Improving ODA allocation for a post-2015 world

Targeting aid to benefit the poorest 20% of people in developing countries

Acknowledgements

This independent study was commissioned by UNDESA for the 2016 Development Cooperation Forum, as part of a UNDESA research project funded by UKAID on development cooperation in a post-2015 setting. The views presented do not necessarily represent those of the United Nations or the Government of the United Kingdom.

Improving ODA allocation for a post-2015 world was written by a team at Development Initiatives, led by Tim Strawson. The team at Development Initiatives included Jordan Beecher, Rebecca Hills, Guto Ifan, Duncan Knox, Cordelia Lonsdale, Anna Osborne, Rob Tew, Ian Townsend and Dan Walton. The authors would also like to thank those who reviewed, commented on and provided inputs to the report: Navid Hanif, Caroline Lombardo, Doris Schmitz-Meiners, Thomas Boehler and Dora Tuz (UNDESA Office for ECOSOC Support and Coordination, which serves as DCF Secretariat); Harpinder Collacott, Dan Coppard, Judith Randell (Development Initiatives); Mereseini Bower (UNDP Regional Bureau for Asia and the Pacific); Jonathan Glennie, Marcus Manuel and Paddy Carter (Overseas Development Institute); Shannon Kindornay (North-South Institute); Jeroen Kwakkenbos (Eurodad); Diana Alarcon (UNDESA Office of the Under-Secretary-General); Marcelo LaFleur (UNDESA Development Policy and Analysis Division); Oliver Schwank (UNDESA Financing for Development Office); Ana Toni (Gestão de Interesse Público); Myles Wickstead (Africa Commission); Susanna Wolf (UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States).

The report also benefited from comments made on initial findings presented at the Joint Meeting of the General Assembly 2nd Committee and Economic and Social Council on *"A renewed global partnership for development and successor arrangements to MDG8"*, (New York, 30 October 2014) and the informal substantive session on International Public Finance, including Official Development Assistance (New York, 12 November 2014), in preparation for the Third International Conference on Financing for Development.

Contents

Figures

Boxes

Tables

Executive Summary

From the MDGs to the post-2015 development agenda: a more ambitious vision

The Millennium Development Goals (MDGs) were an unprecedented international agreement to pursue global progress on poverty eradication and social measures. The emerging post-2015 development agenda presents a vision that is broader, more holistic and more ambitious. The Sustainable Development Goals aim to complete the 'unfinished business' of MDG targets that were not met, move beyond 'half way' targets to get to zero on extreme poverty, and seek progress across all three dimensions of sustainable development: social, economic and environmental.

Mobilizing the contributions of all development actors

As a shared vision for development evolves, the means of implementation – tools, resources and partnerships – are also being re-examined. A renewed global partnership for development will look to mobilize the contributions of all actors, public and private, domestic and international.

The distinctive role of official development assistance

While smaller in scale than many other resources, official development assistance (ODA) remains the key international public financial resource for development purposes that can be dedicated to poverty reduction. As such, it is important to consider the role that ODA should play in a post-2015 setting. There is need for both more and better ODA – for commitments to be met, including the 0.7% of DAC donor GNI to ODA and the 0.15-0.20% of GNI as ODA to LDCs targets and allocations improved for better development results.

The way in which ODA is delivered and used is important for ensuring that spending is effective and sustainable. However, despite political engagement about the need to improve effectiveness, a lack of strong mechanisms and incentives for improved delivery means that progress has been slow.

This study focuses specifically on improving ODA allocation for a post-2015 world:

- How can ODA best contribute to all aspects of a broader and more ambitious post-2015 development agenda?
- In which aspects of the post-2015 development agenda does ODA have a comparative advantage over other resources?

Three key paradigm shifts that can be expected to shape ODA allocation post-2015

This study explores key considerations for ODA allocation post-2015. It focuses on three paradigm shifts from the MDGs to the emerging post-2015 development agenda that are most relevant to the question of how to allocate ODA:

- From halving poverty to ending poverty in all its forms everywhere

MDG1a set the target of halving the proportion of people living in extreme poverty (defined as less than $1.25 a day) between 1990 and 2015. This target was achieved ahead of time in 2010. The Open Working Group on Sustainable Development Goals of the United Nations General Assembly has set an ambitious vision for ending poverty as the primary goal of the global development agenda for the next 15 years. It targets the end of extreme poverty by 2030 (target 1.1) and halving poverty in all its dimensions according to national definitions by 2030 (target 1.2), within a longer-term vision of ending poverty in all its dimensions everywhere.[1] Given the scale, depth and complexity of poverty and the goal of leaving no-one behind, achieving this vision will require dedicated resources.

- From an ODA-led agenda to an all-resources agenda

External financing for the MDGs, with their emphasis on basic social needs, was focused around ODA, particularly in the early years of the Millennium. Discussions about how to implement a post-

[1] The Open Working Group Proposal for SDGs: http://sustainabledevelopment.un.org/focussdgs.html

2015 development agenda are considerably broader in scope and aim to draw in and mobilize the contributions of a wide range of actors from the public and private sectors at the domestic and international levels.[2] While the role of ODA in providing direct support to basic social services remains critical, many aspects of its role are evolving, from directly driving change to mobilizing and creating partnerships with other resources that can support implementation.

- From the sustainability and development agendas to a unified and universal post-2015 sustainable development agenda

The sustainability and development agendas have to date largely evolved separately from each other. The post-2015 development agenda aims to bring these two together behind a single vision of sustainable development, applicable to all countries, with coordinated implementation. The shared sustainability challenges that affect everyone across the planet and their disproportionate effect on the world's poorest people require substantial additional financing.

ODA has a comparative advantage in focusing on leaving no-one behind and ending poverty

ODA can be targeted at the poorest people in a way that other resources cannot. It is the main international public resource that can be explicitly dedicated to ending poverty, and the wide variety of instruments that constitute ODA allow it to adapt to the context, whether leveraging new finance or delivering services. This study demonstrates that the current and likely future scale of domestic resources in many developing countries is insufficient to achieve poverty eradication by 2030. Other resources, such as private flows, may be larger in scale than ODA, yet their nature, characteristics and distribution mean that such flows cannot explicitly target poverty.

What does the evidence say about current ODA allocation?

ODA is more poverty sensitive than other flows, but allocations do not effectively target poverty

Current ODA allocations do not effectively reflect the key dimensions of poverty, although ODA is more poverty-sensitive than other resources. In per-poor-person terms,[3] more ODA is allocated to countries with fewer people living in poverty and with lower depth of poverty.

ODA allocations are not sufficiently mobilising wider resources, public or private, for impact on the poorest

ODA per person living in extreme poverty is lower in countries with fewer domestic resources. ODA that supports the effective mobilisation and use of domestic resources will be an important part of development cooperation post-2015, yet current support for domestic resource mobilisation (DRM) is small, at less than 0.1% of total ODA. Information about this type of support is limited. The role of ODA in supporting the private sector is controversial, though it does not target the poorest countries or sectors most relevant to poverty eradication and current core ODA support for the private sector is small, at around 2.7% of ODA.

ODA allocations do not respond effectively to the vulnerabilities of the poorest people

96% of people living in extreme poverty live in countries that are either politically fragile, environmental vulnerable, or both. Climate adaptation financing needs significantly outweigh the scale of financing: only the lowest bounds of the most conservative estimates of cost are within the range of current adaptation ODA commitments, which totaled US$10.1 billion in 2012. Some of the largest ODA recipients are states affected by conflict and fragility. Yet other such states are not prioritised in ODA allocation, and current allocations do not meet the need for sustained long-term financing to address the numerous, overlapping and complex challenges faced by such states.

---

[2] See the report of the Intergovernmental Committee of Experts on Sustainable Development Financing, August 2014; http://www.un.org/ga/search/view_doc.asp?symbol=A/69/315&Lang=E

[3] I.e. total ODA allocated to each country divided by the estimated number of people in extreme poverty

Post-2015, ODA to developing countries should explicitly focus on ending poverty

To end extreme poverty by 2030 and leave no-one behind, ODA should explicitly target poverty reduction, making and mobilising investment across the economic, social and environmental dimensions of sustainable development, to benefit the poorest people in developing countries.

Agencies with a clear mandate for ending poverty target ODA much more effectively

The evidence shows that development cooperation agencies with a clear mandate to end poverty are much more effective at targeting their allocations towards the poorest countries. Agencies that have a legal mandate for ending poverty allocate over 80% of their ODA to countries with an above-average poverty rate. In contrast, agencies without poverty reduction as an explicit goal allocate just 31% of their ODA to countries with an above-average poverty rate.

A refined objective for ODA: targeting the poorest 20% of people in developing countries

Latest estimates suggest that 17% of the population of all developing countries live in extreme poverty. The study proposes that the best way to incentivise ODA allocations that can underpin and drive poverty reduction and the transition to sustainable development is to refine the objective of ODA so that it explicitly targets the poorest 20% of people in developing countries. This can ensure ODA underpins the proposed goal of ending of $1.25-a-day poverty by 2030, as well as the longer term objective to end poverty in all its forms everywhere.

The objective of ODA should be refined from the current 'promotion of economic development and welfare'[4] to 'benefit the poorest 20% of people in developing countries'. This should be formalized at the international level and institutionalized by the development cooperation agencies and institutions that provide ODA. This refined objective would be complementary to existing targets for ODA such as the 0.7% of GNI target for total ODA and the 0.15-0.20% of GNI as ODA to LDCs targets.

Such a refined objective would form the basis of a targeting discipline that incentivises the allocation of ODA in a way that considers: the scale, nature and causes of poverty and the inextricable link of poverty eradication to promoting sustainable development; the vulnerabilities and risks that the poorest face; the access that the poorest have to public services and economic opportunities; and the resources and capacity of domestic institutions to address domestic problems.

ODA instruments should be designed within the context of wider resources and vulnerabilities

Effective ODA involves using a range of instruments to mobilise the wider resources available to contribute towards poverty reduction, working to support nationally-led implementation. It means safeguarding progress and increasing resilience against environmental risks and political instability. It means accounting for the prospects of the poor, using different instruments to support the poorest 20% of people wherever they are, whether in an LDC with low domestic resources or a rapidly growing middle-income economy. Effective ODA does not always require large financial transfers. ODA is a mix of varying instruments – and improved ODA allocation should mean not drawing resources away from the poorest countries but securing better development results.

[4] See full DAC definition here: http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm

Acronyms

AIMS	Aid Information Management Systems
CO2	Carbon dioxide
CP&S	Conflict, peace and security
CRS	Creditor Reporting System
CSO	Civilian society organisation
DAC	Development Assistance Committee
DCF	Development Cooperation Forum
DFI	Development Finance Institution
DI	Development Initiatives
DRC	Democratic Republic of Congo
DRM	Domestic resource mobilisation
EU	European Union
EVI	Environmental Vulnerability Index
FDI	Foreign direct investment
FFP	Fund for Peace
FYRM	Former Yugoslav Republic of Macedonia
GHG	Greenhouse gas
GNI	Gross National Income
GPEDC	Global Partnership for Effective Development Co-operation
GPGs	Global public goods
HIC	High income country
HIV/AIDS	Human immunodeficiency virus acquired immune deficiency syndrome
HLF	High Level Forum
IATI	International Aid Transparency Initiative
IEA	International Energy Agency
IIASA	International Institute for Applied Systems Analysis
IMF	International Monetary Fund
IMF WEO	International Monetary Fund World Economic Outlook
IPCC	Intergovernmental Panel on Climate Change
kt	Kilotonnes
LDC	Least developed country
LIC	Low income country
LMIC	Lower middle-income country
MDGs	Millennium Development Goals
MIC	Middle income country
MPI	Multidimensional poverty index
NGO	Non-governmental organisation
NNGO	Northern non-governmental organisation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OOFs	Other official flows
OWG	Open Working Group
PDA	Private development assistance
PPP$	Purchasing power parity international dollars
PPPs	Public–private partnerships
SDGs	Sustainable Development Goals
SME	Small and medium-sized enterprise
SOPAC	South Pacific Applied Geoscience Commission
SSC	South–south cooperation
SSR	Security sector reform
TOSD	Total official support for development
UMIC	Upper middle-income country
UN	United Nations
UNDCF	United Nations Development Cooperation Forum
UNDESA	United Nations Department of Economic and Social Affairs
UNDESA FFDO	United Nations Department of Economic and Social Affairs Financing For Development Office
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNHCR	United Nations High Commissioner for Refugees
UN-OHRLLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
US$	United States dollars
WEF	World Economic Forum
WWF	World Wide Fund for Nature

Introduction

The agreement of the post-2015 development agenda is a critical moment in global development and will define how development is perceived and implemented at the global, national and local level for 2015-2030 and beyond. A renewed global partnership for sustainable development will look to mobilise the contributions of all actors, public and private, domestic and international.

Within the renewed global partnership it is vital that the role of official development assistance (ODA) is re-examined so that this unique resource can be used effectively within the post-2015 development agenda. There is need for both more and better ODA – for commitments to be met, including for ODA equivalent to 0.7% of DAC donor GNI and the 0.15-0.20% of GNI as ODA to LDCs target and allocations improved for better development results.

This study focuses specifically on how ODA allocations can be improved post-2015:

- How can ODA best contribute to all aspects of a broader and more ambitious post-2015 development agenda?
- In which aspects of the post-2015 development agenda does ODA have a comparative advantage over other resources?

It investigates these questions by examining the impact of three fundamental paradigm shifts on current ODA allocations. Part I of the report looks at the status quo in key areas: poverty, ODA composition and allocation, ODA delivery and wider resource flows. Part II analyses ODA allocations against the three key paradigm shifts: from halving poverty to ending poverty in all its forms everywhere; from an aid-led agenda to an all-resources agenda; and from the sustainability and development agendas to a single unified and universal sustainable development agenda. Part III brings this analysis together and presents a vision for effective ODA allocations in support of the post-2015 development agenda.

The study argues that the comparative advantage of ODA is that it can be explicitly targeted at ending poverty and leaving no-one behind and that the most effective way of incentivizing allocations targeted at ending poverty is to refine the objective of ODA so that it explicitly targets the poorest 20% of people in developing countries.

As the framework for the new global partnership for sustainable development comes together in 2015, this study presents key evidence and policy proposals that can support a clear and effective role for ODA post-2015.

Part I: Capturing the status quo

1. Capturing the status quo

Key messages

Poverty

Millennium Development Goal (MDG) 1a, to halve extreme poverty, was achieved in 2010 – ending extreme poverty will be more difficult.

- Over 1 billion people still live on less than $1.25 a day
- 83% of people living in extreme poverty live in countries where government spending is very low, at less than PPP$1,500 per person each year
- Five countries, India, China, Nigeria, Bangladesh and Democratic Republic of Congo (DRC), are home to almost two-thirds of people living in extreme poverty
- Sub-Saharan Africa is the region in which poverty is deepest and most prevalent: 24 of the 25 countries with the highest proportional poverty rate are in the region

ODA composition and allocation

ODA consists of many instruments, from grants and loans to technical cooperation and support for GPGs – the challenge is to deploy the appropriate instrument in each context.

- Different countries receive very different bundles of ODA
- LICs receive a higher proportion of grants; MICs receive more ODA loans
- More ODA is delivered through the government sector in MICs than LICs
- Infrastructure is the largest sector overall, although health is larger in LICs

ODA delivery

There are many challenges for effective delivery that affect the impact of ODA – improvements could be made by both donors and recipients. Effective delivery is as critical as distribution.

- A number of countries do not have a national aid policy, a key tool for effective delivery
- Many countries set and track progress against targets for donors, though results are often not made public
- Systems for transparency in aggregate funding are most developed; information about conditionality, tied aid and gender-disaggregated spending is less transparent
- Predictability is low: 59% of recipients do not receive sufficient information to feed into budget preparation

Wider resource landscape

In a changing resource landscape two key actors play an increasingly pivotal role in sustainable development: governments of developing countries, and the private sector. A key challenge for ODA is to mobilise and partner with these actors.

- Government resources are growing rapidly in many countries, particularly upper-middle income countries (UMICs)
- However, government spending remains extremely low in many countries: for 58 countries it is less than PPP$1,500 per person each year
- International resource flows have grown rapidly, driven by private resources such as foreign direct investment (FDI) and commercial lending – however these are concentrated in a few countries
- ODA remains an important resource for many countries

In order to determine how to recalibrate ODA allocations within the post-2015 development framework, we must start from a position of understanding the status quo about allocations, needs and the wider context. This chapter outlines the status quo in four key areas: ODA distribution, ODA delivery, wider resource flows and poverty.

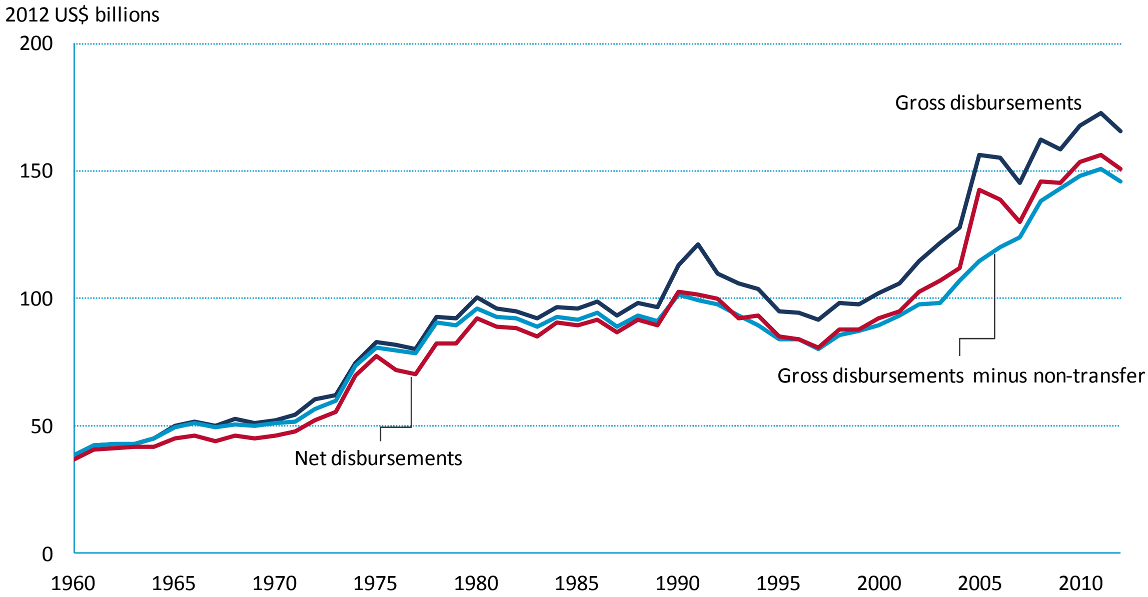
Status quo: ODA composition and allocation

ODA is defined as concessional assistance provided by official agencies to developing countries (or eligible multilateral institutions) for the promotion of economic development and welfare of developing countries.

This section presents the key facts about the distribution of ODA, covering trends, allocations across countries, modalities, the bundle of aid, channels of delivery and sector ODA.

Trends in ODA

Figure 1. Total ODA has grown for most of the last fifty years



Source: Development Initiatives' calculations based on Organisation for Economic Co-operation and Development (OECD) data. Figures are total ODA from all donors that report to the OECD in constant 2012 prices.

Total ODA has grown for most of the last fifty years and, by 2012, stood at approximately four times its 1960 level (Figure 1). However, ODA flatlined throughout the 1980s and then, after a brief increase at the start of the 1990s, declined for seven successive years following the end of the Cold War. From 1997 to 2010, ODA grew rapidly with a spike at around 2006/2007 due to very high levels of debt relief in those years. In the wake of the international financial crisis, ODA declined in 2011 and 2012, but preliminary figures for 2013 indicate that ODA regained, and even slightly exceeded, its 2010 peak level in that year.

Box A: Key definitions of ODA

Gross ODA is the total value of resources disbursed by donors in a given year. This includes both cash (either in the form of loans or grants) and the actual or estimated monetary value of goods or services supplied.

Net ODA is gross ODA minus loan repayments, repaid grants and proceeds on the sale of ODA-eligible equity investments. Also subtracted from net ODA are offsetting entries for forgiven debt; that is, if a loan that is subject to debt relief was counted as ODA in a previous year, the principal value of the loan is subtracted from net ODA to avoid double counting the original loan. Note that for loan repayments only the value of principal repayments is subtracted; interest repayments are not subtracted from net ODA. If interest payments were taken into account, the value of net ODA would be approximately US$5 billion per year lower than the current figures indicate.

Non-transfer ODA

The rules governing ODA allow for a wide variety of elements to be included, several of which do not result in any direct transfer of resources to developing countries. Either the aid stays in the donor country or, in the case of debt relief, it represents a reduction in the liabilities of the recipient country rather than any new transfer of resources. Examples include:

- **Student costs**. Donors with students from recipient countries in their universities may count part of their public spending on universities as ODA if the university system does not charge fees or the fees are deemed not to cover the full cost of tuition.
- **Refugee costs**. Donors may count as ODA the cost of housing, feeding and other services for the first 12 months of the refugees' stay.
- **Promotion of development awareness**. Donors may count as ODA the funding of activities within the donor country designed to increase public support for, and awareness of, development cooperation needs and issues.
- **Administrative costs**. Donors may count money spent on the administrative functions of donors' development agencies as ODA.
- **Debt relief**. Donors may count cancelled or rescheduled existing debt as ODA even though no new transfer of resources is involved.

Total official support for development (TOSD)

The current definition of ODA has often come in for criticism, with some critics asserting that ODA includes too much (e.g. in counting the full principal value of loans, sometimes at low levels of concessionality) whilst other critics maintain that ODA includes too little (e.g. in excluding export credits or most expenditure on peace-keeping operations). The Development Assistance Committee (DAC) of the OECD has responded to these critiques by proposing the creation of a new measure known as total official support for development, known as TOSD. As with ODA, this would measure flows from official sector donors (i.e. donor government agencies and multilateral bodies) to recipients on the DAC list of eligible recipients. However this measure would potentially include a number of elements currently excluded from ODA, for example:

- The non-ODA element of funding for peace and security operations
- The non-ODA element of core funding to the UN
- The cost of housing refugees in donor countries after the first year (first-year costs are included in ODA)
- Funding on climate change that is currently excluded from ODA (e.g. carbon market flows)
- Financial instruments that fall outside of ODA, such as mezzanine finance
- Amounts mobilised by guarantees

It is further suggested that only the grant equivalent of loans should be counted as ODA (that is, the grant element percentage multiplied by the value of the loan) with the remainder of the loan being included in TOSD rather than ODA.

The precise content of the TOSD measure is still under discussion and is expected to be finalised during 2015.

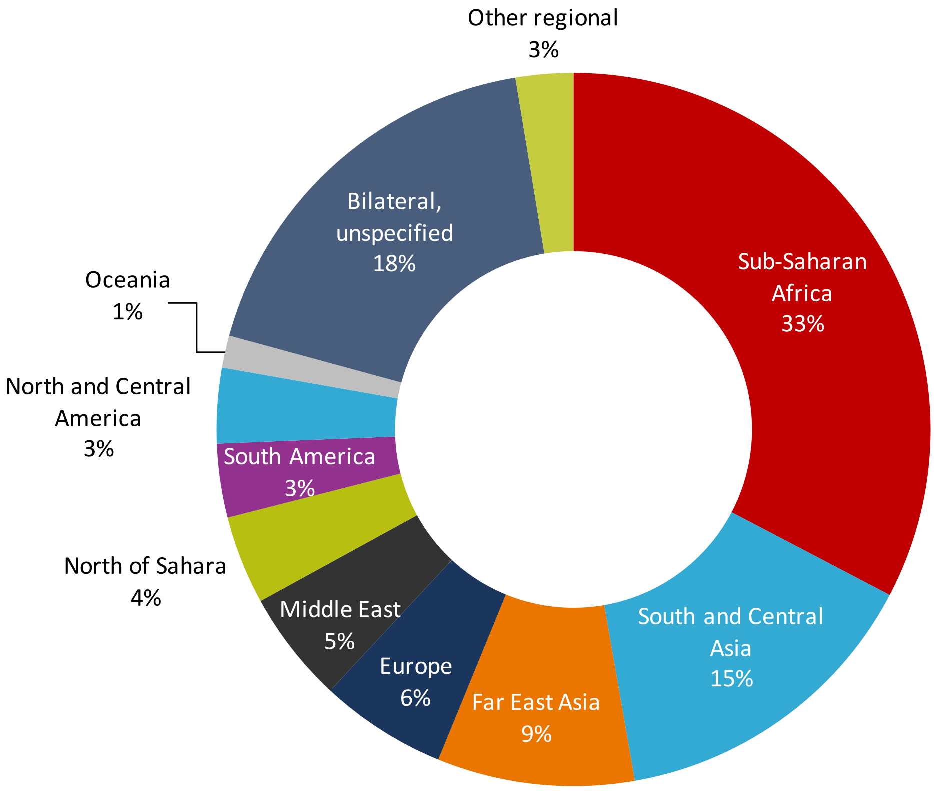
Allocations across countries

ODA is allocated across a wide range of countries at varying levels of development. In 2012, 148 countries were eligible to receive ODA.

Sub-Saharan Africa accounts for the largest portion of ODA (Figure 2), receiving a total of US$49.5 billion in 2012, 33% of total gross ODA. South and Central Asia is the second largest regional recipient, receiving US$22.1 billion.

