targets for the proportion of ODA addressing gender equality. In addition, 25 DAC members now screen over 85% of their portfolio for gender equality, of which 13 members screen 100%.

For the 26 private philanthropic foundations reporting to the DAC, close to USD 1.1 billion in private grants and programme-related investments had gender equality as a principal or significant objective in 2017. The Bill & Melinda Gates Foundation remains the leader among private foundations in this area.

![Graph showing ODA from DAC members addressing gender equality as a principal or significant objective]

http://www.oecd.org/dac/financing-sustainable-development/development-finance-
Amounts mobilised from the private sector have increased, but total development finance remains insufficient for achieving the SDGs.

The [2030 Agenda for Sustainable Development](https://www.un.org/sustainabledevelopment/) and the [Addis Ababa Action Agenda](https://www.un.org/development/desa/dpad/2015-addis-ababa-summit-on-the-future-international-development-agenda.html) challenged the international development community to increase development finance resources, including by encouraging more private sector investment in developing countries. While the amounts mobilised from the private sector have increased over the years, total development finance remains far short of the estimated costs of achieving the Sustainable Development Goals.

As shown in the figure below, USD 152.1 billion was mobilised from the private sector in 2012-17 by official development finance interventions, increasing over the period. A majority of this finance was mobilised through guarantees (42% of the total). While Africa was the main beneficiary region with 27% of the total, only 8% of the amount mobilised supported projects in LDCs and 2% in other low-income countries. Members’ portfolios did not change significantly over recent years, suggesting that members could do more to adapt their development co-operation modalities and instruments in order to attract private investors.

### Development finance mobilised from the private sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Syndicated loans</th>
<th>Guarantees</th>
<th>Credit lines</th>
<th>Shares in CIVs</th>
<th>Direct investment in companies and SPVs</th>
<th>Simple co-financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2.5k</td>
<td>5k</td>
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<tr>
<td>2013</td>
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<td>10k</td>
<td>12.5k</td>
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<tr>
<td>2014</td>
<td>5k</td>
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<tr>
<td>2015</td>
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<td>10k</td>
<td>12.5k</td>
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<td>2016</td>
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<tr>
<td>2017</td>
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<td>10k</td>
<td>12.5k</td>
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</tbody>
</table>

**Notes:** CIV: collective investment vehicle; SPV: special purpose vehicle.

A third (34%) of the private finance mobilised for 2012-17 was mobilised by bilateral providers. The United States mobilised the largest share of private finance, followed by the United Kingdom and France. While multilateral providers primarily used guarantees and syndicated loans, bilateral development finance institutions and agencies, with the exception of the United States which mainly uses guarantees, provided most of their finance through collective investment vehicles.

**Better reporting is needed to fully track where ODA is going**

Providers reporting to the OECD commit to providing comprehensive information on where money is going and for what purpose. Over recent years, more bilateral aid is marked as “unallocated” by country – from 25% in 2007 to 37% in 2017 – making it increasingly difficult to get a full picture of how ODA is distributed.

Part of the increase in unallocated ODA is due to the rise in in-donor refugee costs over the 2015-17 period, which by their nature are not allocated to other countries and, for some DAC members, capital contributions to development finance institutions. However, almost half of unallocated bilateral ODA, and a rising share, is for project-type interventions and programmatic, typically multi-donor, funds. In many cases, it is not clear at the time of commitment or disbursement where this ODA will be used. However, the funding is ultimately used for programmes to benefit developing countries and that information, once available, should be reported. Peer reviews have noted an increase in funding for global goods and regional activities, but the volume of ODA reported as “regional” has remained between 7% and 8% over the last ten years.

![ODA from DAC members unallocated by country 2017](http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/idsonline.htm)

To compound the information gap, without counting in-donor refugee costs and administration costs, only about half of this unallocated ODA included information on what sector it targeted.

Further efforts by donors to report the countries and regions which eventually benefit from their ODA, and the sectors targeted, would strengthen accountability and improve the accuracy of systems to track all development finance.

Notes

← 1. Saudi Arabia started reporting to the OECD at the activity-level in 2018 and has so far provided partial data for 2015, 2016 and 2017. It is not currently possible to report the percentage of their gross national income allocated to official development assistance in 2017.

← 2. The OECD defines peacebuilding using a methodology proposed by the Institute for Economics and Peace, which leverages 16 purpose codes from the OECD Creditor Reporting System data. Please see Chapter 5 of the 2018 States of Fragility report for further detail on this methodology.

← 3. This section is based on information available as of February 2019 from the preliminary results of the 2018 data collection and an ad hoc survey.

← 4. The increases in the amounts mobilised through syndicated loans in 2014 and direct investment in companies in 2016 are mainly explained by better data coverage.

References


