

ODA allocation and other trends in development cooperation in LDCs and vulnerable contexts

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ODA in the 2030 Agenda and Addis Agenda

The 2030 Agenda for Sustainable Development, including the Addis Ababa Action Agenda on financing sustainable development, emphasises the use of resources beyond official development assistance (ODA). This shift necessitates deeper consideration and understanding of the comparative advantage that each resource has in different contexts and situations. This is perhaps most imperative in the case of ODA, as the smallest resource in overall terms and one with unique qualities. Being concessional, stable and non-profit seeking, ODA can target specific areas of need and reach the poorest and most vulnerable people.

Global debates have, broadly speaking, framed three, not necessarily mutually exclusive, key roles for ODA: 1) '**specialised ODA focused** on the poorest people, and the poorest countries (such as least developed countries (LDCs) and other fragile/vulnerable contexts, 2) **catalytic ODA** (that which aims to mobilise other forms of public and private finance, including ODA for domestic resource mobilisation, and 3) '**global ODA** (for providing global public goods). But the role of ODA in the 2030 Agenda for Sustainable Development must be considered against the wider context of recent ODA trends and current ODA debates. The rapid growth in ODA during the first 10 years of this century has largely stagnated in the wake of the global financial crisis, amid constraints on donor budgets. In light of the scale of financing needed to meet an ambitious 2030 Agenda, some donors are emphasising other forms of development cooperation such as blended financial instruments and private investments. These may be suitable in some contexts, yet such instruments may not release significant additional resource to the most vulnerable nations or contexts. In these areas, international and domestic public finances may be well suited for the social investments required. The role of ODA must then be considered with reference to where it is most needed on a global scale.

This brief gives an overview of recent trends to inform a discussion on **specialised ODA for specific contexts** (while recognising that the other two ways that ODA is used will certainly have significant impacts on the poorest countries and the poorest contexts). Three sub-groups of countries are discussed that are recognised for having low levels of development, or are facing specific issues of fragility or vulnerability: least developed countries (LDCs); countries in conflict and post-conflict situations and other 'fragile states', including those which are environmentally vulnerable; and small island developing states (SIDS). The brief also looks at the role of ODA in targeting need at sub-national level, and offers some emerging ideas and considerations for improving the role of ODA as a 'specialist' resource targeting poverty and vulnerability, moving beyond a state-based conceptualisation of need to one focused on people and 'leaving no-one behind'.

Preparing for the 2030 Agenda and the 2016 Development Cooperation Forum

The 2030 Agenda for Sustainable Development explicitly recognises the role of multiple actors and sources of finance as well as a wider range of means of implementation to achieve sustainable development outcomes as set out in the Sustainable Development Goals. This, along with the broader scope and more ambitious nature of the 2030 Agenda, highlights the need to further understand the current and emerging trends in ODA allocations, where they should be targeted and what their comparative advantage is within this landscape.

This brief is an extract from an independent input study prepared by Development Initiatives for the forthcoming report of the UN Secretary-General on trends and progress in international development cooperation, in advance of the 2016 Development Cooperation Forum, to be held in New York from 21 to 22 July. The study is commissioned by UNDESA as part of its research project on development cooperation in a post-2015 setting, supported by UKAID.

While it does not provide a comprehensive overview of the study, this brief aims to generate further discussion on current trends in ODA allocations and how ODA can be better targeted and aligned with other developmental resources to deliver on the Sustainable Development Goals. It will provide background for discussions at the DCF Belgium High-level Symposium, 'Rethinking development cooperation for the SDGs: country level perspectives and lessons,' to be held in Brussels from 6 to 8 April 2016. The Symposium is co-organised by UNDESA and the Government of the Kingdom of Belgium.