However, only one of the top five recipients in 2012 is in sub-Saharan Africa. The largest country recipient is Afghanistan (US$6.5 billion), followed by Viet Nam (US$4.8 billion) and Cote d'Ivoire (US$4.6 billion).[5]

Figure 2. Sub-Saharan Africa receives one-third of ODA disbursements



Source: Development Initiatives based on OECD Development Assistance Committee (DAC) Creditor Reporting System (CRS). Figures are gross disbursements in 2012. Excludes other regional includes disbursements that are allocated above the level of the regions featured in the figure (e.g. Asia regional, Americas regional).

In 2000, 45% of ODA was disbursed to low-income countries (LICs) and 34% to middle-income countries (MICs) (Figure 3). However, by 2012, MICs received 59% more ODA than LICs.

This can be partly explained by the fact that 29 countries that were classified as low income in 2000 have since been reclassified as MICs. ODA to these countries collectively increased by over 40% between 2000 and 2012.

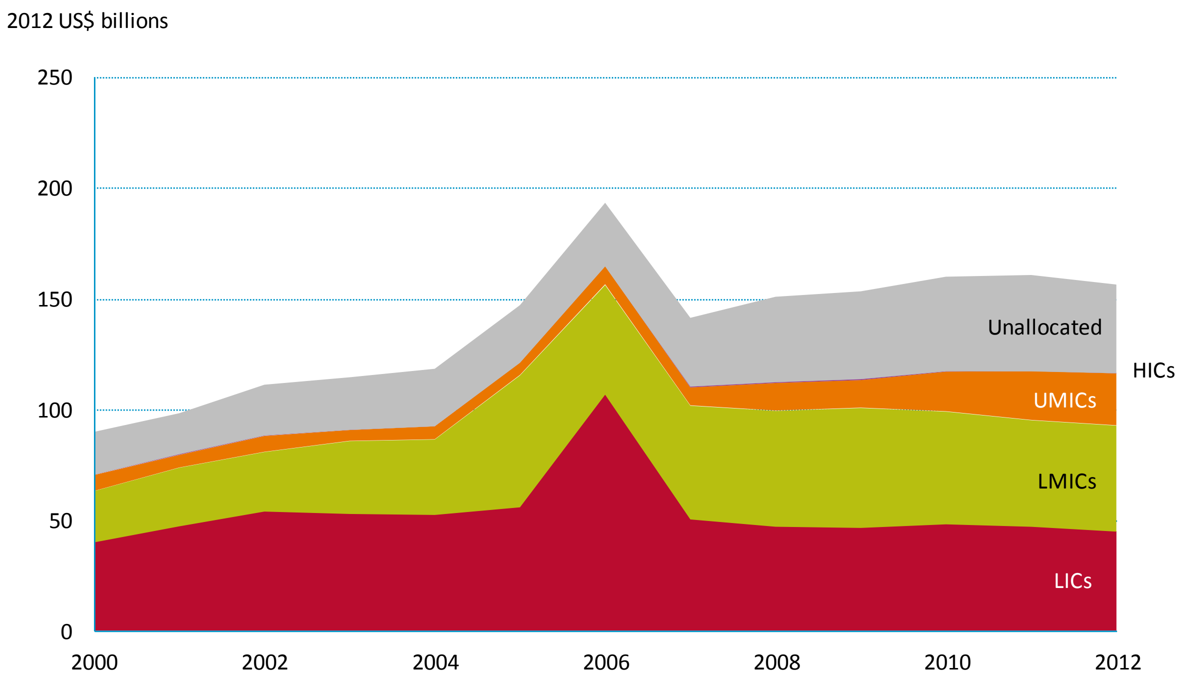
This does not, however, explain the fall in ODA to LICs in the years 2010 to 2012. During this time no LICs were reclassified as MICs, but ODA to LICs fell by over 5% from US$48.3 billion to US$45.0 billion, whilst ODA to MICs rose 4% from US$68.9 billion to US$71.4 billion.

[5] Note that figures are gross disbursements – a significant proportion of ODA to Cote d'Ivoire in 2012 was debt relief.

ODA that is unallocated by income group also increased over the period, doubling from US$19.4 billion (22% of ODA) to US$40.1 billion (26%). This ODA may have a regional focus (so is not allocated to a specific recipient country), or be provided to programmes or vertical funds with a potentially global impact.

ODA to LDCs accounted for 30% of total ODA in 2012, down slightly from 2010 and 2011, but close to the long-term average (ODA to LDCs averaged 32% of total over the period 2000 to 2012).

Figure 3. The share of ODA to LICs has declined as LICs have 'graduated' to LMIC status



Source: Development Initiatives based on OECD DAC CRS. Note that the spike in 2006 is due to debt relief.

Modalities

ODA is provided in a wide range of forms using various modalities with varying degrees of concessionality, from grants to loan-based assistance.

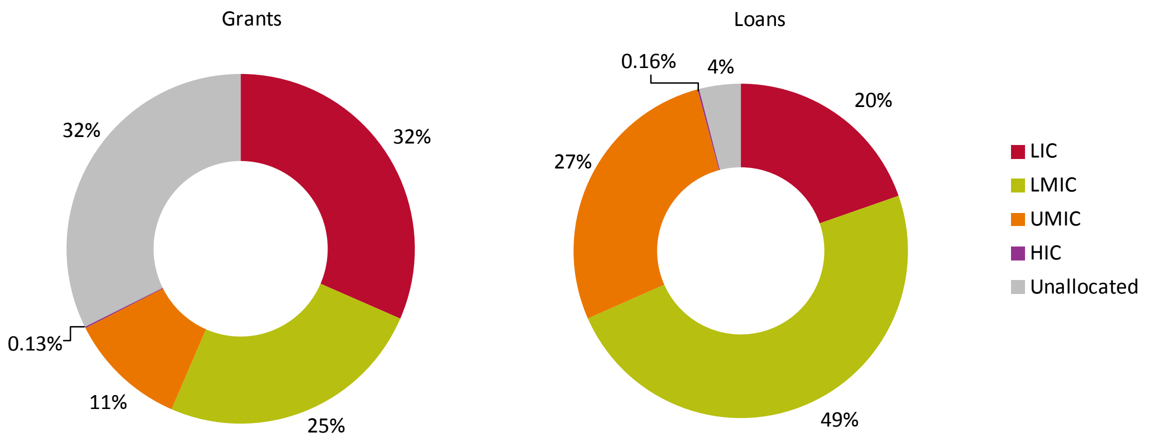
The largest recipients of grants are LICs or are unallocated by income group. Lower middle-income countries (LMICs) receive almost half of all ODA loans and, including upper middle-income countries (UMICs), MICs account for over three-quarters of loans (*Figure 4*).

In line with total ODA, the share of ODA grants allocated to LICs fell between 2000 and 2012, while the share of ODA grants to MICs rose slightly.

However, the provision of ODA loans has shown a marked swing away LICs and LDCs towards MICs (non-LDC) over the period. In 2000 three-fifths of ODA loans went to LICs but, by 2012, this had fallen to one fifth. While ODA loans to non-LDCs grew 40% between 2008 and 2012, ODA loans to LDCs fell 1.4% over the same period.

84% of ODA allocated to LDCs was in the form of grants, while 73% of ODA to non-LDCs was grants.

Figure 4. Most grants go to LICs or are unallocated by income group; most loans go to MICsCs



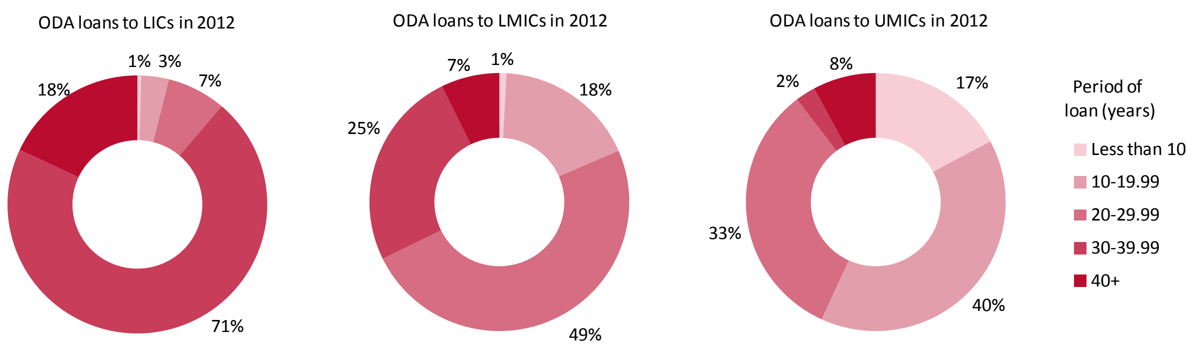
Source: Development Initiatives based on OECD data. Figures are commitments made in 2012.

While LICs receive fewer ODA loans than LMICs or UMICs, those loans generally have a much longer term length (Figure 5). Almost 90% of the value of new loan commitments to LICs in 2012 had a duration of 30 years or longer and 18% had a duration of over 40 years.

By contrast, more than two-thirds of new ODA loans to LMICs in 2012 were for loans with a duration of less than 30 years. This difference was even more marked in UMICs where 90% of new ODA lending was as loans with a duration of less than 30 years and 57% was as loans with a duration of less than 20 years.

These stark differences are in part explained by the degree of concessionality: loans to LICs tend to be more concessional than loans to LMICs. The length of the repayment period of a loan is a key factor in determining its grant element, which in turn is a key measure of concessionality. Longer repayment terms contribute to higher grant element percentages as they reduce the discounted present value of the service payments the borrower will make over the lifetime of the loan.

Figure 5. ODA loans to LICs have a longer term-length than to LMICs or UMICs



Source: Development Initiatives based on OECD data. Figures are disbursements in 2012.

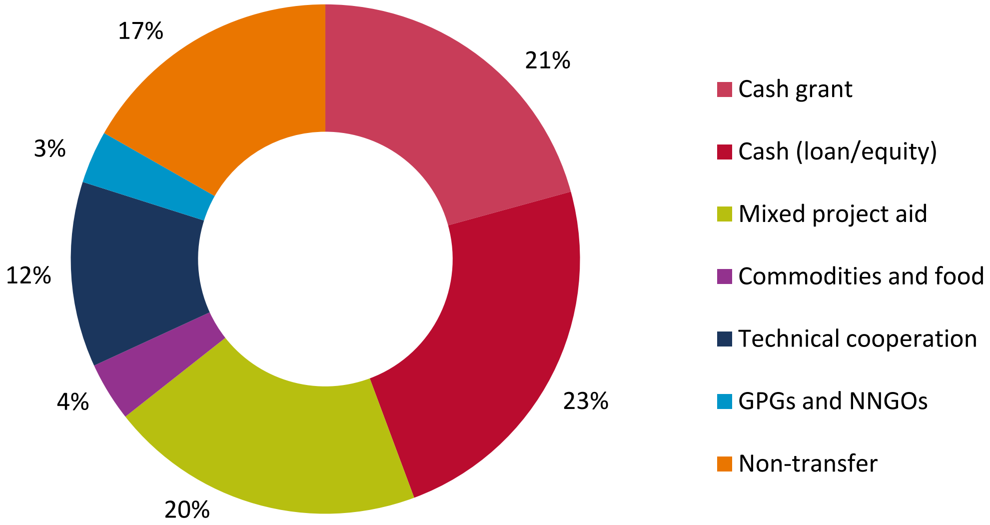
The bundle of ODA

The bundle of ODA consists of a variety of modalities (Figure 6), including:

- Cash (both loans and cash grants)
- In-kind transfers (technical cooperation, food or other commodities)
- GPGs and core contributions to donor-country-based non-governmental organisations (NGOs)

- Mixed project aid, which captures transfers to developing countries where there is insufficient detail to determine whether this transfer was in the form of cash or in-kind transfers
- Non-transfer ODA: where there is no direct transfer of resources to developing countries (e.g. debt relief, donors' administrative costs and spending in donor countries on overseas students, refugees, etc – see Box A)

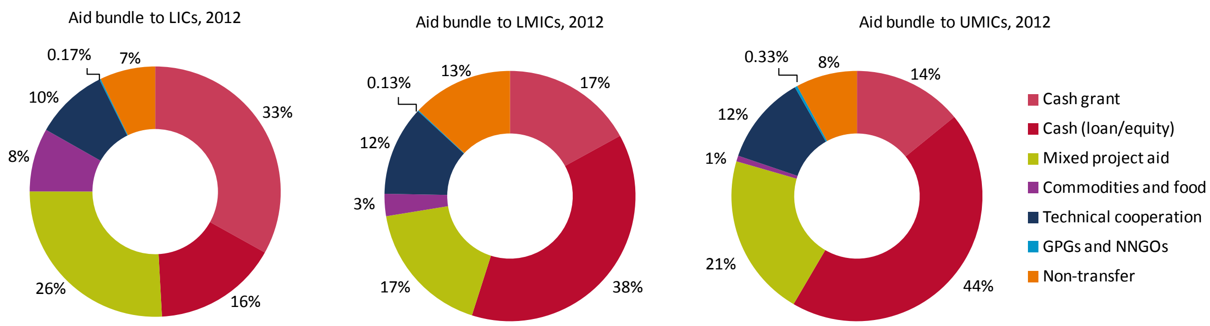
Figure 6. Over 40% of ODA is cash (grants or loans); a further 20% is mixed project aid



Source: Development Initiatives based on OECD data. Data are disbursements in 2012. GPGs, global public goods; NNGOs, northern non-governmental organisations.

In 2012, only 44% of total ODA was identifiably[6] in the form of cash, with loans accounting for a slightly higher proportion of ODA than cash grants. In 2012 approximately one dollar in every six dollars of reported ODA resulted in no direct resource transfer to developing countries.

Figure 7. The bundle of ODA by income group



Source: Development Initiatives based on OECD data. Figures are disbursements in 2012.

The bundle of aid varies significantly across countries (Figure 7). Cash grants account for one-third of ODA to LICs, but only 17% and 14% to LMICs and UMICs, respectively. Cash loans are the dominant modality to LMICs and UMICs, accounting for 38% and 44% of ODA, respectively.

Food and commodity aid is a much larger factor in LICs than in MICs. Conversely, aid given as technical cooperation is slightly more common in MICs than LICs.

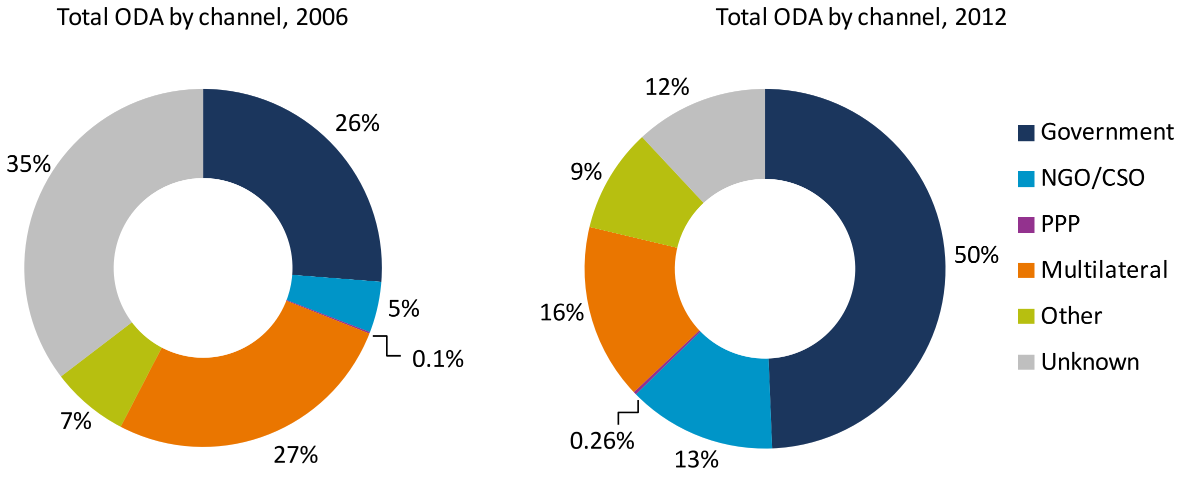
[6] Though it is not possible to quantify, mixed project aid will almost certainly contain an amount of cash grants

Channels of delivery

ODA is delivered through multiple channels, from governments to NGOs and public–private partnerships (PPPs) (Figure 8).

The proportion of gross bilateral ODA reported as delivered through government channels (both donor country government and recipient country government) almost doubled between 2006 and 2012. The proportion of ODA channeled through NGOs also rose significantly over the period, while the amount of ODA channeled through multilateral agencies fell.[7] ODA channeled via PPPs remained insignificant at less than 1% of total gross ODA over the period. It is worth noting that donors have in general improved their reporting of channel of delivery between 2006 and 2012, which explains the large fall in the amount of ODA disbursed via an 'unknown' channel shown in these charts.

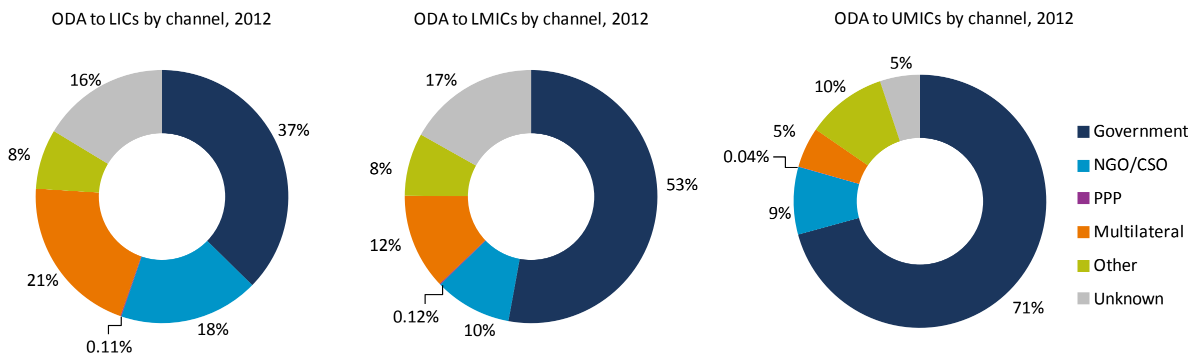
Figure 8. The proportion of bilateral ODA delivered through government channels has almost doubled since 2006



Source: Development Initiatives based on OECD data. The figures show bilateral ODA disbursements to all developing countries in 2012. CSO, civil society organisation.

The predominance of the government sector as a channel of delivery for ODA is much more pronounced in MICs than in LICs: 71% of ODA to UMICs is delivered through government compared to 37% in LICs (Figure 8). In LICs the use of NGOs/CSOs and multilateral agencies as channels of delivery is far more common (39% combined) than in MICs (22% and 14% combined in LMICs and UMICs, respectively).

Figure 9. The government sector is a more prominent channel of delivery in MICs than LICs



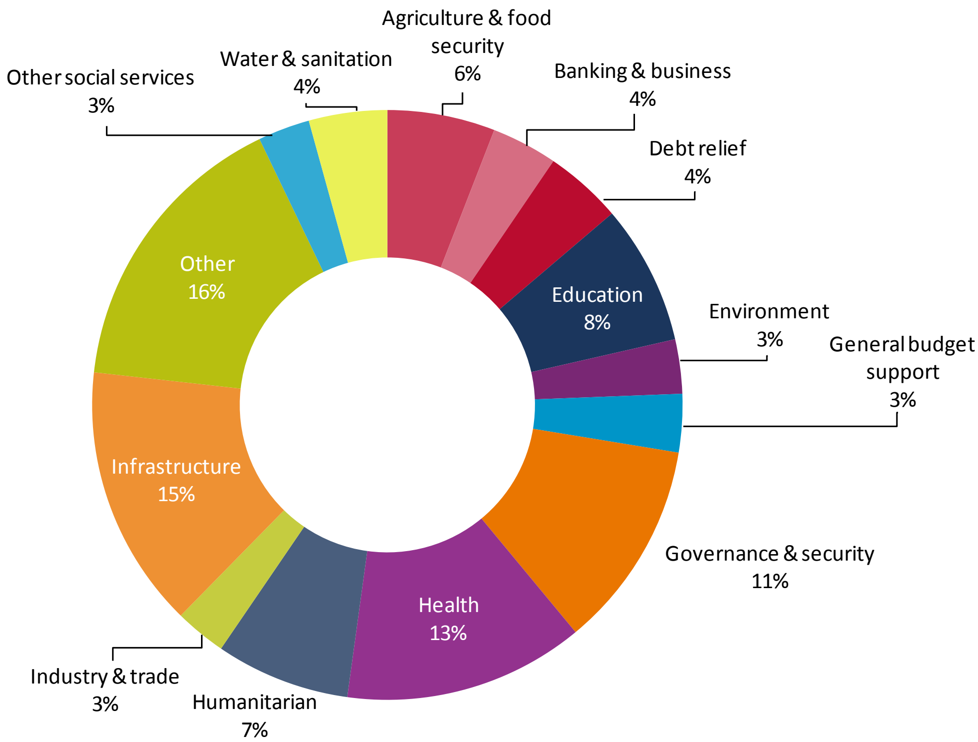
Source: Development Initiatives based on OECD data. Figures are disbursements in 2012.

[7] Note this refers to bilateral aid where the donor has chosen to use a multilateral agency as an implementing partner for a specific activity. This is different from 'multilateral aid', which is unearmarked contributions by donors to the core funds of multilateral agencies.

Sector ODA

ODA is allocated across a wide array of sectors (Figure 10). In 2012 the largest sector was infrastructure, which accounted for 15% of ODA, followed by health (13%), governance and security (11%) and education (8%). Seven sectors each account for less than 5% of ODA.

Figure 10. Infrastructure is the largest ODA sector overall

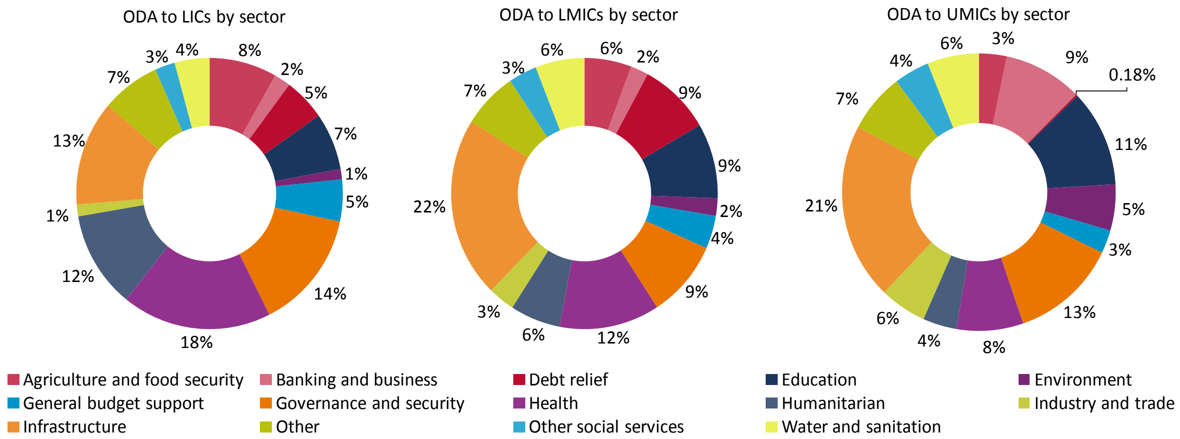


Source: Development Initiatives based on OECD data. Figures are disbursements in 2012.

Sector ODA varies considerably across countries. In LICs, health was the largest single sector for ODA spending in 2012 (18% of ODA to LICs); however in UMICs a higher proportion of ODA went to education (11%) than health (8%).

Infrastructure is the largest single sector in LMICs and UMICs, but only the third largest sector in LICs. MICs also get significant amounts of ODA for business-related sectors such as industry and trade, and banking and business. These sectors attract a much lower proportion of ODA funding in LICs. Humanitarian assistance is a much larger proportion of ODA in LICs (12%) than LMICs (6%) and UMICs (4%).

Figure 11. Infrastructure is the largest sector in MICs; health is the largest in LICs



Source: Development Initiatives based on OECD data. Figures are disbursements in 2012.

Box B: The current system for determining country eligibility to receive ODA

The OECD Development Assistance Committee (DAC) decides eligibility to receive ODA at a country level.

The ODA-eligibility list is largely based on average national income (OECD DAC 2014). Based on the World Bank's definition of 'developing countries' as all low- and middle-income countries, the DAC classify any countries with per capita gross national income (GNI) above the World Bank's high-income country threshold in three consecutive years as ineligible to receive ODA. This is reviewed every three years. It is unclear whether a country whose GNI later falls below this threshold can be added back onto the ODA-eligibility list. In addition to the GNI per capita criteria, all LDCs are eligible to receive ODA regardless of their income level, but G8, EU member states or countries with 'firm dates' for entry to the EU are ineligible for ODA.

The second half of 2014 saw the DAC decide which developing countries will no longer be eligible to receive ODA from 2015. Governments can continue to provide support to such countries but this would no longer count as ODA. Using the July 2014 update of World Bank income groups it appears that only St Kitts and Nevis will be taken off the list in 2015. With no change in approach, the next review could see Antigua and Barbuda, Chile and Uruguay deemed ineligible. Otherwise 'rich' countries may have persistent pockets of people living in extreme poverty aside relative affluence. Indeed, Chile and Uruguay had low levels of extreme poverty (1.4% and 0.2% respectively), although there are no extreme poverty data for the other two countries.

The high-income threshold of US$12,746 in 2013 is based on a 1989 World Bank decision to re-classify all 'industrial' countries as high income, with the threshold increased in line with global prices in each year since (Badiee 2013). The World Bank itself has stated that average income alone "does not completely summarise a country's level of development or measure welfare", and that these income groups are not used for World Bank allocation decisions (World Bank 2014). It is in the process of reviewing its income classifications, which will have an impact on how the DAC determine eligibility.