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from the British people

Trends in ODA to vulnerable countries and contexts

Least developed countries

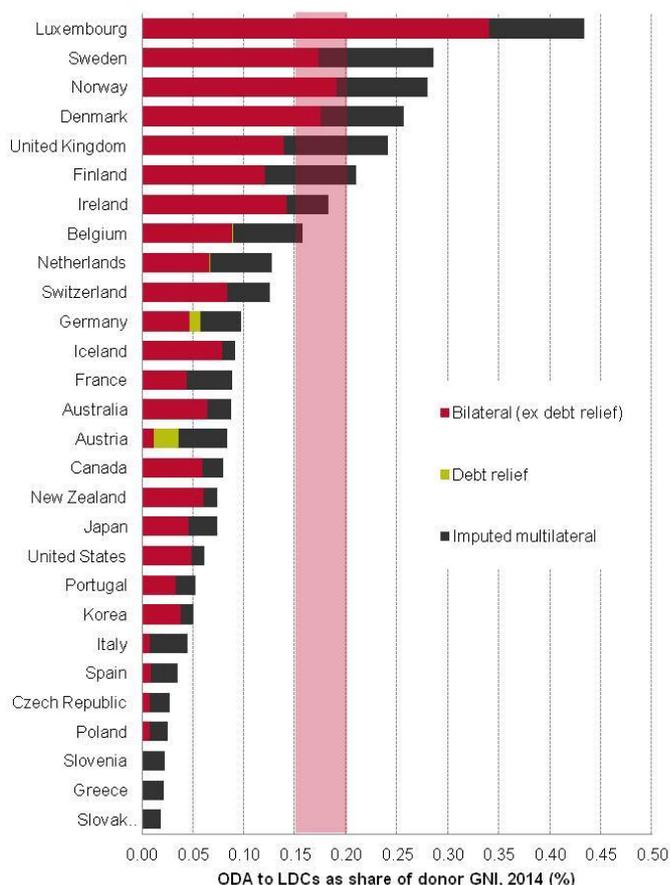
The group of LDCs comprises 48 countries each facing a combination of low income per capita, low human assets and economic vulnerability. These countries are typically beset by a range of long-term developmental issues including: persistently high poverty rates, relatively poor performance against the Millennium Development Goals (MDGs), poor infrastructure, low levels of manufacturing and heavy reliance on the export of primary commodities.

The need to support LDCs with ODA has long been recognised. Estimates of SDG investment needs in LDCs, even allowing for private investments to double over the period, have been estimated at US\$1.6 trillion annually¹; while rough UN-OHRLLS estimates put the financing gap of LDCs at US\$75 billion a year if these countries are to grow – on average – by 7% over the next 10 years, noting that ODA is a critical resource for filling this gap². The target for donors to provide ODA to LDCs equivalent to between 0.15% and 0.20% of donor gross national income (GNI) was adopted at the first United Nations conference on LDCs in 1981, a target now contained in the Istanbul Programme of Action (2011) and incorporated into both the MDGs and SDGs. Despite this, ODA to LDCs has generally fallen short, and levels of aid to LDCs have stalled. In 2014, just 8 of the 28 OECD Development Assistance Committee (DAC) members disbursed over 0.15% of GNI (see graph), down from 9 in 2013³. Overall levels of total funding to LDCs have also stalled since 2010 and have fallen by US\$4.2bn to US\$43.1bn from 2013 to 2014 (31% of total ODA). This is US\$2.8bn less than the 2010 figure in real terms.

The proportion of net ODA going to LDCs has not shown signs of significant growth. From 2000 to 2014 the share of net ODA disbursed to LDCs averaged 31%, fluctuating between 25% and 35%. In 2014, ODA to LDCs made up 31% of the total – just the same as the average of the past 15 years. Luxembourg gives by far the largest percentage of GNI to LDCs – 0.43%. Scandinavian donors also

perform well, with Sweden, Norway, Denmark and Finland all giving over 0.2% of GNI as ODA to LDCs. The largest donors fare less well: the UK (0.24%) is the only one of the five largest donors to meet this target, while the US, Japan, Germany and France each give between 0.06% and 0.10%.

ODA to LDCs as a percentage of donor GNI



Source: Development Initiatives based on OECD DAC, Creditor Reporting System

This picture may change in the near future: donor forward spending plans predict a rise in country programmable aid (CPA)⁴ to LDCs up to 2018⁵. In this case, it will be important that ODA is delivered in the appropriate form and to sectors for which public, concessional finance is most appropriate. This is in light of the significant challenges LDCs will face in meeting the Sustainable Development Goals, and their external financing needs⁶. The long-term impact of ODA directed to LDCs is also important to consider in light of the broader SDG agenda. For example, SDG target 17.4 calls on the international community to assist developing

¹ UNCTAD (2014) 'World Investment Report' http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

² UNTT Working Group on Sustainable Development Financing (2013) 'Financing for sustainable development: Review of global investment requirement estimates' <https://sustainabledevelopment.un.org/content/documents/2096Chapter%201-global%20investment%20requirement%20estimates.pdf>

³ Data for 2015 was not available at the time of writing. Preliminary 2015 ODA data should be available in April 2016.