Box C: Income group thresholds are low, misleading and arbitrary

The income group system is a key determinant of many resource allocation decisions and is widely used as a basis for understanding and comparing countries' development. Income group status has important political and practical implications for countries. Yet the system itself is built on a single indicator – average income per person – that is increasingly in conflict with the modern definition of sustainable development. While this report uses income groups as a basis for analysis (because of their political importance), there are a number of reasons why they are an inappropriate tool for understanding developing or guiding decisions under the post-2015 framework (see also Box K).

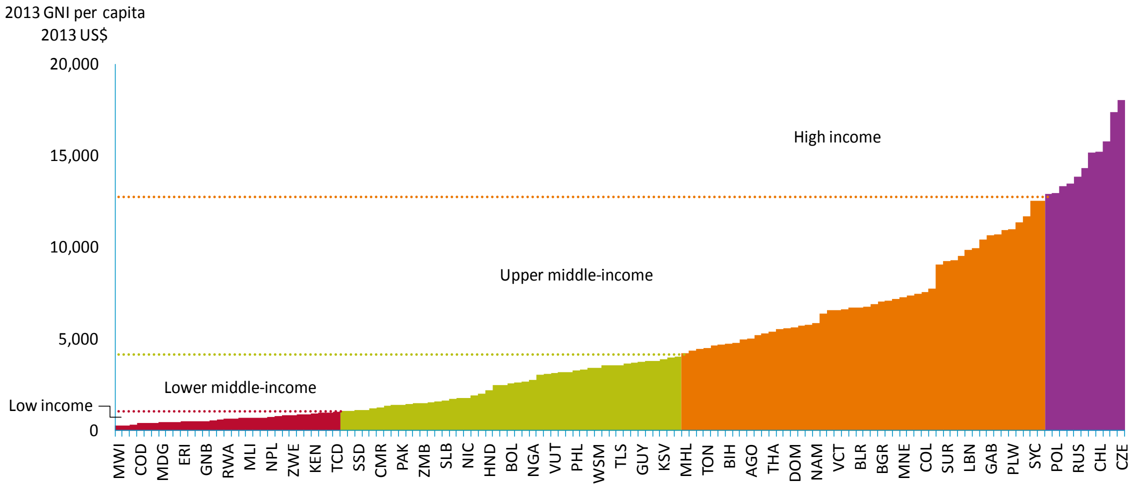
The threshold for 'graduating' to LMIC in 2014 is an average GNI per person of US$1,045 per year, which represents an average income of around $3 a day. Given inequality, most countries at this level of average income still have a significant proportion of the population living in extreme, $1.25 a day, poverty. Within an post-2015 development agenda that aims ultimately to end poverty in all its forms everywhere, $3 a day is extremely low in comparison to the $10–$12 a day that is generally thought to represent a sustainable end to poverty (see Box E).

The use of income groups is often justified as a determinant of ODA allocations on the basis that it estimates domestic wealth. However, domestic wealth is a poor proxy for the resources within the control of domestic institutions that actually have a mandate to address social, environmental and economic issues.

There is also evidence that GNI per capita must be significantly higher than the lower middle-income threshold in most countries before there is sufficient wealth to even create the potential for redistribution of sufficient scale to end poverty. Research from the World Bank shows that for many countries with per capita consumption of less than PPP$2,000 per person, generating sufficient tax revenue to end $1.25 a day poverty would require marginal tax rates exceeding 100% on citizens who are not poor by rich-country standards (Ravallion, Do poorer countries have less capacity for redistribution 2009).

The thresholds that divide countries as low income, (lower- and upper-) middle income and high income do not reflect a natural grouping of countries. In reality there is a relatively smooth progression of countries when ordered by average income per person – there are no natural clusters of countries at similar income levels that could be divided into groups (Figure 12).

Figure 12. Income groups do not reflect natural groupings of countries



Source: World Bank, Kenny (2013). Note that countries with GNI per capita exceeding US$20,000 per person are excluded from the figure. Data are for 2013.

Status quo: ODA delivery

For ODA to be effective in ending poverty, allocations must both respond to the distribution and characteristics of poverty and be designed in a way that ensures the highest probability of impact. This incorporates the types of investments (see *Sector ODA allocations and the dimensions of* poverty and *chapter 5*) as well as effective delivery mechanisms.

The concept of effective delivery covers a range of areas and has evolved since its origins in the 1990s (OECD DAC 1996) and the 2002 Monterrey Consensus through different frameworks and mechanisms for monitoring progress.

The Paris Declaration on Aid Effectiveness in 2005 included five principles: ownership, alignment, harmonisation, managing for development results, and mutual accountability (2nd HLF on Aid Effectiveness 2005). Later, in 2008, the Accra Agenda for Action put the spotlight on ownership, inclusive partnerships, delivering results and capacity development, highlighted the importance of predictability and launched the International Aid Transparency Initiative (IATI) (3rd HLF on Aid Effectiveness 2008). In Busan in 2011 predictability, transparency and effective partnerships were reinforced as the focus shifted from aid effectiveness to development effectiveness, incorporating wider resources including south–south cooperation (SSC), the private sector, private philanthropic organisations, civil society, local and regional government, and multilateral organisations (4th HLF on Aid Effectiveness 2011).

The Development Cooperation Forum (DCF) has supported monitoring and accountability of development cooperation and review of trends and progress at the global and national levels since 2007. It places special emphasis on efforts of all partners to increase the effectiveness of development cooperation and the longer-term impact of poverty reduction. The 2014 DCF emphasised mutual accountability and transparency as key to effectiveness within wider resource flows in the post-2015 era, through cost-effective modalities and predictable funding, with limited conditionality (Development Cooperation Forum 2014).

There is no single agreed mechanism that monitors the delivery of ODA, although there are a number of different processes and reviews that can be examined to gauge certain key aspects of the status quo. This section compares the findings of three surveys focusing on some of the key dimensions of effective delivery: predictability, transparency, use of country systems and mutual accountability to identify commonalities and disparities.

The three surveys used are:

- The UN DCF third survey results from 2013, which surveyed 43 countries (herein the 'DCF survey')
- An IATI secretariat survey of officials and aid effectiveness specialists in 24 recipient countries on transparency in relation to IATI Data and the Aid Information Management Systems (AIMS) in 2014 (herein the 'IATI survey')
- The Busan monitoring survey data from the Global Partnership for Effective Development Co-operation (GPEDC) from 2014 which surveyed 46 countries (herein the 'GPEDC survey')

While none of these surveys provide a complete picture of the different mechanisms available to monitor effectiveness, together their results provide an overview of the status quo in some key areas of effectiveness.

ODA quality

The strength of country systems to manage ODA and the extent to which donors use country systems are key components of coordinated delivery that aligns to national priorities.

The alignment of aid and national budgeting is an important foundation for delivery that is aligned to national priorities and a key measure of country ownership. The proportion of aid that is reported in national budget documents ('on-budget') and the usefulness of information about planned aid disbursements for country budgeting are key indicators.

There may be some progress in on-budget disbursements, with the proportion of disbursements to government rising from 57% in 2010 to 64% in 2013. A higher proportion of disbursements are on budget in LICs (72.5%) than LMICs (56.7%) or UMICs (36.7%) (GPEDC survey).

However, despite increases in on-budget reporting, the use of information about ODA in country planning and budgeting processes is limited. The DCF survey finds only moderate use of this information, with respondents scoring an average 3.2 out of 5, while the IATI survey finds in almost 60% of cases that information is of insufficient quality to use – the main reason is timeliness of reporting, as well as missing or inaccurate data or differences in financial years. In addition, less than half of disbursements are subject to country systems for financial reporting, auditing or procurement.

Mutual accountability

Mutual accountability between providers and recipients is both an underlying principle of development cooperation and an important technical tool of effective, sustainable delivery. There are many aspects to mutual accountability, with key indicators focusing on mutually agreed targets and monitoring against those targets. The majority of recipient countries assess the strength of mutual accountability to be relevant, while conceding that it was still a "work in progress". It continues to focus on a narrow range of development partners, with little or no involvement of key national stakeholders, such as parliamentarians and local governments.

National aid policies are key tools to help countries manage the ODA that they receive and to provide a basis for working with donors to incorporate spending into a comprehensive strategy. Without this tool alignment, mutual accountability and effective delivery may be more difficult to coordinate. The surveys found that between 20% and 30% of respondents do not have a national aid or partnership policy, although a growing number of countries do have such policies in place. In 2011 39 countries reported having national aid policies; by 2013 this had risen to 47.

Between 60% and 70% of countries with national aid policies set targets for providers of development cooperation, and around half (48%) rated the extent of target setting for individual providers between "moderate" and "complete" achievement. While 73% of surveyed recipient countries indicated that they had an assessment of progress in the past two years, such reviews assessed providers, either individually or collectively, only to a limited extent (DCF survey)

Also, results of progress reviews against these targets are not always made public. 36% of countries that monitor results report moderate achievement in making the results public, 26% report high achievement and only 12% report complete achievement of targets to make information public (DCF survey).

Transparency

Transparency is an important underlying principle and relates closely to others, such as mutual accountability. In one survey of recipient countries almost three quarters of respondents said that it is important that information is not more than one month out of date and over 90% said that it must not be more than three months out of date.

However, in practice there is considerable variation in transparent reporting across countries and areas of focus. The most common reporting systems track information on overall funding, with over 80% of respondents to one survey having a system in place. Sector and thematic reporting are present in many countries. However, there is less information on the delivery modality and off-budget flows. Information on gender-disaggregated spending, conditionalities and tied aid are the least transparent aspects of reporting to national information systems.

Predictability

Effective future planning is reliant on predictable resource flows, and the provision of information about donors' forward spending plans is particularly important for national budget preparation.

While there has been some progress towards increased predictability (one survey found an increase in annual disbursements going ahead as scheduled from 79% to 82%), the surveys agree that there is a long way to go. The DCF survey found only moderate achievement with an average score of 2.8 out of 5 from respondents, while the IATI survey finds that almost 60% of respondents do not have sufficient information for forward budgeting. There are issues with disbursements exceeding scheduled amounts as well as falling short; in almost a quarter of countries disbursements exceeded planned amounts by more than a quarter. Predictability declines the further ahead we looks: one survey finds 83% of forward-spending plans available for an estimated 80% of spending in year one, declining to 57% in year three.

Summary

The way in which ODA is delivered and used is a key component in ensuring that spending is effective and sustainable. There are a number of frameworks that exist to monitor delivery and use that highlight that, despite political engagement about the need to improve delivery and use, more needs to be done across many aspects of the agenda to show tangible improvements.

There are a number of factors that underlie the slow pace of progress. One key issue is the lack of incentives for providers to engage in mutual accountability, which rely on surveillance of activities and peer pressure (Ocampo and Arteaga 2014). Country ownership and leadership in reporting on targets, sharing knowledge widely and holding partners accountable is important. Another key factor is the focus of existing mechanisms on process or ways of managing cooperation, rather than the ultimate results that improved delivery aims to achieve. As such there is little evidence on the extent to which outcomes are affected by delivery. There is a need to strengthen the architecture and system for mutual accountability to improve ODA effectiveness.

Status quo: wider resource landscape

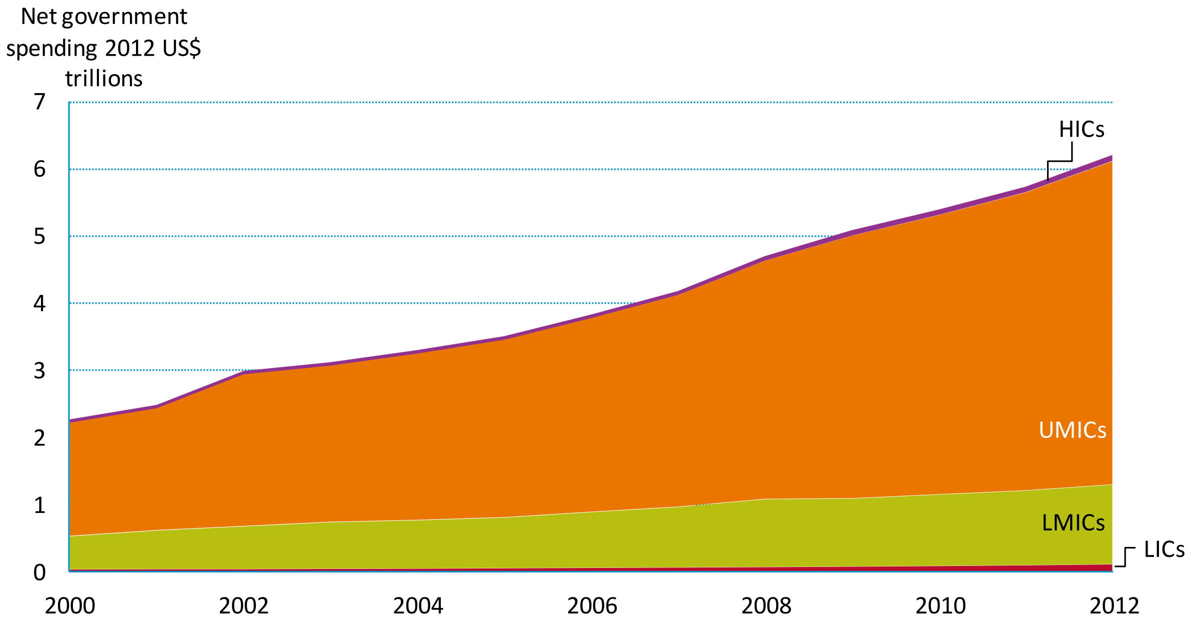
The landscape of financial resources flowing to developing countries has changed dramatically since the MDGs were agreed. To understand how ODA allocations can work effectively within this landscape, it is important to understand the key trends and dimensions of wider resource flows. It is also important to note the varying functions and focuses of different resources. ODA performs a different role from wider resource flows such as foreign direct investment (FDI) and remittances, and the needs that ODA meets do not necessarily diminish because the dollar value of FDI or remittances have increased.

Domestic financial resources

Domestic resources are growing, particularly in UMICs

Government resources are growing rapidly in many developing countries (Figure 13). Total resources spent by governments[8] grew from US$2.4 trillion in 2000 to US$6.4 trillion in 2012 – real average growth of 8.6% per year. The majority of this growth occurred in UMICs such as China (which accounted for almost 40% of total growth in all developing countries) and Brazil. Many governments, however, experienced rapid change; in more than half (78) developing countries, spending has grown at an average of 5% per year or more since 2000.

Figure 13. Government spending has grown rapidly for many developing countries, though is dominated by UMICs



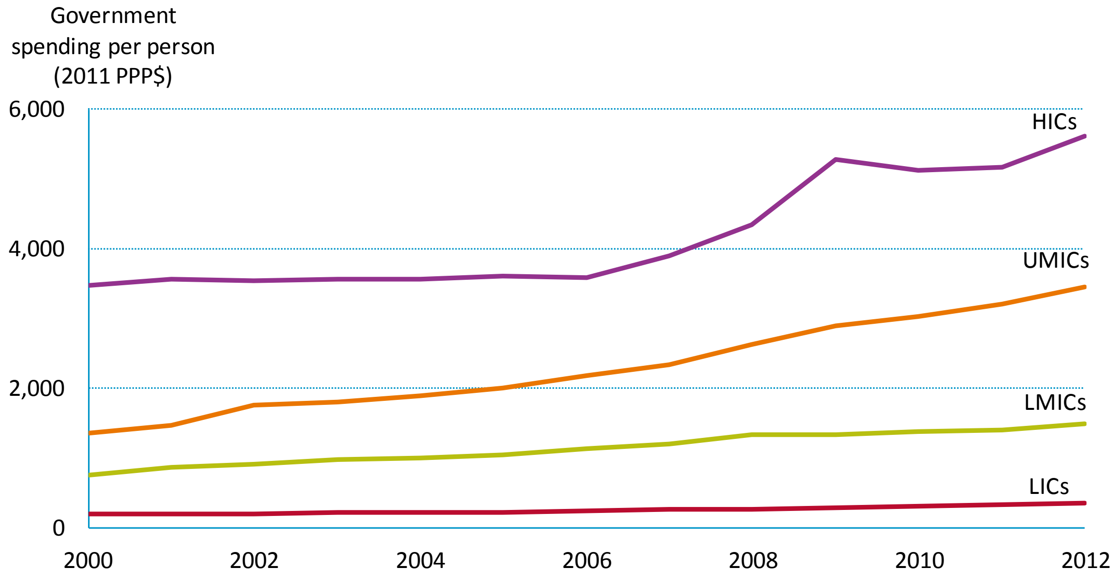
Source: IMF World Economic Outlook. Note that totals for each income group are based on income group classifications in 2012 (rather than each country's historic classification).

Despite growth, domestic resources remain low in absolute terms for many countries

While many governments have experienced rapid growth in spending, resources remain extremely low in absolute terms for many countries (*Figure 14*). In 58 countries government spending is less than PPP$1,500 per person.

[8] General budget support ODA has been removed to avoid double counting with ODA

Figure 14. Government spending per person has grown slowly in LICs



Source: Development Initiatives calculations based on IMF World Economic Outlook and World Bank. Note that totals for each income group are based on income group classifications in 2012 (rather than each country's historic classification). Data are in 2011 PPP$.

International financial resources

International resource flows to developing countries are growing rapidly

International resource flows to developing countries have doubled in volume since 2000, growing an average 5.8% a year (Figure 15).

Growth has been driven by rapid increases in private resource flows. FDI grew 63% between 2000 and 2012, rising from US$299.4 billion to US$489.2 billion (peaking at US$550.0 billion in 2008). Long-term debt disbursements grew 76% from US$328.3 billion to US$578.8 billion. Remittances grew almost three-fold from US$139.5 billion to US$378.7 billion.

As these resources have grown, ODA has fallen as a share of total resources received by many developing countries. In 2000 it was the largest resource flow received by 59 developing countries; by 2012 this had fallen to 33 (Figure 16).

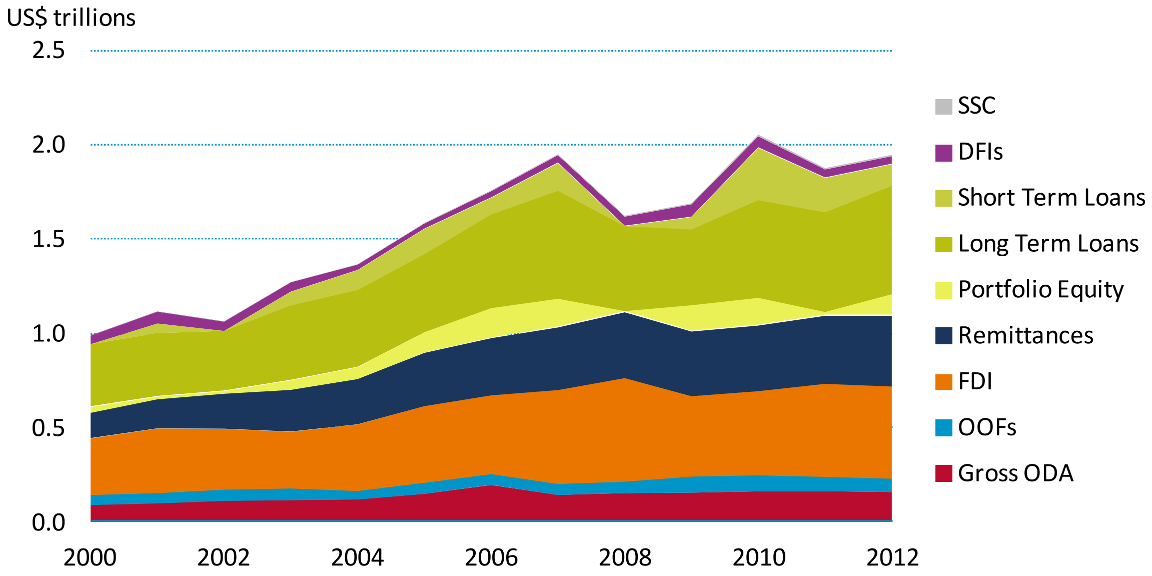
Growth in wider resources, however, has been largely concentrated in a subset of developing countries. Over three-quarters of the increase in international resource flows overall went to UMICs.[9] Just 6.4% of the increased volume of international resources went to LDCs. In 2012 two-thirds of FDI flowed to just 10 countries.[10]

Large volumes of resources flow out of, as well as in to, developing countries. While there are data limitations on both sides of the equation, by some accounts the resources leaving developing countries exceed those coming in (Griffiths 2014).

The majority of resource flows leaving developing countries are not productive investments in the rest of the world but are reverse flows associated with private resources (Figure 18). Loan repayments totaled US$516.6 billion in 2012 and repatriated profits of US$469.5 billion, equivalent to 96% of new investments in the same year. Estimates for illicit finance, a combination of profit shifting through trade mispricing and capital flight, suggest the scale of these outflows is over US$600 billion – though these flows are by nature unrecorded so are difficult to estimate accurately.

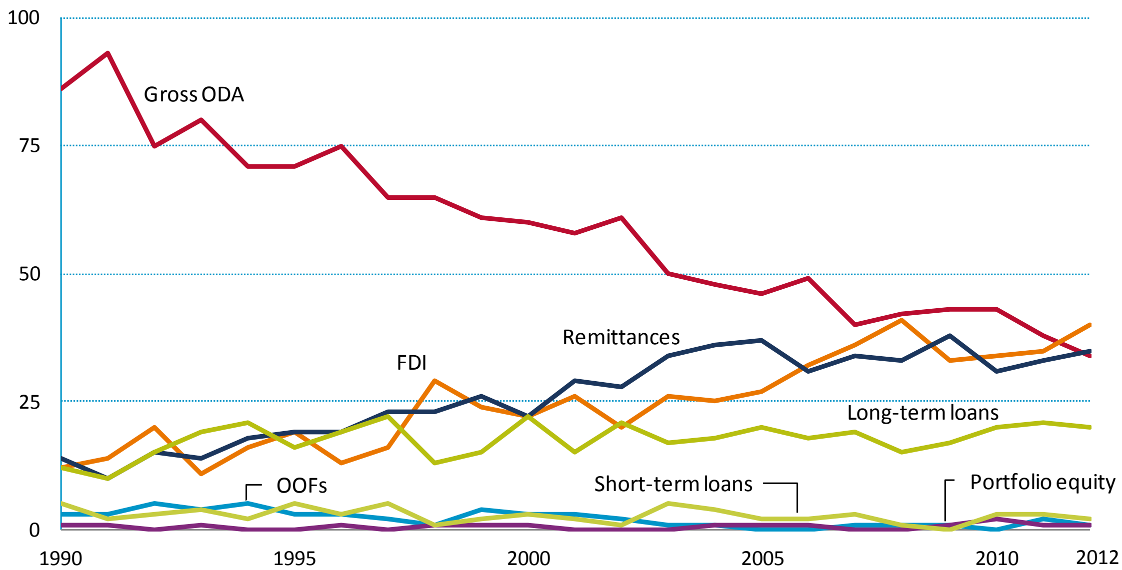
[9] To countries that are now UMICs (some of which graduated to UMIC status over the period)
[10] These countries are (in order of FDI receipts): China, Brazil, Chile, India, Indonesia, Colombia, Kazakhstan, Mexico, Argentina and Turkey.

Figure 15. International resource flows to developing countries have doubled since 2000



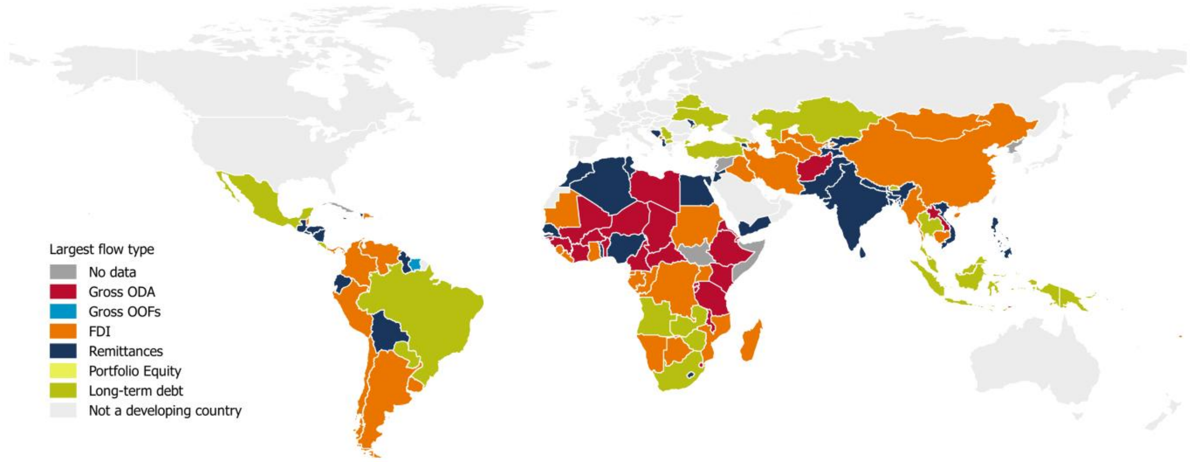
Source: Update from Investments to End Poverty (2013). Note that there is no SSC data for 2012. Flows such as military and security spending with no historic data are excluded.