⁴ Country programmable aid is a methodology and definition used by the OECD to assess the proportion of aid that providers can programme for individual countries or regions.

⁵ OECD, '2015 Global Outlook on Aid' www.oecd.org/dac/aid-architecture/2015%20FSS%20Survey%20flyer.pdf

⁶ UNCTAD (2015) 'Least Developed Countries Report', Chapter 1 http://unctad.org/en/PublicationsLibrary/lcd2015_en.pdf

countries in attaining debt sustainability. ODA is increasingly being delivered in the form of loans; three of the top 10 recipients of ODA loans in 2014 were LDCs – Bangladesh, Ethiopia and Tanzania – with the latter two also belonging to the ‘heavily indebted poor countries’ grouping. Nine LDCs were also ranked by the most recent International Monetary Fund debt sustainability analysis as being at high risk of debt distress and a further three were rated as being in a state of debt distress. Thus the continued monitoring of debt sustainability among LDCs will remain important. Evidence on which sectors and financing instruments are best suited for the specific needs of LDCs is needed, particularly to ascertain how ODA and other resources such as private investments can best contribute to underfunded targets of the SDG agenda.

Small island developing states (SIDS)

SIDS are a group of countries, recognized by the UN, whose vulnerabilities are highlighted in *The Future We Want* (paragraph 178)⁷, adopted at the 2012 United Nations Conference on Sustainable Development, Rio+ 20. Around a quarter of SIDS are also LDCs. SIDS have their own particular developmental challenges, including remoteness, low resource and export base, exposure to external economic shocks and global environmental challenges, including impacts from climate change. Total net ODA to SIDS stood at just over US\$4bn in 2014 – this figure has fallen in each year since 2010, mainly due to the gradual winding-down of reconstruction efforts following the 2010 Haiti earthquake. After peaking at almost US\$7bn in 2010, ODA to SIDS has now reverted to its pre-2010 levels, comprising around 3% of total net ODA disbursements. Although 35 SIDS received ODA in 2014, almost 40% of these disbursements went to just two countries – Haiti and Papua New Guinea. Australia is the largest donor of ODA to SIDS, giving almost US\$900 million, or 22% of the total in 2014 and providing almost three-quarters of ODA to Papua New Guinea. SIDS receive just 14% of their ODA in the form of loans and, of the 35 ODA recipients in this group, three are at high risk of debt distress and one, Grenada, is rated as being in debt distress. Infrastructure received the largest share of ODA by sector, with 18% of gross disbursements in 2014 compared with 16% to governance, 14% to health and 11% to education.

A recent UNDP discussion paper highlighted that, while when ODA is assessed per capita, SIDS actually receive more than low income countries

overall (which is to be expected, due to their low populations)⁸. They also experience particular challenges in capacities to access international resources and use them effectively. They have particular vulnerability to external shocks, environmental vulnerability, and as a grouping, have a high debt burden⁹. Again, more evidence on the most appropriate development cooperation instruments to be used in this very specific context is needed.

Countries in conflict and post-conflict situations, and other fragile states

This broad group of countries (for which there are varying definitions from different institutional sources) has also been recognised as having specific and considerable challenges in meeting the SDGs, and overlaps significantly with the group of LDCs. It includes countries in conflict or post-conflict situations and those experiencing political instability, recovering from natural disaster or which have a state unable or unwilling to deliver basic services. The 50 countries on the OECD list of ‘fragile states’, of which around two-thirds are LDCs, received US\$50.3bn of ODA in 2014 – a reduction of US\$3bn from 2013 and US\$800m lower than in 2010. This reduction is in part due to a scaling-back of ODA to Afghanistan since 2010. There are wide disparities in the extent to which donors appear to prioritise ODA to such countries. In 2014 the UK, Ireland and Japan all gave more than 40% of net ODA to these countries, whereas France, Italy, Netherlands, Greece and Portugal all gave less than 20%.