Figure 16. ODA was the largest flow to 86 countries in 1990; now it is 34



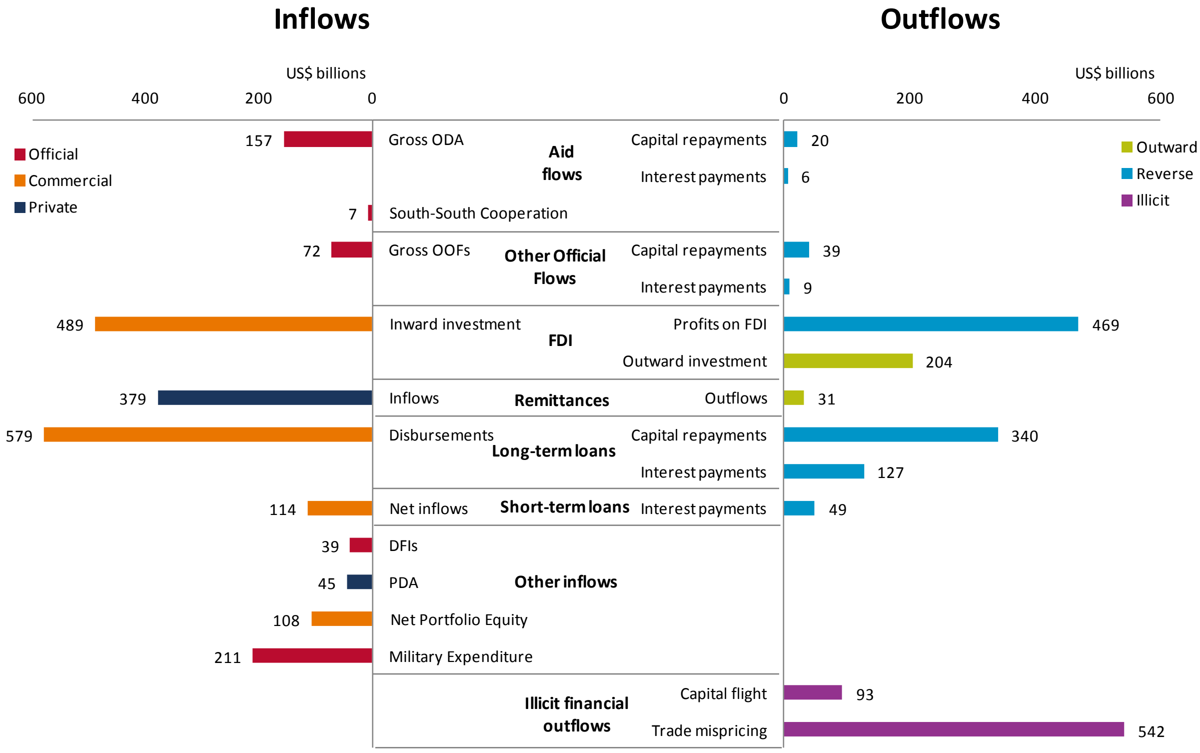
Source: Update from Investments to End Poverty (2013). This figure shows the number of developing countries for which each resource flow was the largest received in each year from 1990 to 2012.

Figure 17. Many countries for which ODA is the largest international flow are in sub-Saharan Africa



Source: Update from Investments to End Poverty (2013). The colour of each country corresponds to the largest international resource flow they received in 2012.

Figure 18. A dynamic mix of resources flow to and from developing countries



Source: Update from Investments to End Poverty (2013). Figures are for 2012.

Despite growth in other international resources, ODA remains important for many countries

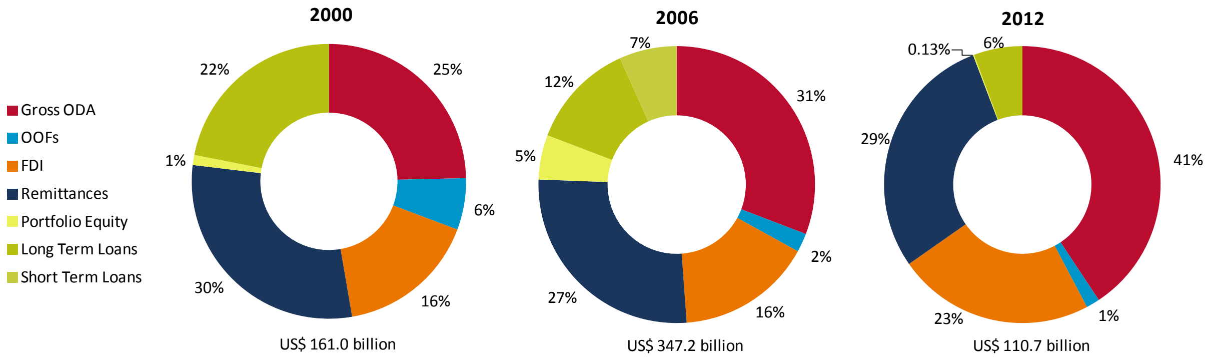
ODA remains very important for many countries. In 2012 it was the largest resource flow for 33 countries (Figure 16).

ODA has actually increased as a proportion of the resources flowing to LICs since 2000, rising from 25% to 41%. This is largely because of countries 'graduating' to LMIC status: between 2000 and 2012 the average GNI per person grew above the LMIC threshold in 28 countries.[11] This included countries such as India and Indonesia where ODA is a small proportion of total international resource flows.

[11] One new country, South Sudan, also became a LIC during the period.

Nevertheless, the fact that ODA comprises a higher proportion of resource flows to LICs now than when the MDGs were agreed is an important point and highlights the unequal distribution of wider resources across developing countries.

Figure 19. ODA accounts for a larger portion of international resources to LICs in 2012 than in 2000



Source: Development Initiatives calculations. Note that each figure shows the mix of resources based on LIC classifications in that year (the data covers 63 LICs in 2000 and 36 LICs in 2012).

Status quo: Poverty

MDG 1a, to halve the proportion of people living in extreme poverty was met in 2010, ahead of time. The primary target of the post-2015 sustainable development agenda is likely to set the goal of finishing the job: ending extreme poverty by 2030, and setting a longer term vision to end poverty in all its forms everywhere.

Box D: Key definitions of poverty

Poverty comes in many forms and is caused by and manifested through a range of complex and overlapping factors. Progress in reducing poverty is typically monitored by indicators that define poverty as living below a certain income or consumption threshold, or being subject to certain deprivations.

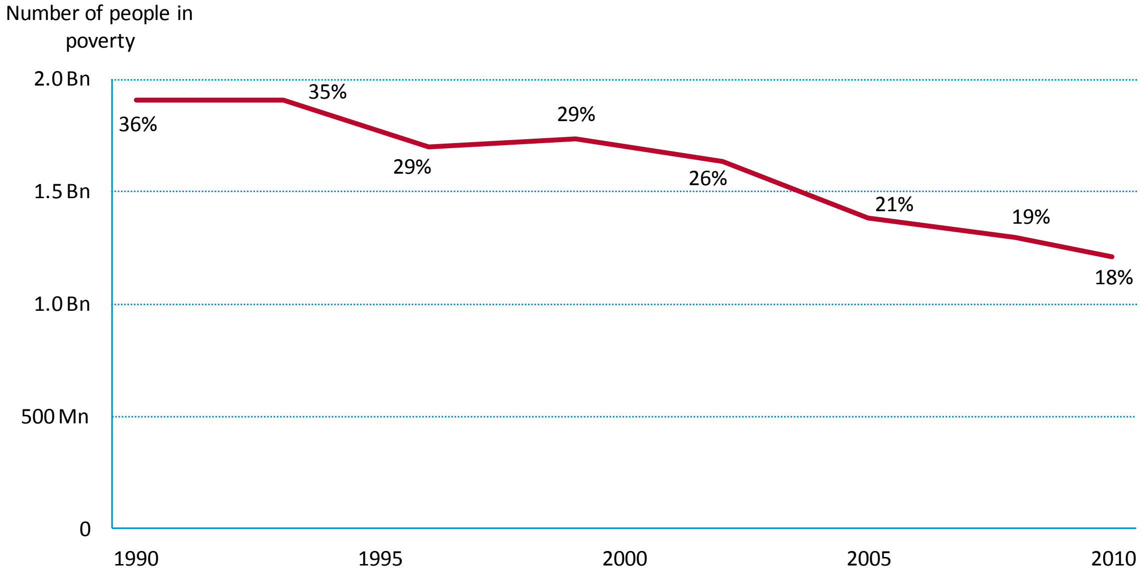
The most common measure of poverty is the international $1.25 a day poverty line, which is used to define ‘extreme poverty’. This indicator, which was originally calculated from the average poverty line of the 15 poorest developing countries (Ravallion, Chen and Sangraula, Dollar a day revisited 2008), was used as the target for MDG 1a and will form the basis for the primary goal of the SDGs. Broader measures of income or consumption poverty are also widely used, particularly the $2 a day poverty line. This is the primary measure of poverty used throughout the report, unless specified otherwise.

Multidimensional poverty is defined by deprivation in non-income/consumption measures. The most common indicator is the multidimensional poverty index (MPI) (Oxford Poverty & Human Development Initiative 2014) which collates measures of deprivation in education, health and living standards to estimate overall multidimensional poverty.

Trends

Extreme poverty has fallen rapidly since 1990 (Figure 20) when over 1.9 billion people, 36% of the world’s population, lived in extreme poverty (defined as living on less than $1.25 a day). Despite rapid decline, over 1 billion people still live in extreme poverty. A significant proportion of the reduction in poverty was driven by China, where poverty rates fell from over 60% in 1990 to 12% in 2009 – a decline of over 500 million people.

Figure 20. Extreme poverty has declined rapidly since the 1990s, though over 1 billion people still live on less than $1.25 a day

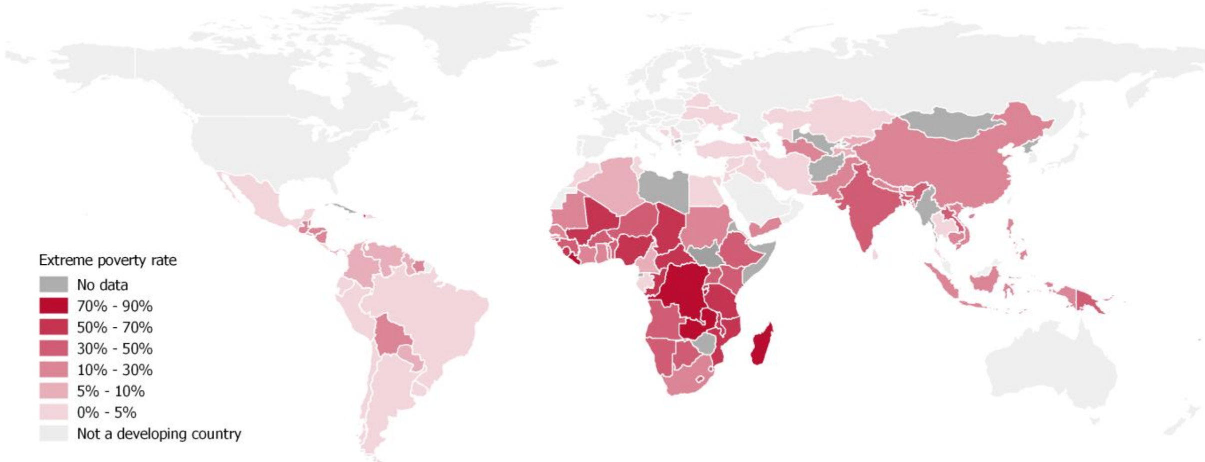


Source: World Bank. The proportions shown are the proportion of the population of all developing countries living in extreme poverty.

Distribution

As a proportion of the population, poverty is most prevalent in sub-Saharan Africa (Figure 21), where almost 50% of people live in extreme poverty. Of the 25 countries with the highest proportional poverty rates, the top 10 are all in sub-Saharan Africa and Haiti is the only country outside the region.[12]

Figure 21. Countries in sub-Saharan Africa have the highest proportion of people in extreme poverty

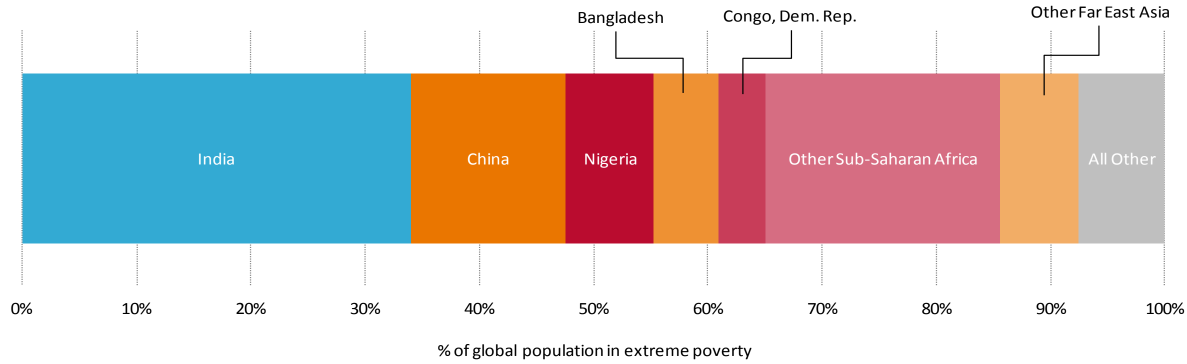


Source: Development Initiatives based on World Bank. Note that data for each country are based on latest available estimates.

India and China are home to the largest numbers of people in extreme poverty, followed by Nigeria, Bangladesh and DRC (Figure 22). Together these five countries account for 65% of people in extreme poverty.

[12] Based on latest available data for each country. Note that there are a number of countries where poverty rates are likely to be high, but for which no recent estimates of poverty at under $1.25 a day exist.

Figure 22. Five countries account for almost two-thirds of extreme poverty



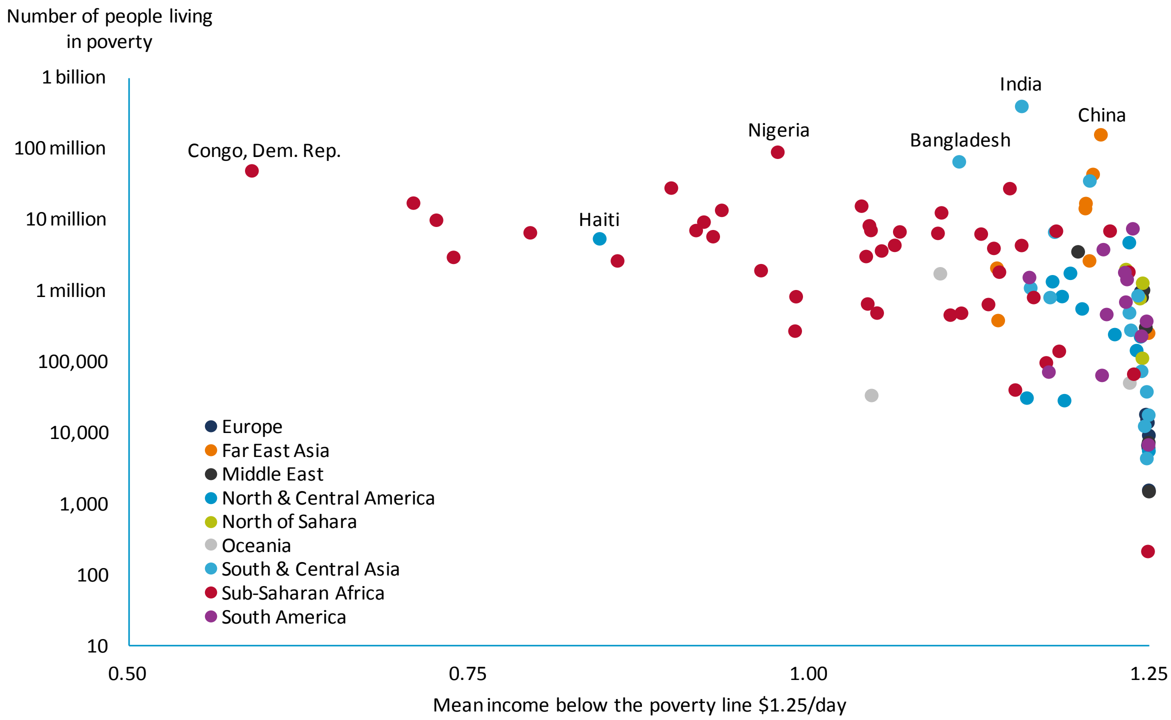
Source: Development Initiatives based on World Bank. Data for each country are based on latest available estimates.

Depth of poverty

The depth of poverty refers to the difference between the average income of people living in poverty and the poverty line[13]: the lower average incomes, the greater the depth of poverty.

There is considerable variation in the depth of poverty across countries, and most countries where poverty is deepest are in sub-Saharan Africa. Two-thirds of people living in extreme poverty live in countries where the average depth of poverty is less than 10%, while 14% live in countries where it is greater than 25%.[14]

Figure 23. Extreme poverty is deepest in many sub-Saharan African countries.



Source: Development Initiatives based on World Bank. Data for each country are based on latest estimates.

[13] The difference between the average income of people in poverty and the poverty line is the poverty gap.

[14] Depth of poverty equivalent to 10% means that the average income of the poor is $1.125 a day or greater – 25% depth of poverty means it is $0.94. Note that these are averages so within each country there are people living in poverty on more and less than these figures.

Box E: From ending $1.25 a day poverty to ending poverty in all its forms everywhere

The report of the Open Working Group on Sustainable Development Goals proposes that the principal SDG is to end poverty in all its forms everywhere. The first target to reach this goal is to end $1.25 a day poverty, the current definition of extreme poverty.

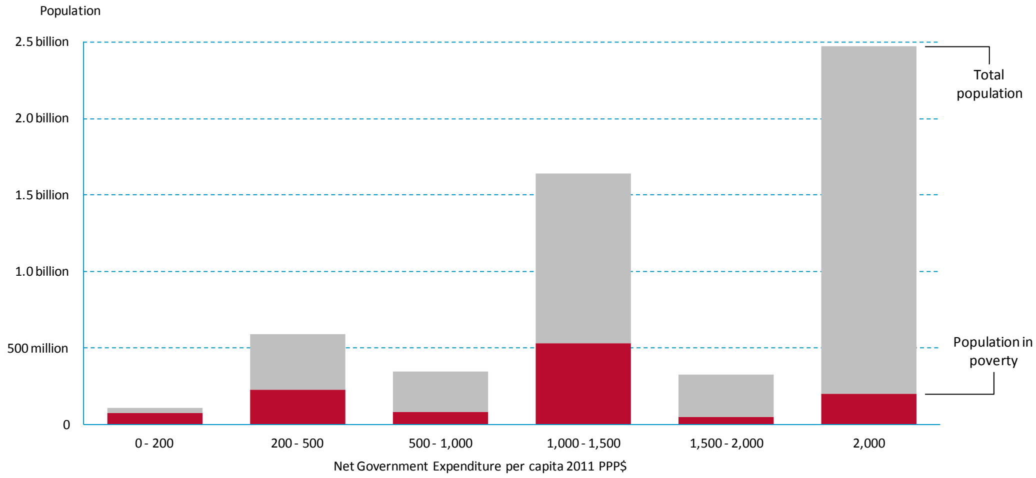
Ending $1.25 a day poverty is a very important milestone on the path to ending poverty in all its forms, and getting there will be one of the most important human achievements in history. Yet $1.25 a day is a comparatively low measure by almost all standards: it originates from an exercise to understand the poverty lines used by some of the poorest countries and the majority of countries set their own national poverty lines above $1.25 a day.

Setting the goal to end $1.25 a day poverty within a vision to end poverty in all its forms everywhere provides a transformational drive to sustain action against poverty and economic injustice for the poorest over the long-term. This is ambitious: the income level at which people are generally considered to be sustainably out of poverty and not at risk of falling back into it is somewhere between $10 and $15 a day (Birdsall, Lustig and Meyer 2013). Current estimates are that over 5 billion people live on less than $10 a day (Investments to End Poverty 2013).

Status quo: Poverty and domestic resources

83% of people living on less than $1.25 a day worldwide live in countries where government spending is less than PPP$1,500 per person (Figure 24).[15] For 30 countries with 300 million people living in poverty, government spending is less than PPP$500 per person. This compares to average government spending of PPP$2,170 per person across all developing countries, and PPP$17,486 per person in DAC donor countries.

Figure 24. 83% of the world's poorest live in countries where government spending is less than PPP$1,500 per person each year



Source: updated from Investments to End Poverty (2013); World Bank, IMF World Economic Outlook. Note that this figure only includes developing countries.

Such low domestic resource levels place severe constraints on many developing countries' ability to provide basic services. To put these figures in context, the World Health Organization estimates that LICs need to spend a minimum of $60 per person to achieve the most basic healthcare coverage (WHO 2010) and the UN Millennium Project estimated in 2004 that primary education costs between $50 and $100 per pupil and secondary education between $100 and $200 per pupil (UN Millennium Project 2004). Alongside the range of other government responsibilities (ensuring the

[15] In constant 2011 PPP$. General budget support ODA has been removed from all government spending per person figures to avoid double counting with ODA.

rule of law; providing infrastructure for water and sanitation, energy and transport; protecting the environment; providing social security nets; conducting foreign policy; regulating the private sector; formulating policies for growth; and implementing policies to reduce poverty) it is clear that nationally led implementation of the post-2015 development agenda will be limited in many countries by a lack of resources.

Part II: Paradigm shifts and ODA

2. From halving extreme poverty to ending poverty in all its forms everywhere

Key messages

- The post-2015 development agenda is likely to set an ambitious vision for ending poverty:
    - The target to eradicate extreme, $1.25 a day poverty by 2030
    - The longer term goal to end poverty in all its forms everywhere
- ODA is the only international public resource that can explicitly target poverty reduction
- ODA should be recalibrated to better respond to poverty – current allocations do not respond effectively to characteristics such as the geography, depth or non-income dimensions of poverty (although ODA is more poverty sensitive than other resources)
- Agencies that have a formal mandate to end poverty are much more effective at targeting allocations towards the poorest
- Different ODA instruments should be used according to the level, depth and type of poverty
- Investment in better quality disaggregated data could yield significant improvements to decision making and targeting of resources at the poorest

Introduction

MDG1a, to halve the proportion of people living in extreme poverty, was met ahead of time in 2010. One of the key paradigm shifts in the post-2015 development agenda is the aim to build on this success and to target the ultimate goal of ending poverty in all its forms everywhere. Goal 1 of the OWG covers two aspects of the shift (Open Working Group 2014):

- The shift from halving extreme poverty, defined by the $1.25 a day poverty line, to ending it by 2030
- The parallel shift from extreme poverty to poverty in all its forms everywhere (articulated in goal 1 and in the specific target 1.2, to halve national poverty in all dimensions by 2030).

The scale, depth and complexity of poverty are such that achieving these goals will require a coordinated strategy and dedicated resources. Aid is the only international resource that has the potential to explicitly address poverty and ODA should play an important role underpinning efforts to end poverty.

This chapter examines how current ODA allocations compare to the distribution and characteristics of poverty.

ODA allocations do not reflect the distribution or characteristics of poverty

ODA allocations are considerably more poverty sensitive than other international resources (see chapter 1), but current allocations still reflect a wide range of objectives and criteria for providing ODA.

Under an effective targeting system, allocations of ODA would respond to the distribution, characteristics and complexities of poverty (as well as domestic capacity – see Chapter 3 and effectiveness concerns). The critical question here is not the location of the investment but the location of the impact. There are many investments with a high probability of impacting poverty that are most effectively spent outside poorer countries – vaccine development is an example. However, ODA investments targeted on poverty impact should also respond to variations in the scale, depth and dimensions of poverty across countries.

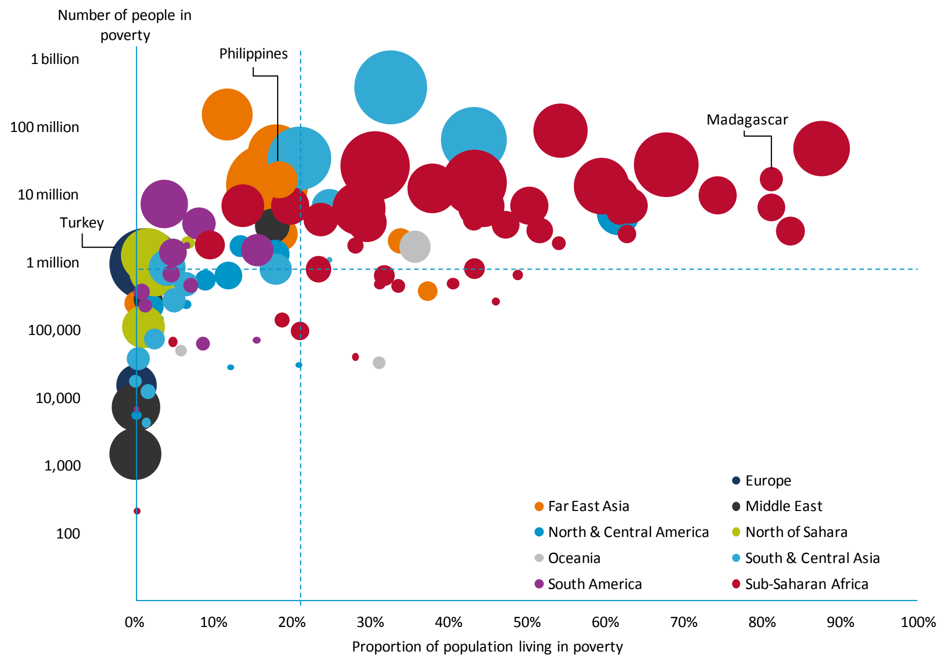
The reality is that current ODA investments only partially respond to these characteristics of poverty, highlighting the need to recalibrate allocations and improve targeting to eradicate poverty and transition to sustainable development.