Recent work by the OECD and others in defining ‘states of fragility’¹⁰ means a growing recognition of the diverse, dynamic and sub-national nature of fragility. Incorporating a range of vulnerabilities, ‘fragility’ is not a static condition but is constantly in flux. It can be defined at sub-national levels, such that fragile populations may affect more countries than the existing lists. This may have implications for allocating ODA, particularly relating to sub-national targeting of ODA at specific areas of need.

Some DAC donors are moving towards using ODA to support activities aimed at tackling root causes of instability and fragility, including activities related to peacekeeping and security. New rules at the DAC may change how financing for global

⁷ UN (2012) www.uncsd2012.org/thefuturewewant.html

⁸ UNDP and UN-OHRLS (2015) Financing for Development and SIDS: Snapshots and a way forward.

⁹ IMF (2015) Public debt vulnerabilities in low income countries www.imf.org/external/np/pp/eng/2015/110215.pdf

¹⁰ OECD, ‘States of Fragility 2015: Meeting post-2015 ambitions’, www.oecd.org/dac/states-of-fragility-2015-9789264227699-en.htm

peace and security is reported in ODA figures, which will need careful monitoring in cases where such ODA could be directed in line with national priorities of donor countries, rather than partner country needs. Additionally, the total ODA rise in 2014 of 1% coincided with a 22% rise in humanitarian aid and a 36% rise in spending on refugees in donor countries. This meant that ODA for non-emergency-related activities actually fell by 2% between 2013 and 2014. The refugee crisis centred on the Middle East has worsened significantly since 2014 (the latest year for which detailed ODA data are available) so the potential effect of emergency-related funding on the ODA available to be transferred to developing countries will need to be monitored closely.

Environmentally vulnerable contexts

935 of the world's poorest people live in contexts that are not just politically fragile, but also environmentally vulnerable. These countries are most severely impacted by environmental and climate disasters, as they have the least access to sustainable coping mechanisms or safety nets. Climate adaptation finance, particularly adaptation ODA, therefore has an important role to play in the SDG era by strengthening the resilience of the poorest people against shocks that would otherwise undermine progress in reducing poverty and pursuing sustainable development.

While global total public climate finance was estimated at US\$137bn in 2013, and despite recent increased commitments, adaptation-related ODA remains comparatively small at US\$9.2bn. The countries receiving most adaptation ODA are not those where needs are greatest – that is, countries facing high exposures to climate threats, limited domestic capacities to adapt and high depths of poverty. In 2013, just 9% of country-allocable adaptation-related ODA targeted countries with the highest levels (the upper quartile of countries) of vulnerability to climate change.¹¹ Viet Nam was the largest recipient of adaptation ODA in 2013 – 13% of total country-allocable adaptation-related ODA – although it is not among the most vulnerable countries or those with the deepest poverty. The three countries with the highest levels of vulnerability and the deepest poverty (Burundi, Democratic Republic of the Congo and Liberia) received just 2% of adaptation-related ODA allocated to specific countries. Many of the most environmentally vulnerable countries receiving

low amounts of adaptation ODA are also experiencing political fragility.¹²

ODA for the poorest people: moving away from state-based allocation models

National-level indicators for allocating resources are outdated. Approximately 78% of the world's poorest 20% of people are currently living in middle-income countries (MICs). The goal to end extreme poverty in all its forms, everywhere, and the push to 'leave no-one behind' has brought a new focus on the importance of all people, not just all countries, reaping the benefits of sustainable development. More sophisticated measures of progress, based on the wellbeing and development status of the poorest **people** globally, may be a more useful approach to underpin a 'leave no-one behind' agenda.¹³

But development finance decisions are often based on assessments of need at country level, such as the World Bank's country income classification status (which guides allocation of ODA); they can be more indirectly influenced by other country-level factors, such as GDP or political influence. Likewise, countries with larger incomes can 'graduate' from aid eligibility for many concessional lending organisations yet still face significant development challenges and funding shortfalls. At the same time, national and institutional capacities remain another key element influencing development cooperation allocation. National institutions may be the route towards development cooperation engaging sub-national actors who have knowledge, stakeholder relationships and expertise in the developmental needs of the poorest people, and can inform a more nuanced development of financed projects and intended outcomes. Working with and through national institutions can also provide feedback from these populations that can be channeled into national development planning, providing a tool with which governments can leverage resources from development partners to address specific needs and priorities. Lessons could be learned from governments that have devolved some decision-making on resource allocation to local authorities on how the poorest and most vulnerable people can be better involved in resource decision-making.