ODA allocations and the geography of poverty: ODA is lower where poverty is greater

Donors that aim to reduce poverty may prioritise recipients on the basis of either the proportion or number of people living in poverty. *Figure 25* shows how current allocations respond to each version of the extreme poverty measure (see also Box F on how to read the bubble graphs).

Many, but not all, of the largest recipients of ODA are countries with high poverty rates by one or both measures (*Figure 25*). The top 10 recipients of ODA[16] include 6 of the 10 countries with the largest numbers of people living in poverty. Yet there are both countries with significant poverty that are not prioritised in ODA allocations, and countries with comparatively little poverty that are prioritized. Madagascar and the Philippines, countries that are home to the 10th and 11th largest numbers of people living in extreme poverty, respectively, rank 70th and 36th respectively, on volume of ODA disbursements. However Turkey is the fourth largest country recipient of ODA, despite extreme poverty rates that are comparatively low at just 1.3% of the population and with less than 1 million people living in extreme poverty.

Figure 25. Many, but not all, of the largest recipients of ODA are poorer countries



Source: Development Initiatives calculations based on OECD DAC, World Bank. The size of each bubble is scaled by the volume of gross ODA (excluding non-transfers) allocations to each country in 2012. Poverty data is the latest available for each country.

However, in per poor person terms, ODA is lowest where poverty is greatest. [17]

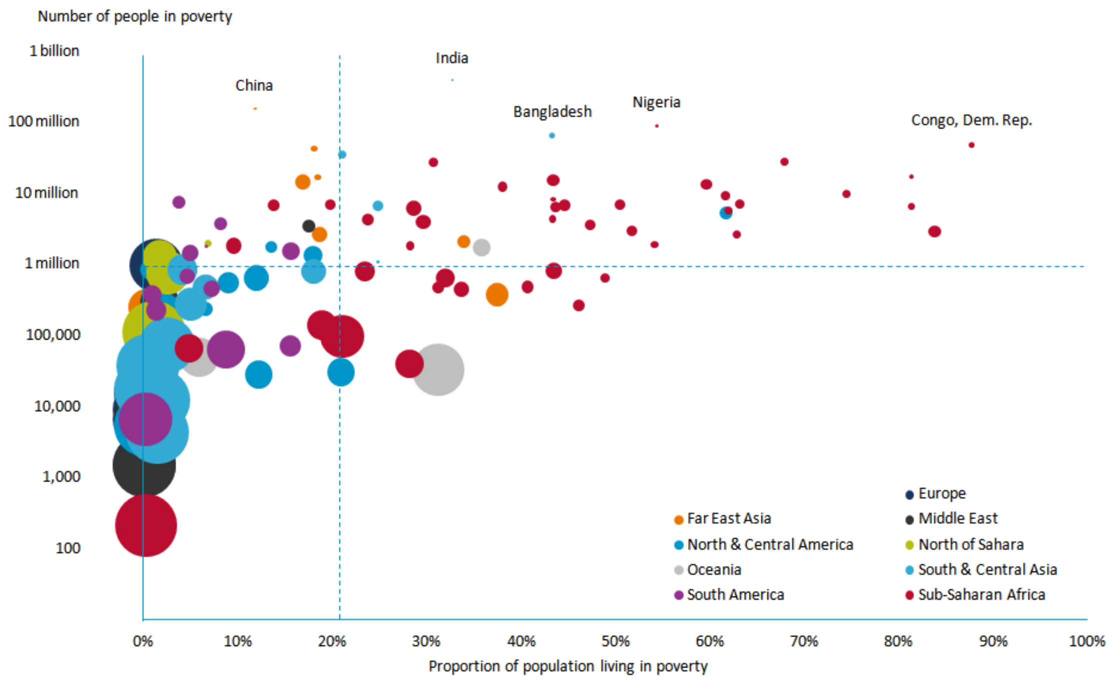
While many of the poorest countries are among the largest country recipients of ODA, allocations do not reflect the scale of poverty in those countries. India and China, the countries with the largest numbers of people living in poverty, are also the countries where ODA per poor person is lowest – just US$9 and US$12 respectively. While ODA does not have to flow in large amounts to have a transformational impact, especially where domestic resource levels are high (see chapter 5), US$9 per poor person is very low. In Nigeria and Bangladesh, the 3rd and 4th largest countries by number of people living in extreme poverty, ODA per poor person is just US$22 and US$45 respectively (and

[16] Note that all figures in this section are ODA excluding non-transfers.
[17] See also (Manuel 2014)

domestic resources are significantly lower in these countries – see ODA allocations and future trends in domestic resources). In DRC, the country with the highest proportion of people living in poverty in the world at 88% and the 5th largest overall population in poverty, ODA per poor person is US$44 (Figure 26).

There are 20 countries where ODA is less than US$100 per poor person per year (27 US Cents per day); these 20 countries account for over three-quarters of the world's poor. Conversely, ODA exceeds US$1,000 per poor person in 33 countries, yet these countries account for less than 1% of the world's poor. While volumes are just one determinant of impact and transformational investments do not always require significant amounts of money, the extreme contrast points to the need to recalibrate ODA allocations.

Figure 26. ODA per poor person is lowest in many of the poorest countries



Source: Development Initiatives calculations based on OECD DAC, World Bank. The size of each bubble is scaled by the ODA per poor person (excluding non-transfers) to each country in 2012 (the size of the largest bubbles is capped at US$5,000 per poor person). Poverty data is the latest available for each country.

> *Box F: A note on the bubble graph framework used throughout this report*
>
> *Figure 25* and Figure 26 present a framework, repeated throughout this report that compares ODA allocations against both the proportion of people living in poverty and the total numbers.
>
> Each bubble in the figures represents a country; the size of each bubble is scaled by the proportion of total ODA that each country receives. The horizontal axis shows the proportion of the population living in poverty in each country: countries to the right hand side have a higher proportion of people living on less than $1.25 a day. The vertical axis shows the number of people living in poverty in each country: countries to the top of the figure have larger numbers of people living in poverty.
>
> If, for example, donors prioritized ODA by the proportion of people living in poverty, the largest bubbles would appear on the right hand side. If donors take account of both measures of poverty, the largest bubbles would be in the countries towards the top-right of the figure.
>
> Note that adapted versions of the figure are presented in chapter 3, where the horizontal axis shows government spending per person (as donors may also account for countries' capacity to meet internal issues with their own resources); as well as in chapter 4 regarding fragility and environmental vulnerability.

ODA allocations and the depth of poverty

Poverty lines drawn at any level simplify reality by categorising people as either above or below the line, without accounting for how close or far they are from it. In reality, the depth of poverty (the distance between incomes for those living below the poverty line and the poverty line) varies considerably across countries.

People in the deepest poverty are also most likely to be in chronic, often intergenerational, poverty (Chronic Poverty Report: The Road to Zero Extreme Poverty 2014). Looking forward to 2030 and the goal of ending poverty in all its forms, there is a need for structural and systemic long-term investments to help people escape the deepest poverty and to support their ability to cope with crisis and take up opportunities in the immediate term.

However ODA allocations, in per poor person terms, actually prioritise countries where the depth of poverty is lower (Figure 27). ODA per poor person is highest where the poverty gap[18] *is lowest.* The 44 countries where ODA per poor person is greater than US$500 are all countries with poverty gaps of less than 10%.[19] Yet ODA per poor person is just US$64 in 16 countries where poverty gap is more than 20%.[20]

Most countries where the depth of poverty is greatest are in sub-Saharan Africa, and ODA per poor person is low among these countries – shown by a clustering of sub-Saharan African countries in the bottom left of Figure 27. In DRC where the mean income of the poor is less than half the $1.25-a-day poverty line (US$0.59 a day), ODA is just US$44 per poor person.

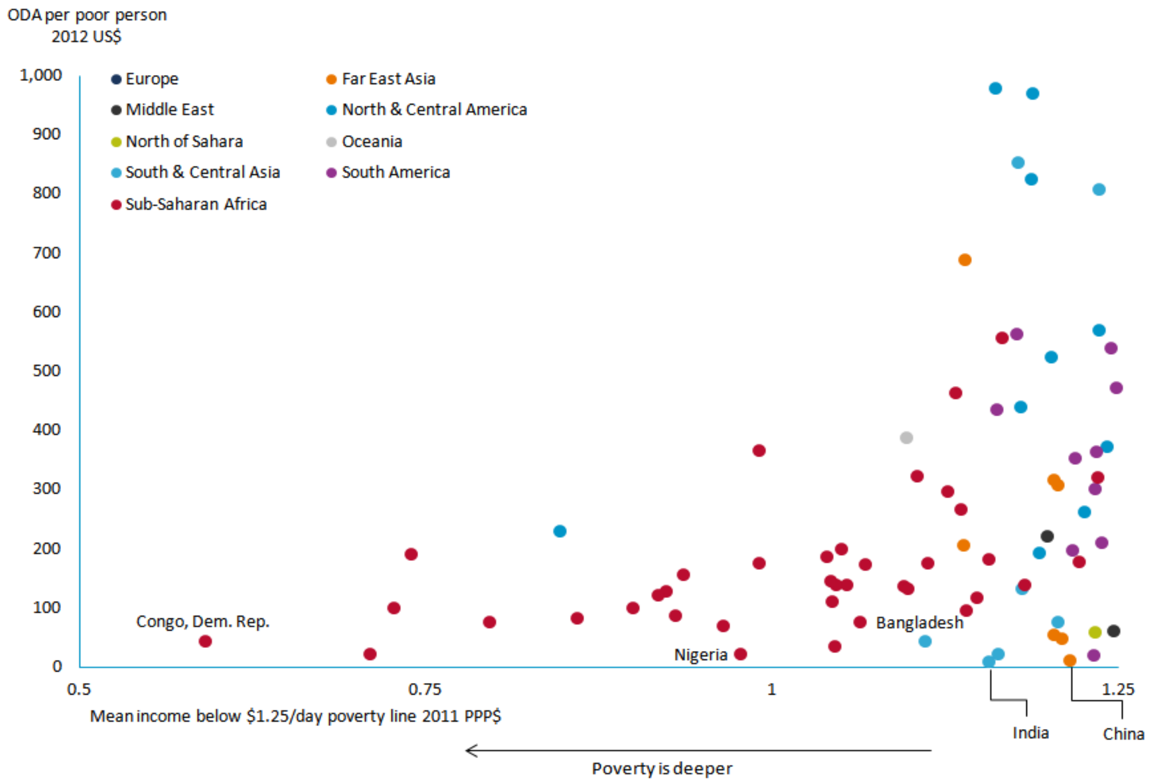
---

[18] The poverty gap is the difference between the mean income of people in extreme poverty and the poverty line.

[19] I.e. the average income of the poor is between $1.12 and $1.25

[20] I.e. the average income of the poor is less than $1.00 a day

Figure 27. ODA per poor person is higher where the depth of poverty is lower



Source: Development Initiatives' calculations based on OECD DAC, World Bank. The figure excludes countries where ODA per poor person exceeds US$1,000. ODA figures are gross disbursements per poor person (excluding non-transfers).

Sector ODA allocations and the dimensions of poverty: health

The most common indicators of poverty measure income or consumption, yet in reality poverty and deprivation cut across a much broad range of dimensions. ODA that aims to benefit the world's poorest people should address these wider causes and manifestations of poverty with investments in the social, economic and environmental sectors that impact on poverty.

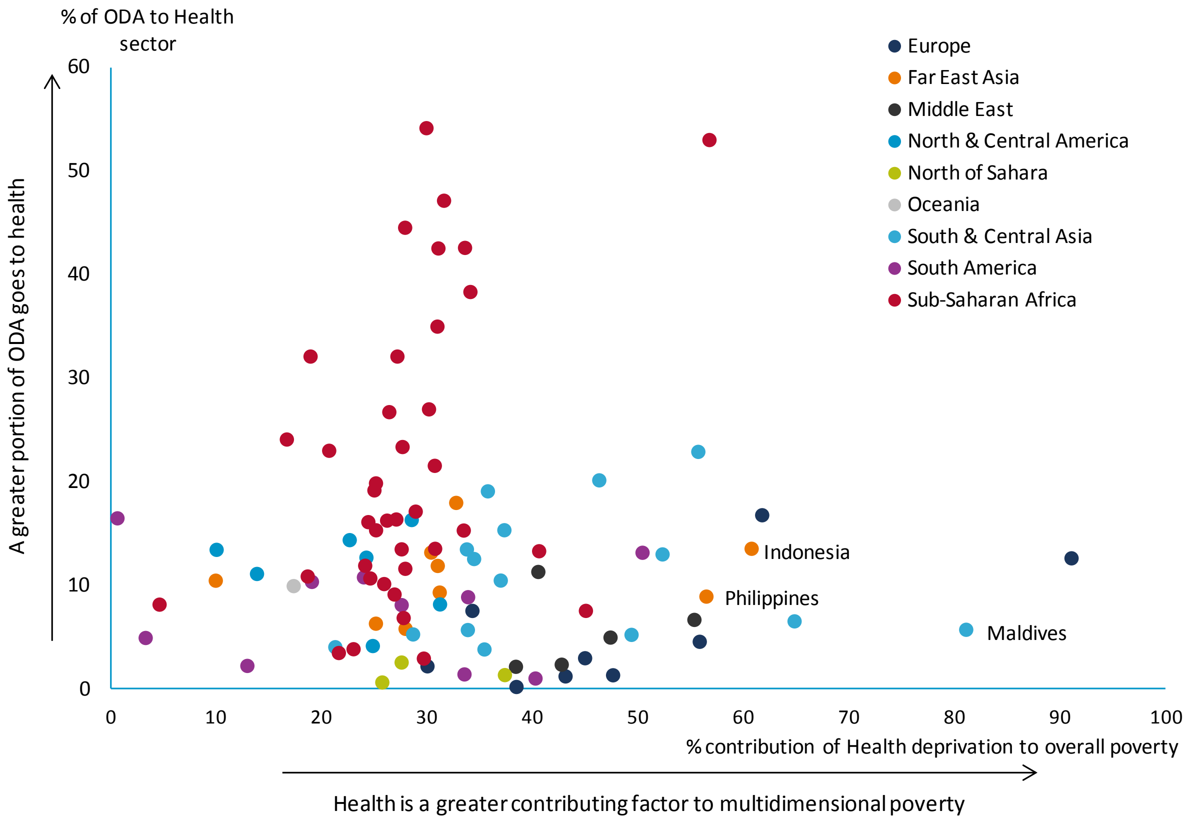
One of the key measures of poverty beyond income alone is the multidimensional poverty index (MPI; see *Annex B: Data notes* for more details), which captures deprivation in education, health and living standards and collates them to derive a headline MPI for each country. While this does not capture all sectors in which investments are needed to end poverty – for example, economic sectors, security and relevant global/regional public goods are excluded – it provides valuable insights into some of the wider dimensions of poverty and can be used to ask whether ODA allocations respond effectively to these dimensions.

Figure 28 compares deprivation in the health sector with the proportion of ODA in each country that goes to it. The horizontal axis shows the contribution that deprivation in the health sector makes to overall multidimensional poverty in each country. For countries to the right hand side of the figure health is a more important cause/manifestation of multidimensional poverty; for countries to the left hand side it is less important (relative to deprivation in other sectors). The vertical axis shows the proportion of ODA received by each country that goes to the health sector. It would be expected to find a positive relationship: for countries in which health is a greater contributing factor to overall poverty, one would expect a larger proportion of ODA to the country to go towards the health sector. [21]

[21] Note that data limitations mean it is not possible to include another factor that should feature in allocation decisions: domestic spending on health. In some countries ODA may not prioritise health because it is a

However, Figure 28 shows a weak relationship between heath as a dimension of poverty and the priority placed on health by ODA allocations. In many countries, such as the Maldives, Indonesia and the Philippines, health deprivation is a significant contributing factor to overall multidimensional poverty, but the sector is not prioritised by ODA allocations. The majority of countries where health does account for a large proportion of total ODA are in sub-Saharan Africa, typically due to large disease-specific HIV/AIDS programmes. The story in education is similar (see Annex C: Sectoral ODA allocations and the dimensions of poverty: education).

Figure 28. ODA does not prioritise health in many countries where it is a significant factor in multidimensional poverty



Source: Development Initiatives calculations based on MPI, OECD DAC, Chronic Poverty Report 2014–15.

ODA allocations and poverty: summary

The analysis above shows that current ODA allocations do not respond well to any of three key characteristics of poverty. ODA per poor person is lower in countries where poverty is greater and lower where the depth of poverty is greater. Within countries, ODA does not respond well to two important dimensions of non-income poverty: education or health.[22]

Taken together these analyses present strong evidence of the need to recalibrate allocations if ODA is to fulfill its potential in contributing towards the principle of leaving no-one behind and the goal of ending poverty.

priority for government (or other actors). Nevertheless, the weakness of the relationship across all developing countries suggests that ODA does not on the whole respond effectively to this dimension of poverty.

[22] Neither do ODA allocations respond well to varying levels of domestic resources across countries: see chapter 3.

Agencies with a formal mandate to end poverty allocate resources more efficiently

Development cooperation agencies that have a formal mandate to end poverty target their ODA more effectively towards the poorest countries. While allocation decisions involve both donors and recipients, this supports an important policy implication for agencies and other international partners: a clearer mandate will yield significant benefits in improved allocations.

ODA is provided by a wide range of agencies across DAC donor countries whose mandates vary from international development objectives to supporting the national interests of the donor country. For some agencies the provision of ODA is the sole activity, while for others it is one of many activities, in some cases accounting for only a small proportion of total agency spending.

Based on a review of the legal foundations and mission statements of 63 DAC donor agencies that report ODA to the OECD,[23] agencies can be grouped according to the mandate they have with respect to ending poverty:

(i) They have a legal act that specifies poverty reduction as a goal of development cooperation (6 agencies)
(ii) Poverty reduction is the primary goal of development cooperation (21 agencies)
(iii) Poverty reduction is a stated joint goal alongside other goals of development cooperation (10 agencies)
(iv) Poverty reduction is not highlighted as a specific goal (13 agencies)

Figure 29 shows how agencies in each category allocate ODA across countries based on the poverty levels and rates. Larger bubbles indicate a higher proportion of total ODA allocated to each country (see Box F for a description of how to read the bubble graphs).

The evidence is clear: agencies whose mandate to reduce poverty is more central and more formal are more effective at targeting ODA allocations.

Agencies with a legal mandate to reduce poverty allocated over 80% of ODA to countries with high (above average) poverty rates in 2012, while those where poverty reduction is the primary goal allocated 58% of ODA to countries with high poverty rates. However, for agencies where poverty reduction is one of many goals the proportion was significantly less (44%), and for agencies where poverty reduction is not a specific goal less still (31%).

While the top recipients of ODA from agencies with a legal mandate to end poverty are all countries with large numbers of people living in poverty,[24] many of the top recipients of ODA from agencies where poverty reduction is not a specific goal are emerging economies with less poverty.[25]

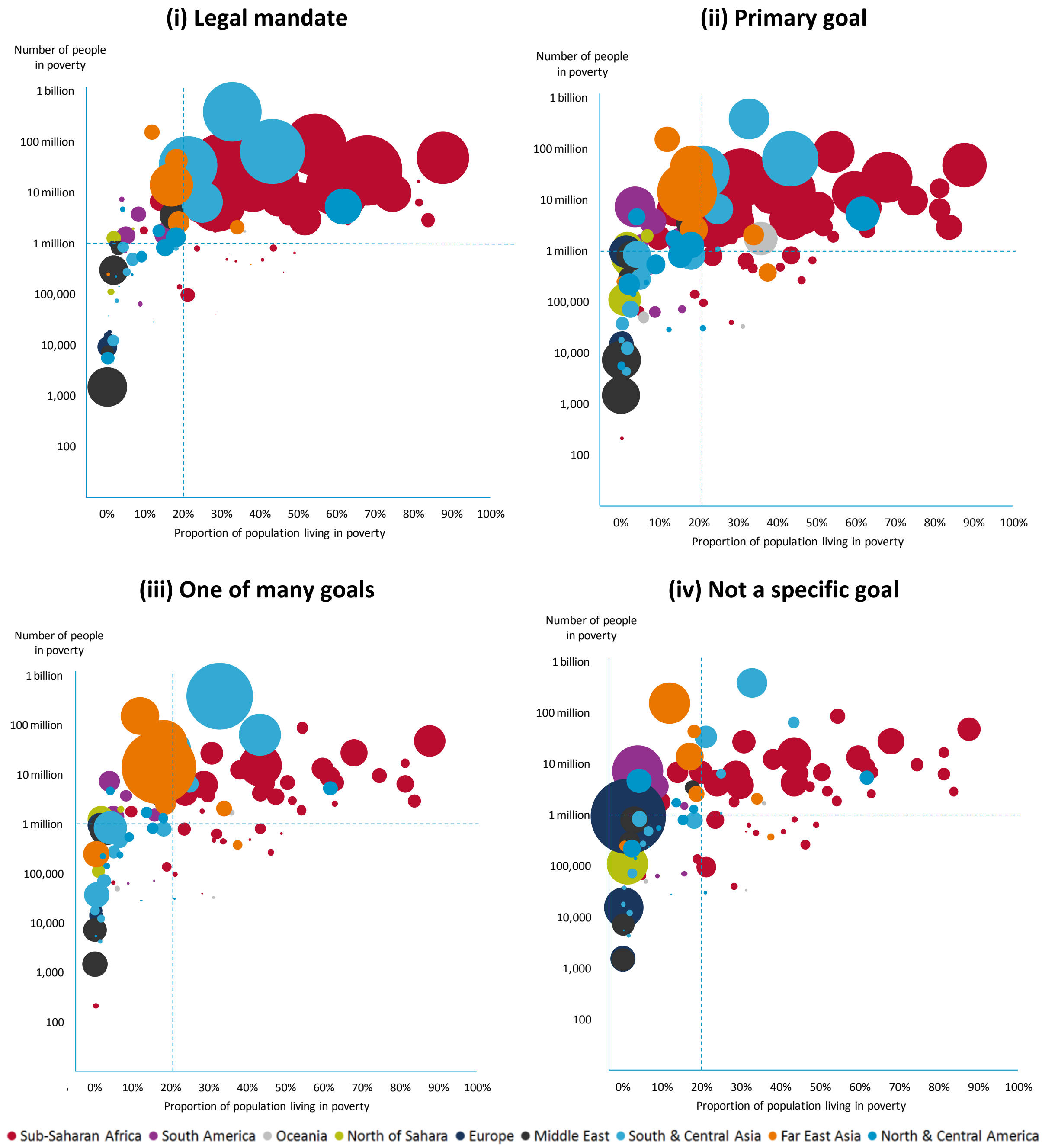
---

[23] There are 250 agencies that report ODA to the OECD. This review covered 63 agencies that together accounted for 90% of ODA disbursements in 2012; 13 were excluded either because they were established for a specific purpose other than poverty eradication (such as the UN High Commission for Refugees) or because no information on their legal mandate or mission statement could be found.

[24] The top 5 recipients from agencies with a legal mandate to end poverty in 2012 were Ethiopia, Tanzania, Bangladesh, Nigeria and Afghanistan.

[25] The top 5 recipients from agencies where poverty reduction is not a specific goal were Turkey, Afghanistan, Brazil, Egypt and Morocco.

Figure 29. Agencies with a legal mandate to end poverty allocate 81% of ODA to countries with high poverty rates – agencies where poverty reduction is not a specified goal allocate 31%



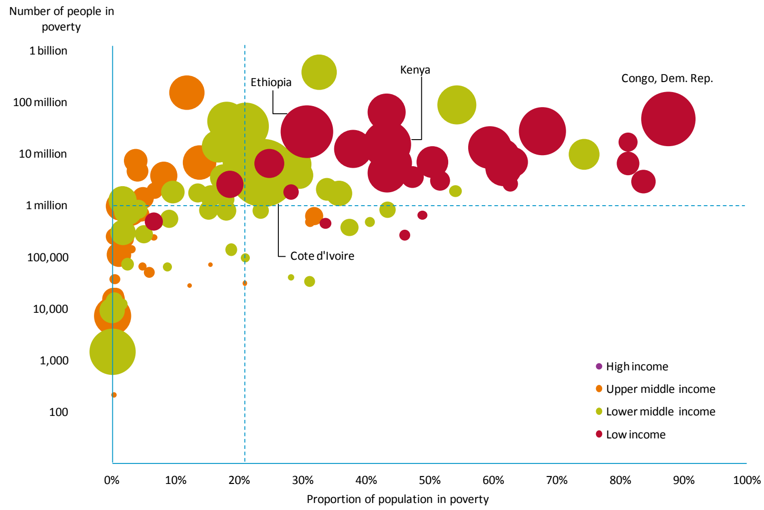
Source: Development Initiatives' calculations based on OECD DAC and World Bank. See Box F for a description of the bubble graph framework. ODA data is gross disbursements of ODA.

Different modalities – different allocations

While headline ODA figures can give the impression that ODA is a homogenous transfer of resources to developing countries, it is in fact a diverse bundle of various instruments and modalities (see chapter 1). The choice of instrument is determined by numerous factors, including domestic resource levels and access to wider forms of finance (see chapter 5), and different instruments follow different distributions.

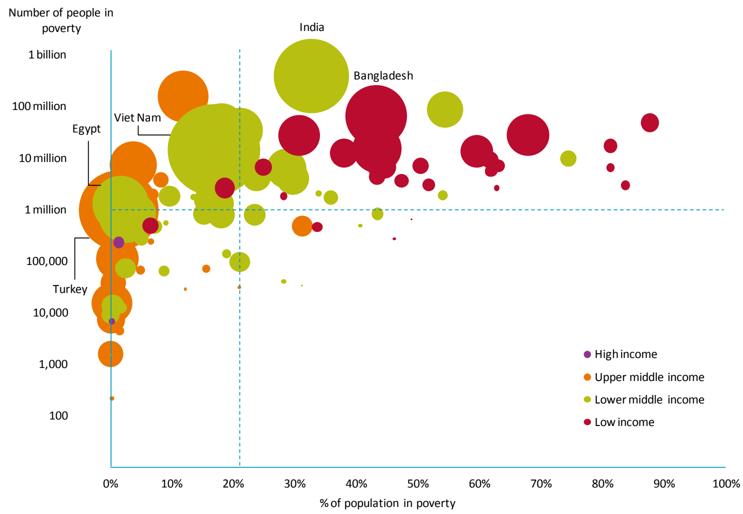
ODA grants are more poverty sensitive than loans and equity investments (Figure 30 and Figure 31). Over 60% of grants go to countries with a higher than average extreme poverty rate (the average across all developing countries is 20.6%), while less than 40% of loans do. 45% of grants went to LICs, while 50% of loans and equity investments went to LMICs.[26] The largest recipients of grants in 2012 were Afghanistan, Cote d'Ivoire, DRC, Ethiopia and Kenya. The largest recipients of loans and equity investments were Viet Nam, Turkey, India, Bangladesh and Egypt.

Figure 30. The majority of grants go to countries with high poverty rates



Source: Development Initiatives' calculations based on OECD DAC and World Bank. The size of each bubble is scaled by the size of ODA grants to each country. See Box F for a description of the bubble graph framework.

Figure 31. The largest recipients of loans and equity investments are emerging economies



Source: Development Initiatives' calculations based on OECD DAC and World Bank. The size of each bubble is scaled by the size of ODA loans to each country. See Box F for a description of the bubble graph framework.

[26] Note also that concessional financing is the largest source of debt in many low income developing countries and is considered a potential source of debt distress in some (IMF 2013).

How better information would improve targeting: an example using sub-national data

ODA should target the poorest wherever they are – yet the quality of targeting is constrained by the quality of information available to the decision makers who allocate resources. Leaving no-one behind requires significant improvements in data that disaggregates below national averages.

It is well known that the majority of the world's poorest now live in countries that are classified as middle income (Sumner 2010). This is a result of rapid growth and rising inequality in many developing countries, particularly large countries such as India and China. In these and many others, poverty has become a sub-national phenomenon where certain populations or regions are isolated from the growing wealth of the rest of the country.

However the debate about how to allocate ODA remains largely at the national level. Recent discussions about ODA allocations have been dominated in particular by whether ODA should be provided in MICs. Within a framework of targeting the poorest 20% of people in developing countries and leaving no-one behind, there is an urgent need for more granular data on needs and resources below the national level.

An example using multidimensional poverty data

To understand the potential that disaggregated data has for more effective targeting, we can use an example of how resources would be allocated if decision makers used sub-national indicators compared to national indicators to guide allocation decisions. This example, which highlights the transformative potential of disaggregated data, uses a sample of 69 countries featured in the MPI.[27]

If we imagine that ODA providers were to adopt a framework where resources are targeted at the poorest 20% of locations, we can compare how allocations would differ between allocations made on the basis of national data versus allocations based on sub-national data. Figure 32 presents the results of this example. Within a national targeting framework, ODA would be allocated to 25 countries in the sample – those at the top of Figure 32. These countries have national MPI scores of 0.283 and above. However, a sub-national targeting framework would allocate resources to regions within 35 countries in the sample – those regions to the right hand side of the grey bar. The sub-national targeting framework is considerably more effective at targeting the poorest regions and shows how better data would underpin a more effective focus on the poorest people in developing countries.

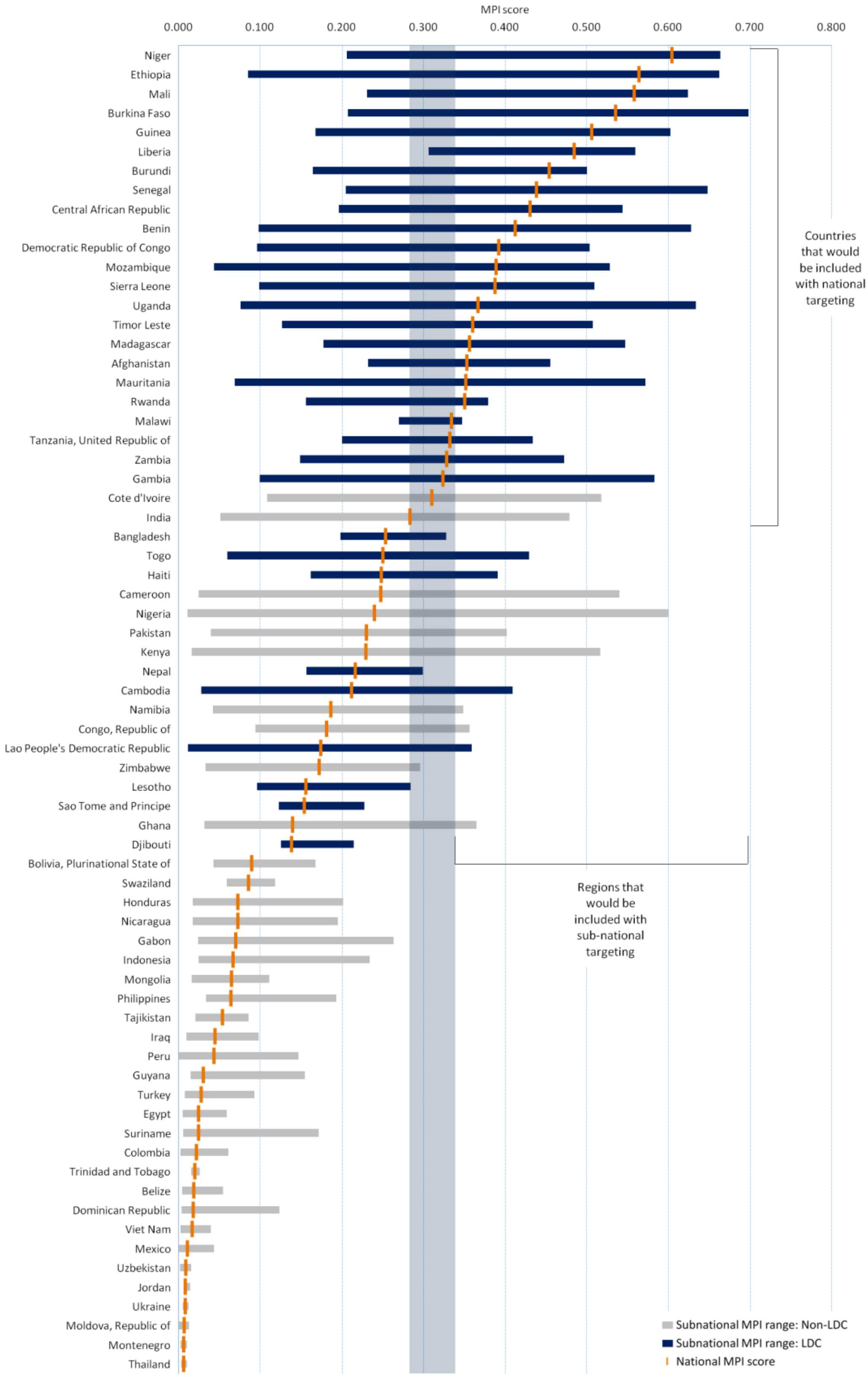
Bauchi in Nigeria, for example, has the 20th highest sub-national MPI score in the sample, yet it would not be eligible under a national targeting framework as Nigeria's national MPI score (0.240) puts it outside the poorest 20% of countries. Malawi, with an overall MPI score of 0.334 is the 20th poorest country within the sample and would be included in a national targeting exercise – yet there are regions in 10 countries where multidimensional poverty is greater than in any region in Malawi that would be excluded in a national targeting framework.

The sub-national targeting framework also increases effectiveness by excluding less poor regions in countries with high inequality. Some 170 million people would be eligible under the national targeting, despite living in regions where the MPI score is less than half that of the threshold for the sub-national targeting framework.

While investing in improved data and information has a cost, this example shows that the benefits through improved decision making and greater effectiveness are substantial.

[27] The MPI provides disaggregated data on sub-national poverty in 69 countries. These 69 countries have a total population of 3.3 billion and are home to 1,354 million people in multidimensional poverty (and 945 million in $1.25-a-day poverty). 32 of the 69 countries are LDCs.

Figure 32. Disaggregated data would support more effective targeting for the poorest 20%



Source: Development Initiatives' calculations based on MPI. The right hand end of each bar represents the most deprived region in each country; the left hand end represents the least deprived region. The marker within each bar shows the national average for the country as a whole. The grey shaded area represents the rough cut-off that would be used to identify the poorest 20% of countries/regions. Red bars are LDCs.

3. From an aid-led agenda to an all-resources agenda

Key messages

- The landscape of resources that many developing countries have access to has changed dramatically since the MDGs were agreed
- There are two major actors that have the potential to significantly impact poverty: domestic institutions (particularly the government) and the private sector
- These actors have differentiated abilities to contribute:
    - Domestic resources are likely to remain scarce in many countries; even where they are growing, the challenge of scaling up non-financial capacity is significant
    - Private resources are concentrated in more economically developed countries; different private actors interact in different ways with the poorest people
- ODA that supports domestic resource mobilisation is a very small component of overall assistance, and information about this type of support is limited
- Core ODA support for the private sector is relatively small, at 2.7% of gross ODA in 2012, and does not target the poorest countries or sectors most relevant to poverty reduction
- ODA must increasingly look to sustainably mobilise the impact of these resources on the poorest:
    - ODA to support DRM should be scaled up, following a needs-based approach
    - ODA can support the development of technical and human capacity to deliver services in countries where domestic resources are growing more rapidly
    - ODA that works with the private sector should mobilise private resources where they can have impact on the poorest 20%, ensuring that ODA investments have demonstrated development impact

Introduction

While the MDGs were in practice largely driven by international aid, particularly in the early years of the Millennium, discussions about how to implement the post-2015 development agenda has taken a broader approach.

There is recognition both of the need to find resources commensurate with the increased ambition articulated by the post-2015 development agenda, and of the opportunities presented by growth in resource flows within and to developing countries. Two major actors stand out in particular: domestic institutions (particularly governments) and the private sector. The extent to which governments can find the capacity, and the private sector can mobilise for impact on the poorest, will be a key determinant in achieving the goals.

The key challenges are the low capacity (financial and non-financial) of governments in countries where poverty is pervasive and deep, as well as the distribution and impact that private resources have on the poorest. ODA can play a key role in overcoming these challenges.

Triangular cooperation is another area in which ODA can leverage the contributions of wider actors and resources. Providing the means via which developing countries can share knowledge and experience in overcoming common challenges is an important and complementary mechanism to traditional ODA.

This chapter focuses specifically on how ODA allocations currently respond to domestic public resources and interact with the private sector.

Domestic resource mobilisation

Discussions on implementing the post-2015 development agenda have rightfully highlighted the importance of domestic institutions and resources in driving implementation. The OWG report argues that "the role of national policies, domestic resources and development strategies cannot be overemphasised" (Open Working Group 2014, page 3).

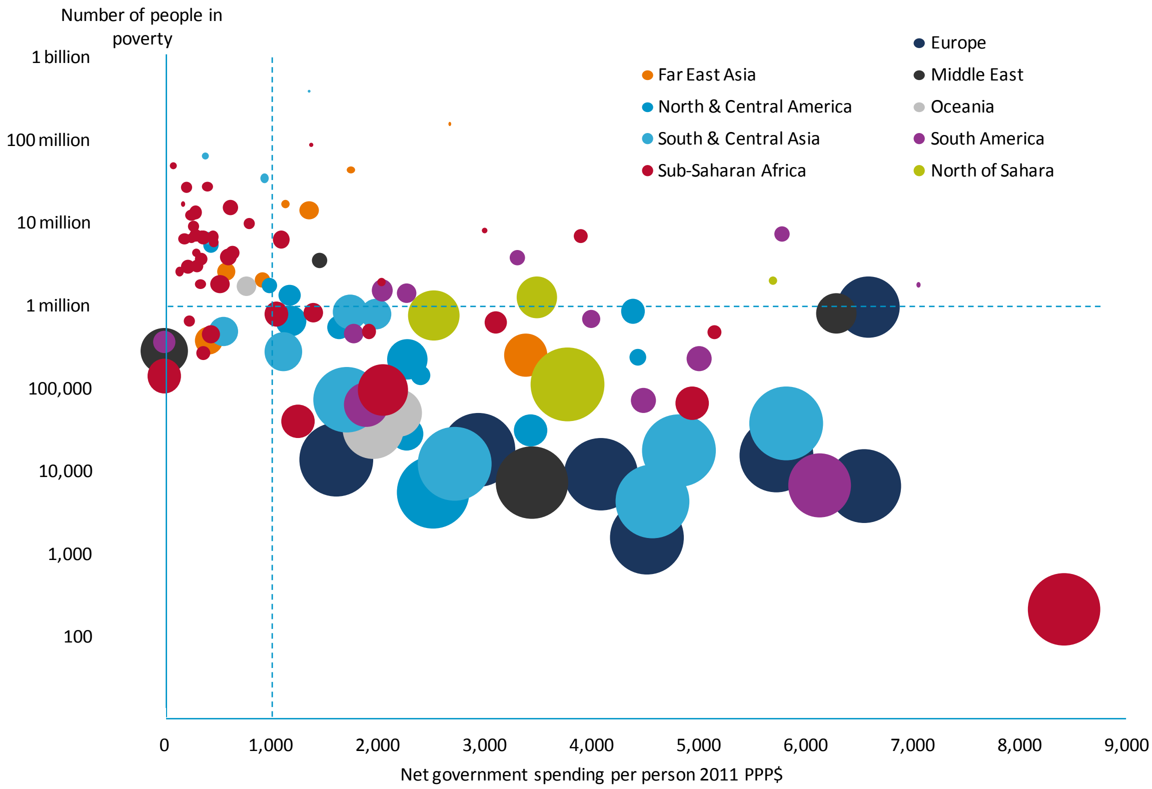
It is important that decisions on how to allocate ODA take the level of domestic resources into account.

ODA allocations and domestic public resources

One would expect the distribution of ODA to respond to levels of domestic resources: greater ODA allocations where domestic resources are lower and poverty is higher.

Current allocations, however, are skewed towards countries with greater domestic resources: ODA per poor person is lower where government spending per person is lower (Figure 33). In countries where government spending is less than PPP$500 per person, ODA averages US$92 per poor person; where government spending exceeds PPP$2,500 per person it averages US$156 per poor person.

Figure 33. ODA per poor person is lower in countries with lower levels of domestic resources



Source: Development Initiatives' calculations based on OECD DAC, World Bank, IMF WEO. The size of each bubble is scaled by ODA per poor person (excluding non-transfers) to each country. The size of the largest bubbles is capped at US$5,000 per poor person. Poverty data is the latest available for each country.

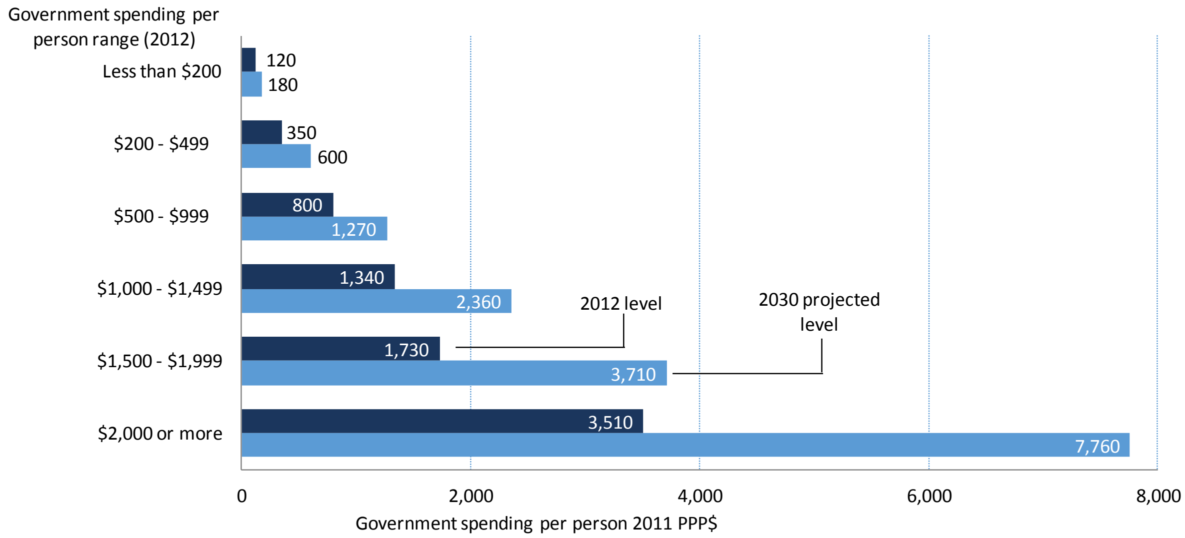
ODA allocations and future trends in domestic resources

Projections to 2030 show a likely divergence in domestic resource levels across countries (Figure 34).

Countries where domestic resource levels are currently lowest are also likely to experience the slowest growth in domestic resources over the post-2015 timeline. On current projections, no country in which spending is currently less than PPP$500 per person will reach levels of PPP$1,000 per person by 2030.[28] In many, spending will likely remain below PPP$500 per person.

Many countries in which resource levels are higher will also grow faster. Government spending per person has quadrupled in China since 2000 and is projected to triple again by 2030. In Indonesia, the Philippines and Viet Nam spending per person is projected to double by 2030 and in India almost double.

Figure 34. Countries with the lowest domestic resources are likely to experience slowest growth



Source: Update from Investments to End Poverty (2013). Countries are grouped by current levels of government spending (2012 data). The bars show average levels for each group in 2012 and projected levels in 2030.

In countries with slow domestic resource growth, ODA should support DRM

For countries with the lowest projected growth, domestic resource mobilisation (DRM) will be a key challenge of the next 15 years – without a significant change in trends it is likely that national institutions will not have the resources available to drive the implementation of the post-2015 agenda. This is recognised in the first target of goal 17 on means of implementation in the OWG final report. 300 million people live in extreme poverty in countries with the lowest and slowest growing domestic resource levels – to underpin poverty eradication through nationally-led implementation, DRM should become a greater priority for ODA, following a needs-based approach. Currently only a small proportion of ODA goes towards supporting domestic resource mobilisation (Box G).

Where resources are growing rapidly ODA can play a role overcoming non-financial constraints

Financial constraints are just one constraint to equipping domestic institutions to drive poverty reduction, and ODA can play an important role in countries where resources are growing rapidly. As resources grow the challenge for governments is to scale up service provision, to broaden and deepen existing functions and offer new services in areas where the state has been absent – and to do this at speed, using resources effectively. ODA can work with countries at all levels of development going through this transition, for example supporting the development of human and technical capacity or systems to manage growing expenditure. This need not demand large-scale resource transfers – small amounts of targeted cooperation with these countries can be valuable to ensure the effective use of growing resources.

[28] There are 30 countries in which current spending is less than PPP$500 per person: projections to 2030 are available for 21 of these.

Box G: ODA for domestic resource mobilisation

Mobilising sufficient domestic resources is essential for domestically led implementation of the post-2015 agenda, and support for DRM should be a priority for ODA.

However only a small proportion of current ODA investments focus on DRM, and there is little clarity or information about the nature of support in this area.

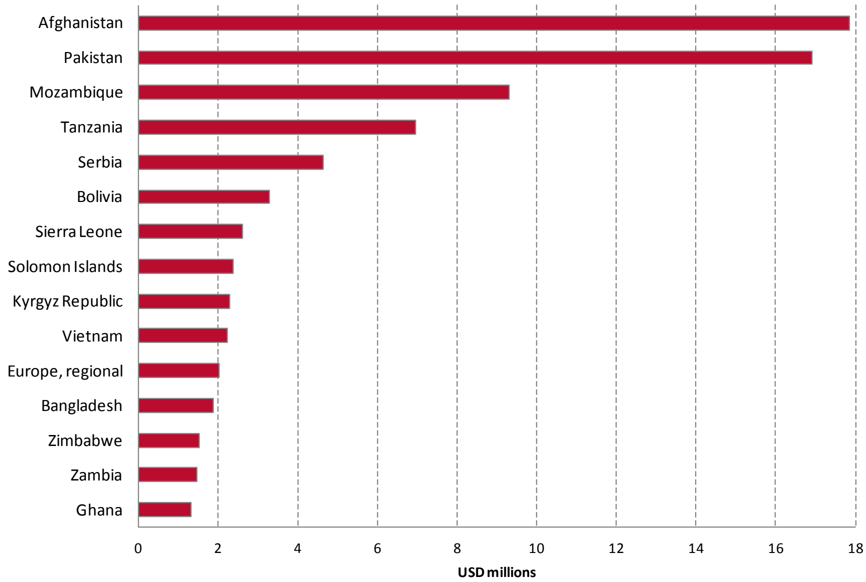
ODA projects that support DRM can be divided into two categories: projects for which DRM is a primary objective ('core DRM ODA'), and projects for which DRM is one of many objectives. However the lack of a clear system to report ODA for DRM means that information on the scale and nature of this assistance is inaccessible and incomplete. The numbers quoted here are derived from a laborious keyword-search methodology applied to the detailed descriptions of ODA projects reported to the OECD.

Core DRM ODA is estimated at US$104.6 million in 2011, equivalent to 0.07% of total ODA. Projects where DRM is one of many objectives totaled US$579.0 million (although it is not possible to know how central DRM is to these larger projects).

Most core DRM ODA projects are relatively small, averaging under US$400,000 in value, and the majority are categorised by donors as either support for 'public finance management' or 'public sector policy and administrative management'. Projects where DRM is one of many objectives cut across a wider range of areas, and the majority relate to 'decentralisation and sub-national government' (i.e. support to government below the national level).

Core DRM ODA was received by 75 countries in 2011. The largest amounts went to two countries, Afghanistan and Pakistan (Figure 35), who received US$17.8 million and US$16.9 million in 2011. Many countries receive core DRM ODA from numerous donors: in Mozambique and Tanzania, the 3rd and 4th largest recipients in 2011, projects were recorded from 6 and 7 different donors, respectively.

Figure 35. Afghanistan and Pakistan are the largest recipients of core DRM ODA



Source: Aid for domestic resource mobilisation: how much is there? (2014).

Support for DRM will be an important mechanism for the international community to assist countries in implementing the post-2015 development agenda – and support can be scaled up, following a needs-based approach. There is also a need for clearer reporting to be developed, to underpin both in-country coordination and lesson sharing internationally about approaches that work in different contexts.

The role of the private sector

The role that the private sector will play is one of the most controversial areas in the implementation debate at the national and international levels. The nature of collaboration between public and private actors is also hotly debated.

Private-sector-relevant ODA

There are many aspects to public–private collaboration. ODA may aim to directly stimulate growth and development of the private sector (e.g. working with micro, small and medium enterprises) or focus on improving the wider business environment to create conditions in which the private sector can flourish. In some cases ODA works with private firms in PPPs, or engages private firms as the delivery agent for ODA projects.

Information on the scale and characteristics of different types of collaboration with the private sector is scant, given the limitations of reporting systems. Nevertheless, a detailed review of the projects reported under certain purpose codes and channel codes of the OECD DAC Creditor Reporting System (CRS) allows us to create two proximate measures for understanding current ODA allocations that aim to work with or through the private sector (see Annex B: Data notes for details).

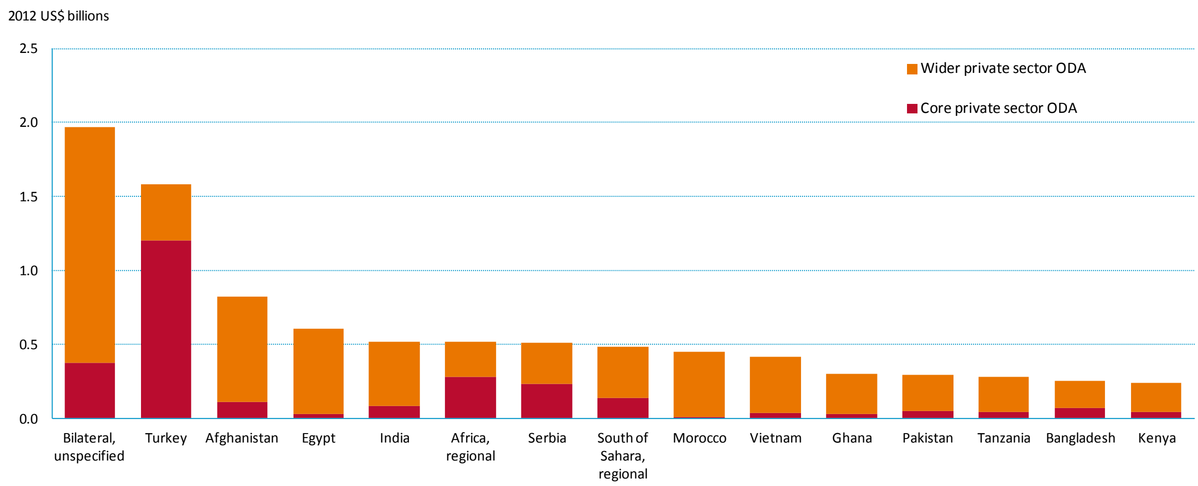
- Core private sector ODA: includes ODA that aims to directly stimulate the development of the private sector
- Wider private sector ODA: includes ODA that aims to strengthen the environment in which the private sector operates, for example by improving the business climate or developing infrastructure

In 2012, core private sector ODA totaled an estimated US$4.4 billion, equivalent to 2.7% of total gross ODA – up from 1.6% of total ODA in 2006. Wider private sector ODA totaled US$12.1 billion.