¹¹ Development Initiatives (2015). Investments to End Poverty. <http://devinit.org/post/investments-to-end-poverty-2015>

¹² Development Initiatives (2015) Global Humanitarian Assistance Report 2015, Chapter 8. www.globalhumanitarianassistance.org/report/gha-report-2015

¹³ UNDESA (2015) Improving ODA allocation for a post-2015 world. www.un.org/en/ecosoc/newfunct/pdf15/un_improving_oda_allocation_for_post-2015_world.pdf

New measures of vulnerability could begin to cut across national boundaries and examine poverty and vulnerability at the level of populations. However, much better data is needed to drive greater effort from development cooperation actors in helping developing countries to target resources at the poorest people. The current understanding of global poverty is based on surveys that are often extremely outdated, and rely on extrapolations and assumptions to derive estimates of the level, depth and distribution of poverty. Inconsistencies in how data is collected in different countries add doubt to current understanding of who and where the poorest people are. Developing countries should receive international support to strengthen domestic capacity to generate administrative data and improve civil registration, a more reliable source of information than survey data.¹⁴

‘Specialised’ ODA: more (and better targeted) resources needed for 2030 Agenda

ODA to each of LDCs, SIDS and countries in conflict and post-conflict situations and other fragile states has fallen in recent years, even as total ODA has reached new peaks. Despite widespread recognition of the particular developmental challenges faced by these groups of countries, and the existence (at least in the case of LDCs) of long-standing targets, it does not appear as if most development cooperation actors are making sufficient effort to concentrate resources in these countries or others with extreme poverty. Given the large numbers of poor people living in middle-income countries, development cooperation will also need to target the locations of **populations** in poverty and not just the poorest countries.

It is also important to consider not only the quantity of resources targeted at specific areas of need, but also the type of resource most appropriate for any given context. For example, a heavily indebted country at risk of debt distress will likely prefer grant funding to a large quantity of additional loans. However, the already wide variety of instruments used for development cooperation is in the process of becoming wider still, with a range of blended finance and private-sector funding instruments likely to feature more prominently in the future. It is therefore imperative that governments and their development cooperation partners consider the comparative advantage of each type of development cooperation and its suitability for the context at hand. At this critical point at the start of

SDG implementation, and in light of the wide range of other resources being invested in ‘sustainable development’ and across a wide range of goals, it would be useful for stakeholders to consider how ODA could be more ‘specialised’ on benefiting the poorest and most vulnerable people and contexts. This briefing raises some ideas for discussion by DCF stakeholders, including:

- Moving beyond a state-based allocation model to one focused on sub-national measures of need and vulnerability (improvements in data, and capacity to use this data, is needed to better inform targeting decisions).
- Delivering ODA through appropriate channels, modalities and instruments most appropriate for benefiting the poorest and most vulnerable people and contexts. This should be based on evidence of their comparative advantages, which could be derived both from in-depth country case studies, informed by developing country feedback and long-term assessments, and from technical analysis.
- Achieving a better understanding at country level of where ODA can have most impact and needs to be targeted (based on sub-national assessments of need). Including local authorities and other bodies in the country-level decision-making processes around ODA (who may have a more direct relationship with stakeholders at community level, particularly those who can help the poorest and most vulnerable people participate) could inform and strengthen these efforts.
- Given its specific strengths, targeting ODA to contexts where the wider range of other development finance resources (such as private finance) mentioned above are less well suited or unavailable.

To support the specialised use of ODA it would need to be reported in a transparent manner by all actors, so that the impact of ODA on the poorest and most vulnerable people can be assessed and providers held accountable. This is particularly so in conflict affected and fragile states, where there may be a risk of competing donor priorities (such as national security concerns) diluting the impact or diverting the focus of ODA away from the needs of the poorest people. This continued transparency and accountability would underpin the rationale for ODA being a specialist resource, in the context of other development cooperation, for being targeted at the poorest and most vulnerable people.

¹⁴ Development Initiatives (2015) - Investments to End Poverty.

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