Private sector ODA is allocated across a wide range of countries (Figure 36). Turkey is the largest country recipient, with most assistance as core private sector ODA in the form of loans to various Turkish banks that aim to increase access to credit for small- and medium-sized enterprises. In Afghanistan and Egypt, the 2nd and 3rd largest country recipients, wider private sector ODA is larger, with assistance spread across a range of sectors and themes.

Turkey is both the largest recipient of core private sector ODA in US$ terms and the country in which this type of assistance accounts for the largest proportion of total ODA (33.4%). The other countries where core private sector ODA accounts for the largest proportion of total ODA are all European: Bosnia-Herzegovina (20.4%), Serbia (18.7) and FYR Macedonia (17.1%).

Figure 36. Core and wider private sector ODA

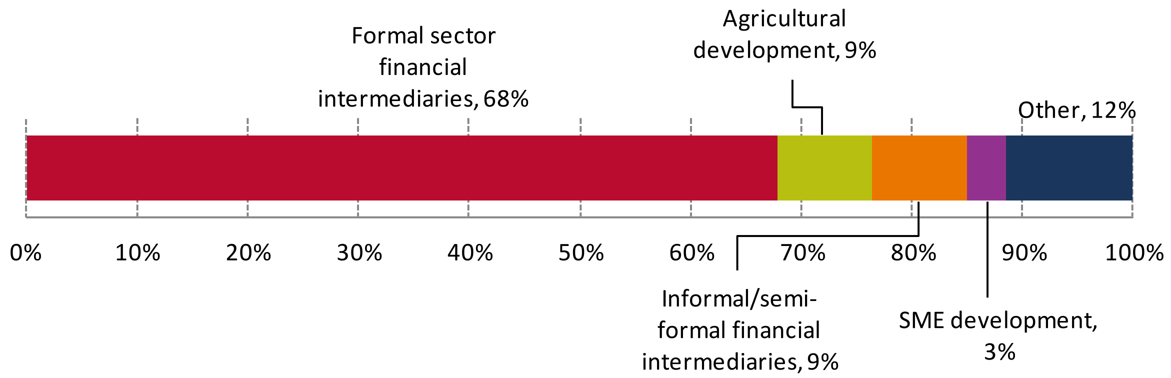


Source: Development Initiatives' calculations based on OECD DAC data.

The majority of core private sector relevant ODA goes to formal financial intermediaries (Figure 37). Most of the largest projects in this sector are loans to financial institutions that specialise in working with SMEs or 'mid-caps', many of them in Turkey.

Sectors that may be more directly relevant to the poorest people receive smaller proportions. 9% of core private sector relevant ODA goes to agricultural development projects, many of which focus on productivity and access to markets for smallholder farmers. Projects related to improving access to financial services through informal or semi-formal intermediaries also account for 9% of this financing. Projects that directly relate to SME development account for 3% of core private sector relevant ODA.

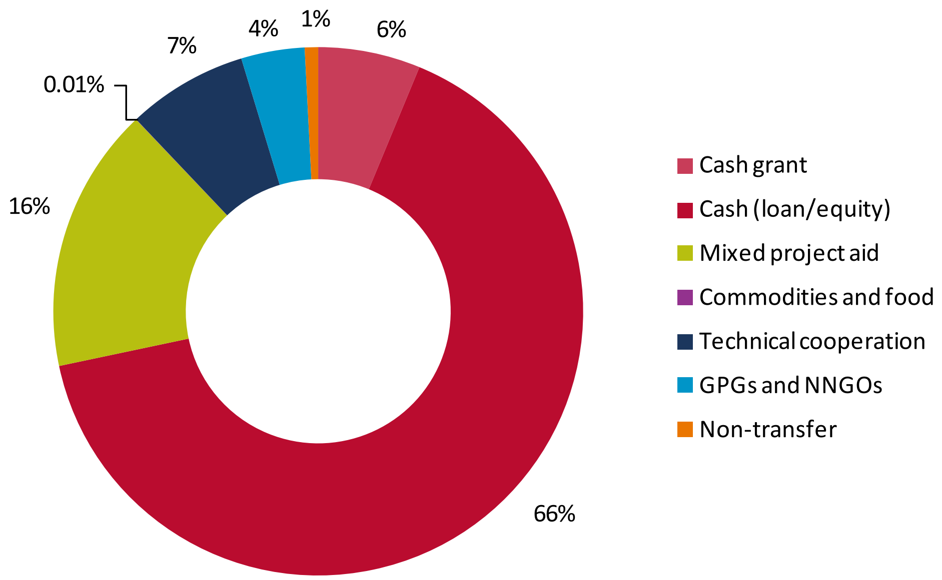
Figure 37. Two thirds of core private sector ODA goes to formal financial intermediaries; SME development accounts for just 3% of financing



Source: Development Initiatives' calculations based on OECD DAC CRS.

The majority of core private sector ODA is provided as loans or equity investments (Figure 38). 16% is mixed project aid, while 7% and 6%, respectively, are provided as technical cooperation and cash grants. Loans and equity investments also account for the largest amount of wider private sector ODA, though the overall proportion is lower at 36%.

Figure 38. More than half of core private sector ODA is provided as loans or equity investments



Source: Development Initiatives' calculations based on the OECD DAC data.

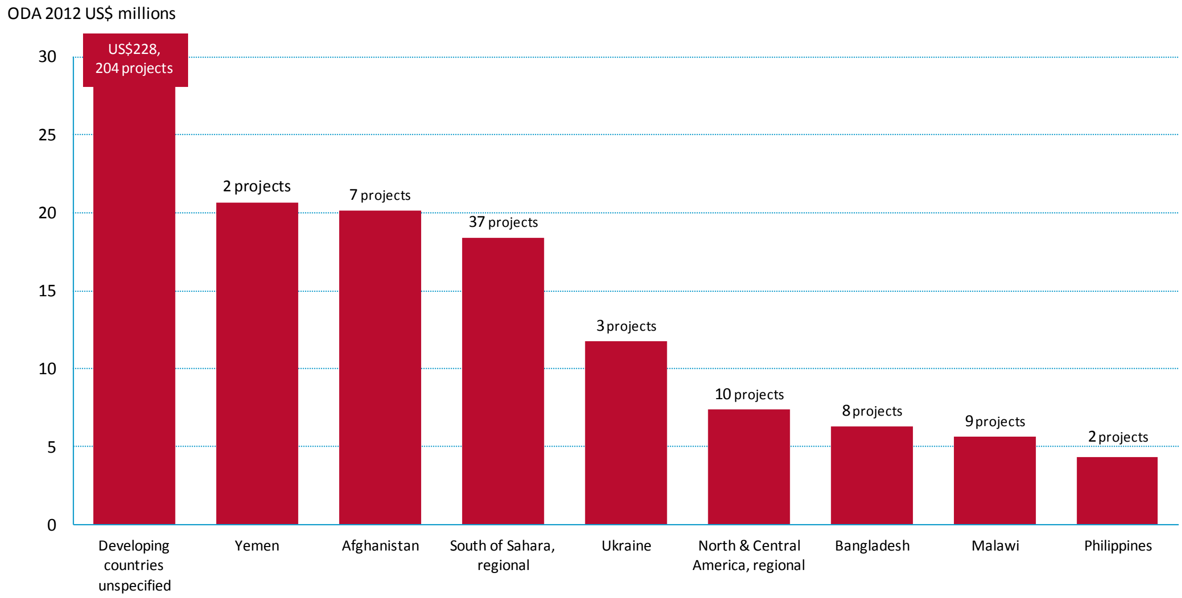
Public–private partnerships

PPPs are a much discussed modality for mobilizing the resources and expertise of private business towards sustainable development – however PPPs account for a very small proportion of ODA.

In 2012 ODA projects reported as PPPs totaled US$377.0 million, just 0.26% of total ODA.

The vast majority (US$227.7 million) went to international projects[29] and almost half of this total (US$107.3 million) went to PPPs focused on different aspects of health.

Figure 39. The majority of PPPs are for cross-country projects



Source: Development Initiatives' calculations based on OECD DAC CRS.

[29] Where the destination was reported as 'bilateral, unspecified' in the OECD DAC CRS.

4. ODA within a unified and universal sustainable development agenda

Key messages

- Many aspects of the sustainability agenda disproportionately affect the world's poorest people.
    - 96% of people living in extreme poverty live in countries that are either politically fragile, environmentally vulnerable, or both
    - In 1990, 20% of people in extreme poverty lived in fragile states; the latest estimates suggest this figure is now around 50%
- Progress cannot be achieved in either the environmental or developmental agendas unless they are considered together, as reflected in the emerging post-2015 development agenda
- Climate vulnerability
    - Coping strategies and resilience mechanisms are key determinants of the severity of the impact of climate shocks on the world's poorest people
    - Adaptation financing must increase resilience among the poorest – and safeguard progress for those vulnerable to falling back into poverty
    - Adaptation financing needs significantly outweigh the scale of adaptation ODA
- Political fragility
    - While some of the largest recipients of ODA are fragile states, other fragile states are not prioritised by ODA allocations
    - Current allocations do not meet the need for sustained long-term financing that can address the numerous, overlapping and complex challenges facing fragile states
- Sustainable development pathways
    - Financing needs for the transition to an economically and environmentally sustainable development pathway are significant
    - ODA in these areas should focus on long-term sustainable investments that benefit the poorest 20% of people in developing countries

Introduction

The bringing together of the development and sustainability agendas is one of the major paradigm shifts of the post-2015 development agenda. Sustainability covers a wide range of areas, from environmental, social and economic sustainability, to issues of intergenerational justice.

Many aspects of the sustainability agenda disproportionately affect the world's poorest people. It is the poorest people who are most vulnerable to climate change, who are affected most by political fragility, and who are most dependent on GPGs (they have also contributed least to their depletion). A holistic strategy to end poverty must address the vulnerabilities that the world's poorest people face.

There are also many shared challenges that affect everyone across the planet and require substantial additional financing. ODA should be used to address these challenges in a way that benefits the poorest people in developing countries.

This chapter examines ODA allocations and the ability to adapt to environmental shocks, the transition to sustainable development paths, the use and contributions to GPGs, and political fragility.

Adaptation to environmental shocks

An increasing proportion of the world's poorest people are vulnerable to the effects of climate change. While geography determines a population's exposure to climate change, it is human factors such as the strength of resilience mechanisms and coping strategies that ultimately determine the severity of impacts. People and countries with the lowest capacity to cope with shocks brought about by climate change are the most likely to suffer.

Adaptation needs likely far exceed current levels of financing. Without adequate support to increase the ability of the most vulnerable people to adapt to the effects of climate change the world will not be able to achieve the vision of sustainably ending extreme poverty by 2030. It is also vital to safeguard progress already made by reducing the vulnerability of people recently out of poverty to climate shocks. These priorities are recognised by the OWG, whose final report proposes a target on reducing vulnerability within the headline goal of ending poverty.[30]

Climate adaptation financing needs

While the scale of adaptation needs is difficult to quantify, a wide-ranging estimates nevertheless point to needs outweighing current levels of financing by a considerable margin. Including both principal and significant projects, adaptation ODA totaled US$10.1 billion in 2012. Only the very lowest bounds of the most conservative estimate (US$4–100 billion per year; *Table 1*) are within this range – other estimates are considerably higher, reaching as high as US$171 billion. The different estimates of need reflect varying methodological approaches, scenarios and timeframes.

Table 1. Average annualised additional investment needs for adaptation

US$ billions per year	2030	2050
Parry et al.	4-100	
UNFCCC	49-171	
World Bank		70-100

Source: (Buchner, et al. 2013) *and* (UNFCCC 2007)*. Figures represent average annual additional investment required up to the year indicated. UNFCCC, United Nations Framework Convention on Climate Change.*

Adaptation ODA and vulnerability

Adequate financing for adaptation must be a core component of efforts to end poverty. Adaptation activities, alongside disaster risk-reduction efforts, are the primary means for reducing vulnerability to future stresses, impacts and hazards. Support for adaptation is and will continue to be essential to sustaining and safeguarding development progress, ending poverty and transitioning to sustainable development.

Table 2. Example adaptation projects

Project	*Donor*	*Recipient*	*Commitment*
Adapting to Climate Change in the Illimani Watershed in the Bolivian Andes, 2011	Canada	Bolivia	US$70,000
WWF livelihood programme, 2012	Sweden	Namibia	US$738,000
Green Economy in the Amazon Region, 2012	United Kingdom	Brazil	US$164,000

Source: Development Initiatives' calculations based on OECD DAC CRS. WWF, World Wide Fund for Nature. Commitments have been rounded to the nearest US$1,000.

[30] By 2030 build the resilience of the poor and those in vulnerable situations, and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters (Open Working Group 2014, Target 1.5)

Box H: Adaptation ODA

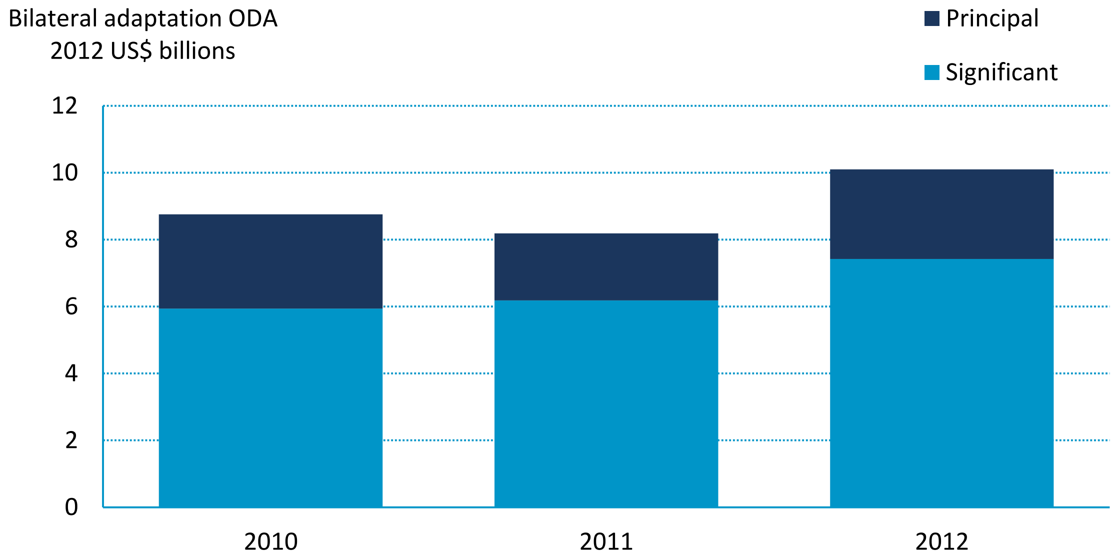
Adaptation ODA refers to the proportion of ODA where adaptation to climate change is its primary or secondary objective (see *Annex B: Data notes* for full definition). This ODA is identified using the Rio markers. These are policy markers that are applied when donors report their ODA to the OECD DAC, and used to flag the policy objectives of the support. These markers distinguish between projects that have adaptation to climate change as their core, primary objective (described as 'principal') and those which include adaptation as a secondary objective (described as 'significant'). Reporting against the Rio markers is relatively poor and data gaps exist. Of the 240,492 activity records reported to and published by the DAC CRS in 2012, just 99,650 (41%) were screened against the adaptation marker. Reporting against disbursements is especially poor. Commitments data is comparatively better and therefore gives a better representation of the scale and characteristics of the support to adaptation efforts in this particular instance.

The total value of adaptation ODA is derived using the sum of commitments made to those projects marked as either principal or significant with the adaptation Rio marker. This captures all bilateral commitments, including those channeled through multilateral organisations, and commitments made and reported by multilaterals organisations.

In 2012 adaptation ODA represented 6% of all commitments made that year. See below for some examples of adaptation projects that occurred in recent years.

ODA commitments marked as principal totaled US$2.7 billion in 2010, while projects marked as significant totaled US$7.4 billion (Figure 40). Principal commitments in 2012 are roughly equal in value to 2010, the first year in which adaptation projects were reported, while significant commitments have increased from US$5.9 billion to US$7.4 billion. This increase suggests more donors are considering and incorporating adaptation to climate change in their projects, and that climate is being mainstreamed in other development objectives – however it may also reflect improvements in reporting.

Figure 40. Adaptation ODA is growing, largely due to mainstreaming climate in wider projects



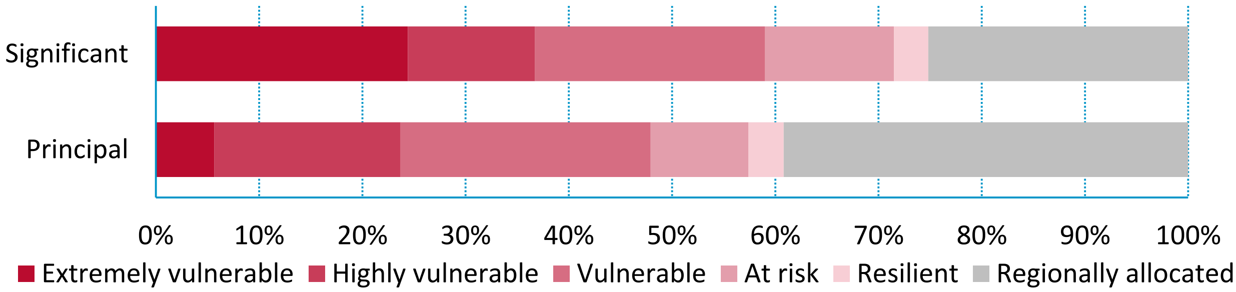
Source: Development Initiatives' calculations based on OECD DAC CRS. Figures are commitments in 2012.

Box I: UNEP Environmental Vulnerability Index

The United Nations Environment Programme (UNEP)'s Environmental Vulnerability Index (EVI) is a composite index of 50 individual indicators, which together characterise the relative vulnerability of the environmental system in any given country. The EVI assigns countries a score based on an average of their indicators. These scores are then used to categorize countries from the resilient to extremely vulnerable.[31]

Adaptation ODA is targeting vulnerable countries, but is not necessarily focusing on the most vulnerable. The largest proportion of country-attributable adaptation commitments in 2012 was for countries classified as 'vulnerable', which accounted for 23% of principal and significant adaptation commitments together (Figure 41). Extremely vulnerable countries were targeted by 24% of significant commitments and 6% of principal commitments. Highly vulnerable countries were targeted by 18% of principal and 12% of significant commitments. Regionally allocated commitments account for the largest portion overall, however, accounting for 39% and 25% of principal and significant commitments.

Figure 41. Adaptation targets vulnerable countries, but not necessarily the most vulnerable



Source: Development Initiatives' calculations based on OECD DAC CRS. Figures are commitments in 2012.

Commitments to LICs accounted for just 20% of adaptation ODA in 2012, with the largest proportion, 39%, going to LMICs. 27% was allocated to bilateral unspecified (Table 3).[32]

Table 3. Adaptation commitments, 2012

	Adaptation ODA (principal + significant), 2012, US$ millions		
Vulnerability/income status	Low income	Lower middle income	Upper middle income
Extremely vulnerable	-	1,901	61
Highly vulnerable	207	837	354
Vulnerable	742	765	788
At risk	877	298	5
Resilient	162	138	38

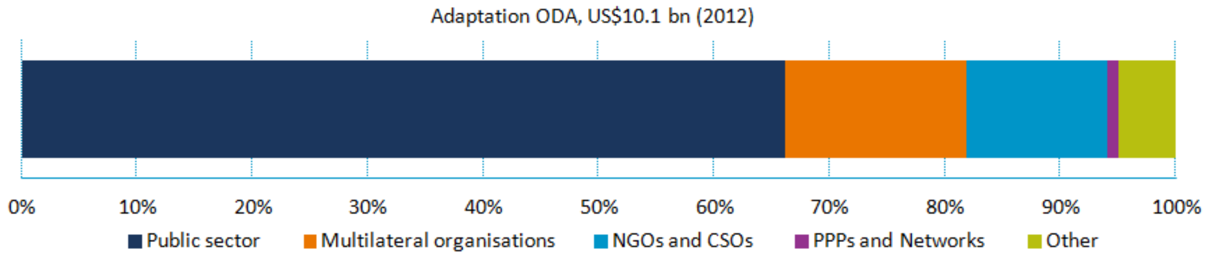
Source: Development Initiatives' calculations based on OECD DAC CRS. Table refers to country-allocable ODA only and excludes countries for which there is no EVI data. Figures are commitments in 2012.

In 2012, adaptation ODA was concentrated through the public sector, which channeled 66% of all commitments; 67% of these public sector commitments went via recipient governments. Another 16% and 12% of total commitments were channeled via multilateral organisations and NGOs (and CSOs). The remaining 6% was channeled through other organisations, including PPPs and networks.

[31] Of the 235 countries included in the EVI, a total of 35 are "extremely vulnerable", 62 "highly vulnerable", 81 "vulnerable", 43 "at risk", and just 14 considered "resilient".

[32] High income countries, excluded from Table 3, also received US$6.5 million.

Figure 42. Adaptation ODA is mostly channeled via public sector organisations



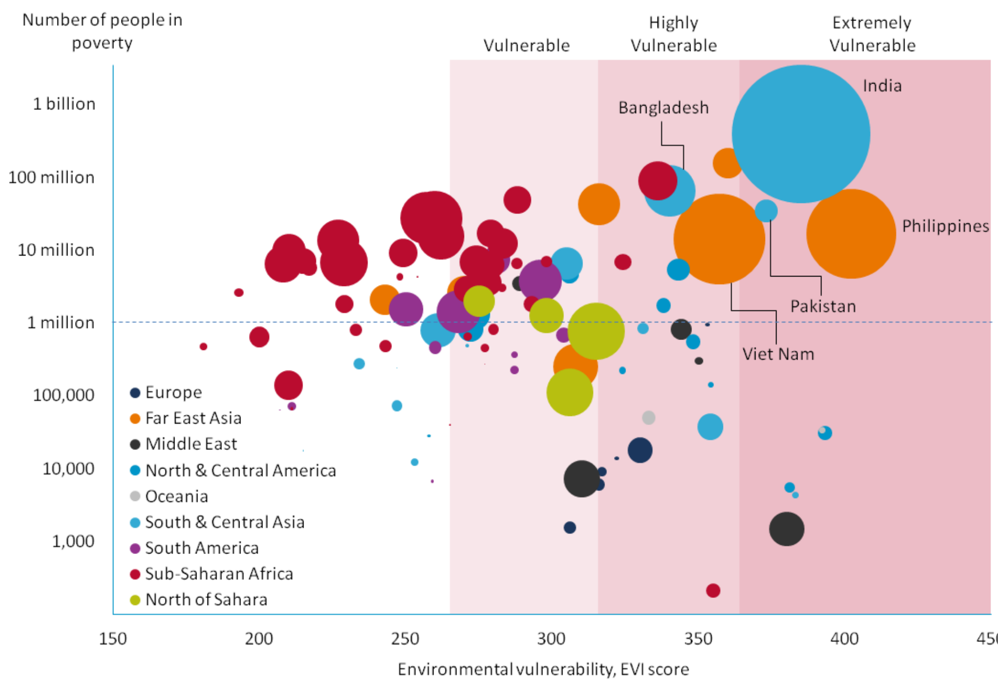
Source: Development Initiatives' calculations based on OECD DAC CRS. Figures are commitments in 2012.

Adaptation ODA, vulnerability and poverty

Many of the largest recipients are countries with both high environmental vulnerability and high poverty levels. India, the largest recipient for commitments, totaling US$1.2 billion in 2012, is rated extremely vulnerable and has more people living in extreme poverty than any other country. Viet Nam and the Philippines, the second and third largest recipients, are highly vulnerable and extremely vulnerable (Philippines is rated the second most environmentally vulnerable country), and both have significant populations living in extreme poverty – 14 million and 17 million, respectively.

Commitments for Bangladesh exceed commitments to Pakistan by a factor of 5: while Pakistan has a higher vulnerability rating, Bangladesh has almost twice the population living in extreme poverty. But while some allocations place a heavy weight on poverty, other countries are prioritized despite lower vulnerability and poverty measures. Commitments to Jordan were 2.5 times greater than those to Pakistan, despite the country having a lower vulnerability rating (310 to 373) and significantly fewer people living in extreme poverty.

Figure 43. Many, but not all, of the largest destinations of adaptation ODA are both at high risk of climate shocks and home to significant numbers of people living in poverty



Source: Development Initiatives' calculations based on OECD DAC, World Bank and UNEP EVI. The bubble size shows commitments of adaptation ODA.

ODA and the transition to a sustainable development path

The drive for countries to transition to a sustainable development path is a core theme of the post-2015 development agenda covering themes from economic to environmental sustainability and including investments across a wide range of sectors. This section evaluates investments in two key areas: infrastructure and renewable energy.

Infrastructure needs

Estimates of the required costs of infrastructure needed in developing countries vary considerably depending on the definitions, types and scale of the infrastructure included.

Estimates vary between around US$1 trillion a year to around US$7 trillion, though most are towards the lower end of this range.[33] Regional estimates also vary considerably, while pointing to the Asia-Pacific region accounting for the majority of overall financing needs for developing countries. Estimates for the annual cost of infrastructure in Africa range from between US$76 billion and US$93 billion, while costs in Asia-Pacific are as much as 10 times higher, at around US$800 billion (UN Task Team Working Group on Sustainable Development Financing 2014).

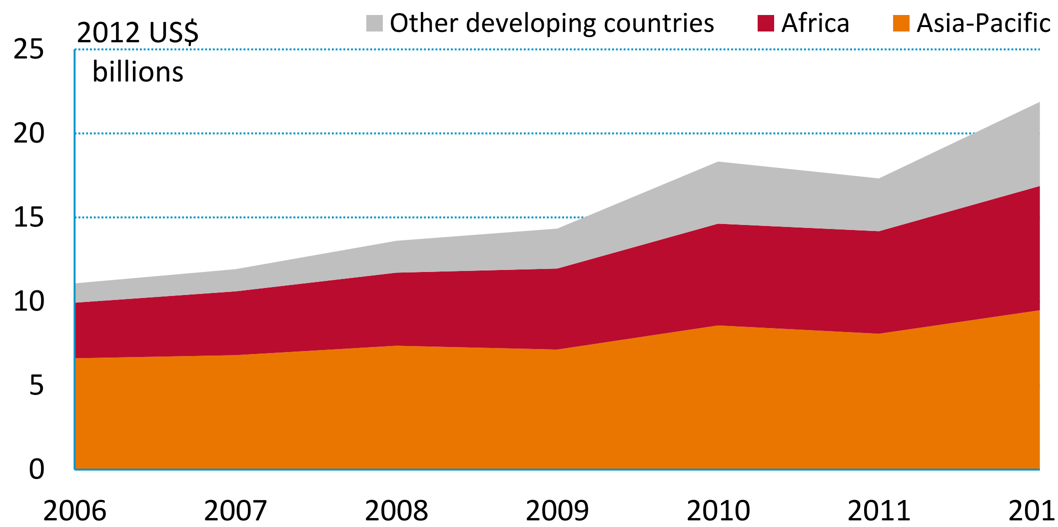
The costs of 'greening' infrastructure, to ensure that they are environmentally sustainable and climate resilient, are additional, with estimates ranging between around US$140 billion and US$300 billion per year.

Infrastructure ODA

Despite the fact that infrastructure is the largest single sector for ODA (Figure 10), infrastructure financing needs far outweigh the scale of current infrastructure ODA and even total ODA. In 2012 disbursements across various infrastructure sectors totaled US$21.9 billion, equivalent to around 2% of the lower estimates for infrastructure financing needs as a whole.

Asia-Pacific and Africa account for over 75% of infrastructure ODA, US$9.2 billion and US$7.4 billion respectively (Figure 44). These figures represent around 1% and 9% of total financing required in each region.[34]

Figure 44. Africa and Asia-Pacific receive the majority of infrastructure ODA

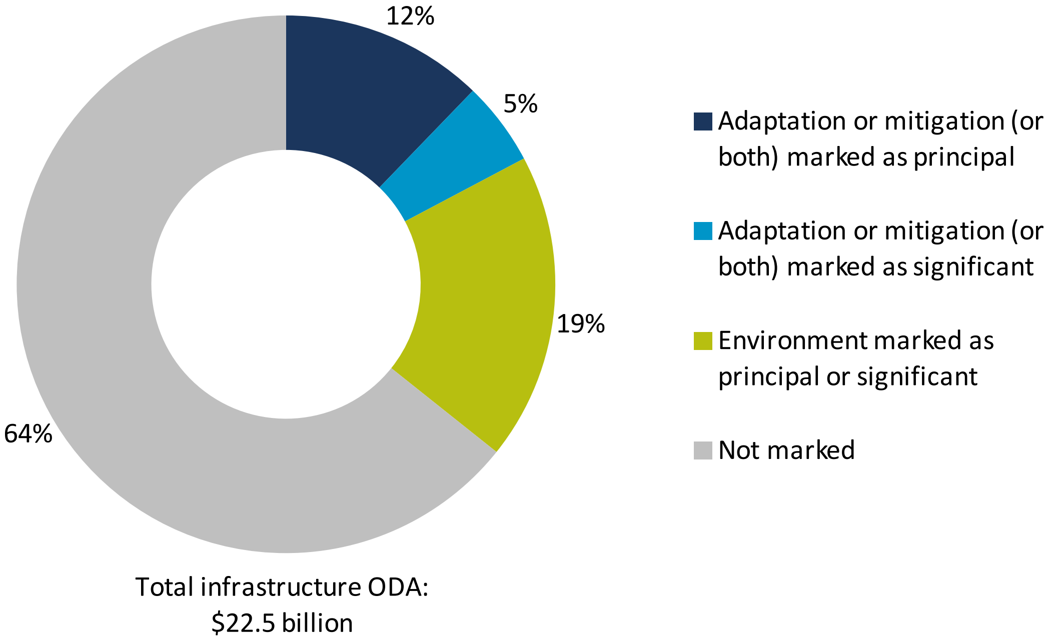


Source: Development Initiatives' calculations based on OECD DAC. Unspecified destinations are included in the 'other developing countries' category. Data are gross disbursements of ODA.

[33] Six estimates for the total annual investment required in infrastructure in developing countries were reviewed in the UN Task Team Report (UN Task Team Working Group on Sustainable Development Financing 2014), of these four estimated the cost to be between US1 trillion and US$1.5 trillion.
[34] Based on annual estimates of US$800 billion in Asia-Pacific and US$85 billion in Africa (mid-range estimate).

Just over a third of infrastructure ODA is reported as being climate or environment relevant (Figure 45). For 12% of infrastructure ODA, climate adaptation or mitigation is the primary purpose ('principal'); for a further 5% climate adaptation or mitigation is reported as a secondary objective. An additional 19% of infrastructure is marked as environment relevant.

Figure 45. 36% of infrastructure ODA is climate or environment relevant



Source: Development Initiatives' calculations based on OECD DAC CRS. Data are for 2012.

Renewable energy

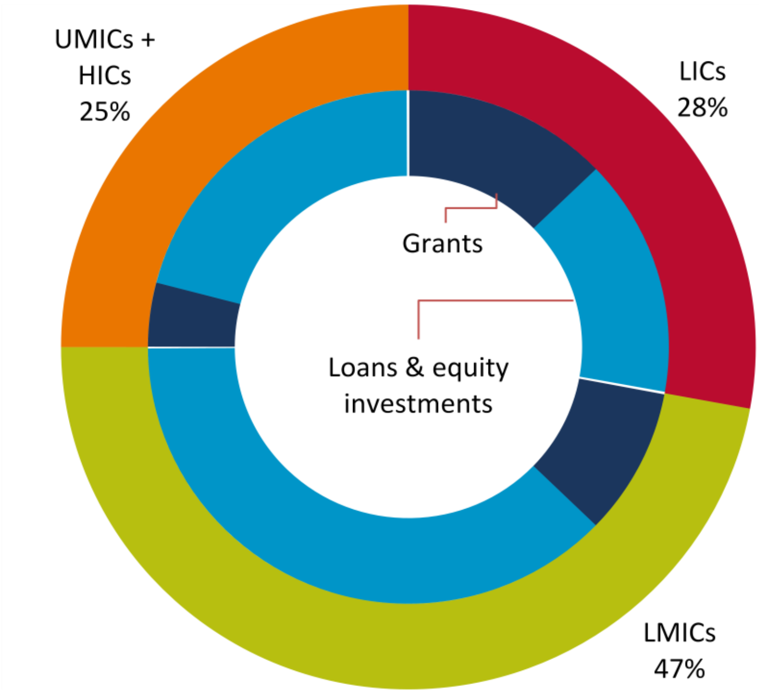
The cost of required investments in renewable energy depend on the level of ambition with respect to climate targets; against the 2 degrees climate target, the cost may be in the range of US$500 billion per year globally (this is additional to the infrastructure costs outlined above).

As with wider infrastructure, these financing requirements far outweigh the scale of ODA to renewable energy,[35] which totaled US$1.8 billion in 2012.[36] The largest recipients of ODA to renewable energy are LMICs, which received 47% of ODA financing to the sector in 2012 (Figure 46). Loans and equity investments account for 74% of ODA to this sector, although almost half (46%) of that received by LICs is grants.

[35] ODA to the renewable energy sector is based on an analysis of the following purpose codes, as reported through the OECD DAC: 23030: Power generation/renewable sources; 23065: Hydro-electric power plants; 23066: Geothermal energy; 23067: Solar energy; 23068: Wind power; 23069: Ocean power; 23070: Biomass.

[36] While estimates of required costs for infrastructure are typically separate from estimates in energy, ODA to the two areas is reported together – so the US$1.8 billion ODA to renewable is included in the US$21.9 billion to infrastructure.

Figure 46. LMICs are the largest recipients of ODA to renewable energy, mostly as loans and equity investments



Source: Development Initiatives' calculations based on OECD DAC CRS.

A significant proportion of ODA to renewable energy is reported as climate or environment relevant: over three-quarters in each sub-sector.

Allocation based on use and contribution to GPGs (e.g. climate change)

The post-2015 development agenda recognises the urgent need to find sustainable sources of financing to provide GPGs that can address the shared challenges facing the world. GPGs address a wide range of shared challenges, from communicable diseases to standards for international trade, to research and knowledge development. One of the most widely debated themes is the environmental commons and the need to find financing sources to address climate mitigation and protect our oceans and biodiversity. This section focuses on climate mitigation in particular.

Climate mitigation financing needs

Estimates for the cost of climate mitigation are highly variable and provide a wide range of estimates, depending on the scope of interventions covered as well as the emissions scenarios they are based on. Nevertheless, it is clear that financing needs are substantial. Estimates range from an average of US$200 billion to US$1.1 trillion per year between 2010 and 2030 (Buchner, et al. 2013)**.**

Table 4. Average annualised additional investment needs for mitigation

	2020	2030	2035	2050
IEA			640	
IEA	490	655		910
IIASA				400–900
McKinsey & Co.	610	1,076		
UNFCCC		200–210		
WEF		700		

Source: (Buchner, et al. 2013) *and* (UNFCCC 2007). *Figures represent average annual additional investment required up to the year indicated. All figures are US$ billions per year. Note the two IEA lines in the table refer to two separate studies. IEA, International Energy Agency; IIASA, International Institute for Applied Systems Analysis; WEF, Water Environment Federation.*

Climate mitigation ODA

ODA financing towards climate mitigation is small in comparison to both needs and other sources of climate finance.

Box J: Mitigation ODA

Mitigation ODA refers to the portion of ODA where mitigating the effects of climate change is the primary or secondary objective (see Annex B: Data notes for full definition).

As with adaptation ODA, mitigation ODA is identified using the Rio markers. Reporting against the mitigation marker is similarly poor, and just 43% of the projects reported to the DAC CRS in 2012 were screened against the mitigation marker.

The total value of mitigation ODA is derived using the sum of commitments made to those projects marked as either principal or significant with the mitigation Rio marker. This captures all bilateral commitments, including those channeled through multilateral organisations, and commitments made and reported by multilaterals organisations.

In 2012, Mitigation ODA represented 9% of all ODA commitments. See below for some examples of mitigation projects.

Table 5. Example mitigation projects

Project	Donor	Recipient	Commitment
100% Renewable Island of Santa Cruz, Galapagos, 2009	Germany	Ecuador	US$1,053,000
Building Climate Resilience In Nepal, 2010	EU	Nepal	US$10,542,000
Mitigating climate change – tree planting and environmental education, 2011	Norway	Armenia	US$1,142,000

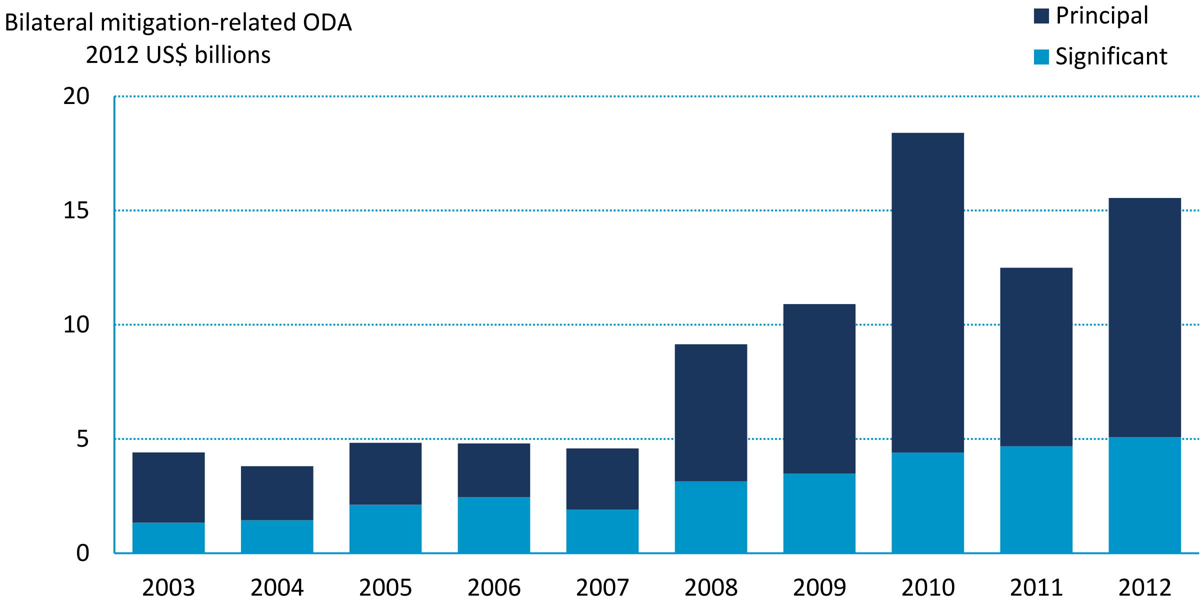
Source: Development Initiatives' calculations based on OECD DAC CRS. Commitments have been rounded to the nearest US$1,000.

Mitigation ODA[37] commitments totaled US$15.6 billion in 2012. Commitments have increased over the previous decade, rising from less than US$5.0 billion a year before 2007 and reaching a peak of US$18.4 billion in 2010 (Figure 47).

The majority of mitigation ODA is principal commitments, for projects in which mitigation is the primary purpose. In 2012, principal commitments accounted for over two-thirds of total mitigation ODA (US$10.5 billion).

[37] In line with how donors report to the DAC CRS, mitigation-related support is here defined as "activities that contribute to the objective of stabilization of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration" (OECD, 2011).

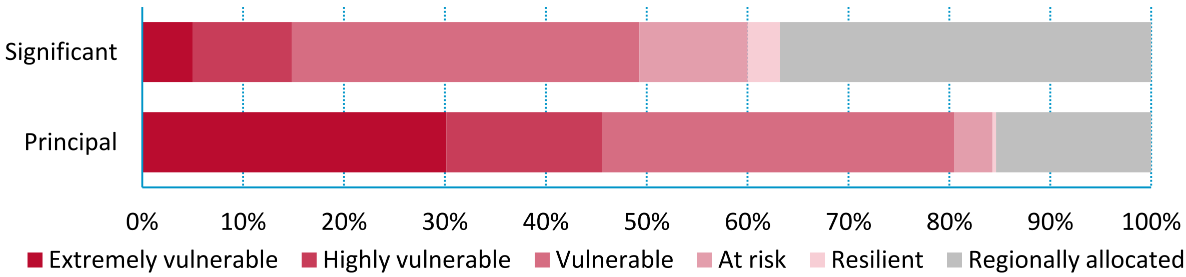
Figure 47. Climate mitigation ODA commitments have trebled since the early 2000s



Source: Development Initiatives' calculations based on OECD DAC CRS.

The majority of principal mitigation ODA was committed to countries that are categorised[38] as either vulnerable or extremely vulnerable (35% and 30% of commitments in 2012, respectively) (Figure 48). Significant mitigation commitments also favoured vulnerable countries, although extremely vulnerable countries received lower significant commitments (5% of total). A large proportion of significant support, 37%, is allocated regionally, compared with 15% of principal support.

Figure 48. The largest recipients of mitigation ODA are vulnerable or extremely vulnerable countries



Source: Development Initiatives' calculations based on OECD DAC CRS.

Almost half of mitigation commitments (48%) were to LMICs (Table 6). India was the largest single recipient, with commitments totaling US$3.0 billion, 25% of all country-allocable support in 2012. 23% of commitments were to UMICs and 8% to LICs.[39]

[38] Using the UNEP EVI.

[39] High income countries, excluded from Table 6, also received US$6.2 million.

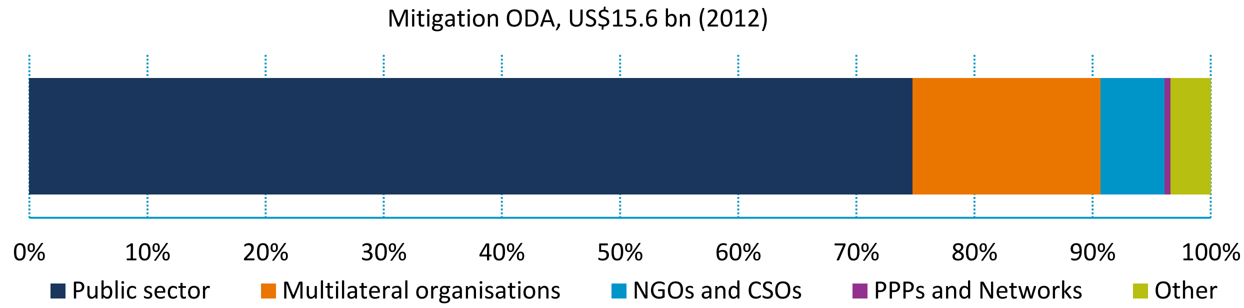
Table 6. Mitigation commitments, 2012

	Mitigation ODA (principal + significant), 2012, US$ millions		
Vulnerability/income status	**Low income**	**Lower middle income**	**Upper middle income**
Extremely vulnerable	-	3,361	49
Highly vulnerable	88	1,263	763
Vulnerable	526	2,324	2,550
At risk	622	302	19
Resilient	60	119	20

Source: Development Initiatives' calculations based on OECD DAC CRS. Table refers to country-allocable ODA only and excludes countries for which there is no EVI data. Figures are commitments in 2012.

In 2012, 75% of all mitigation ODA commitments were channeled through public sector organisations, the majority of which were through recipient governments (Figure 49). A significant 16% was also channeled via multilateral organisations, including the World Bank, UN organisations and development banks. Another 5% was channeled through various NGOs, most of which are based in the donor country.

Figure 49. The majority of mitigation ODA is delivered via the public sector, primarily recipient governments



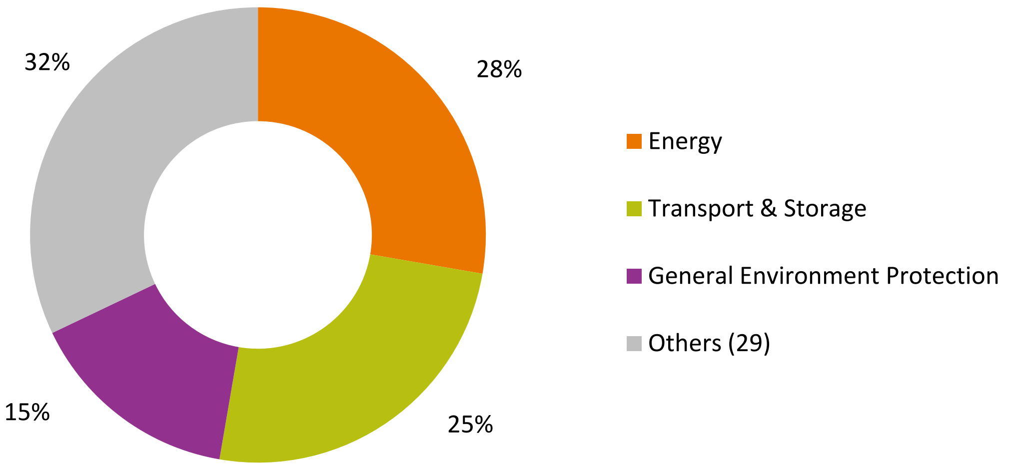
Source: Development Initiatives' calculations based on OECD DAC CRS.

The majority of mitigation-related projects (principal and significant) were concentrated in a few key sectors (Figure 50)

The largest proportion of commitments was to the energy sector (28%; US$4.3 billion), followed by transport and storage (25%; US$3.9 billion). A further 15% were reported as general environment protection (US$2.4 billion). Commitments to 29 other sectors totaled US$5.0 billion.

Just 1% of all mitigation-related ODA commitments in 2012 were allocated to the industry, mining and construction sectors in 2012. This suggests relatively little support is made available for 'greening' the productive sectors of the economy for the purpose of mitigating carbon dioxide (CO_2) emissions.

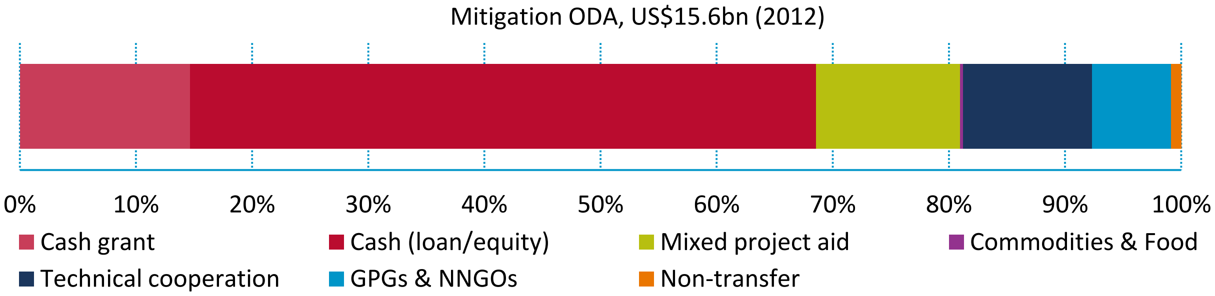
Figure 50. Three sectors accounted for two-thirds of mitigation commitments in 2012



Source: Development Initiatives' calculations based on OECD DAC CRS.

Over half of mitigation-related commitments (54%, US$8.4 billion) came in the form of cash loans/equity. Another 15% (US$2.3 billion) was committed as cash grants. A significant US$1.7 billion (11% of total mitigation commitments) was committed as technical cooperation, and another US$135 million was not transferred.

Figure 51. Bilateral mitigation ODA, aid types 2012



Source: Development Initiatives' calculations based on OECD DAC CRS.

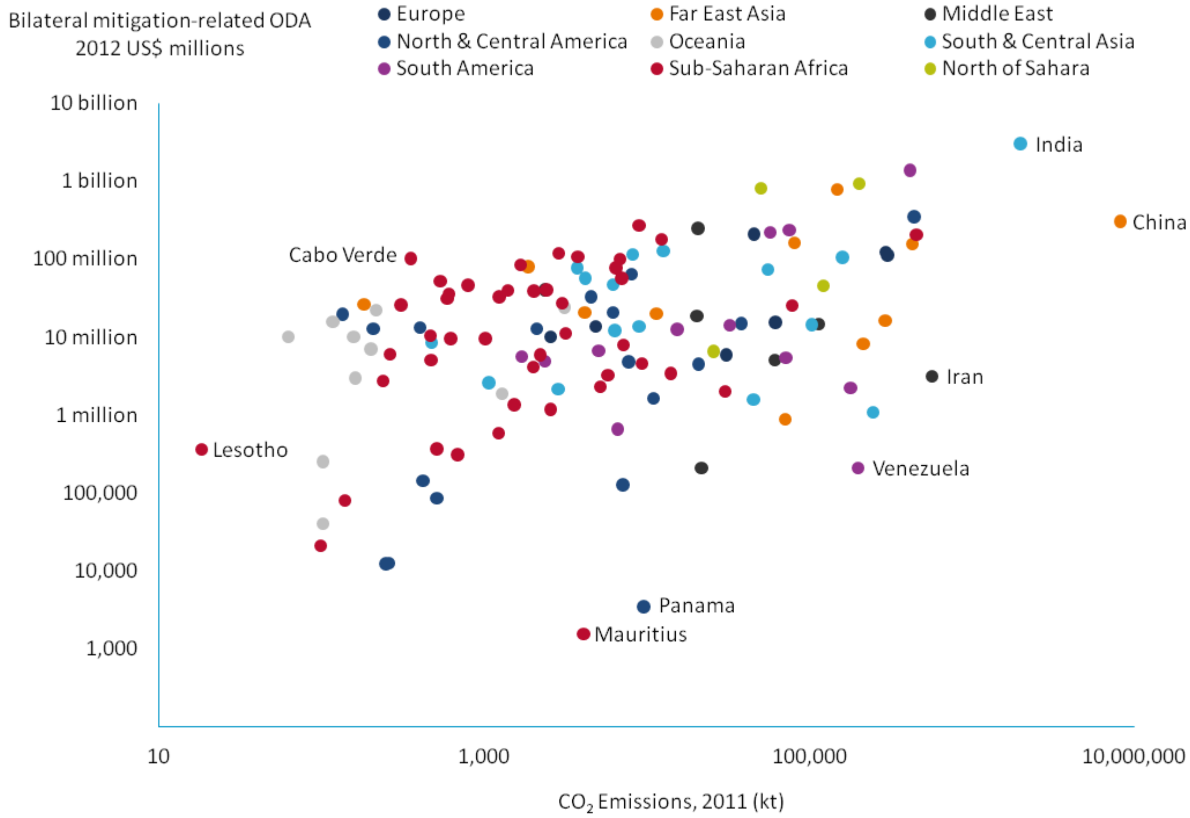
Mitigation ODA and emissions

In general, larger emitters are among the larger recipients of mitigation ODA (Figure 52). There is a positive correlation between the size of CO_2 emissions and the scale of mitigation ODA commitments, although there are numerous exceptions.

China and India are by far the largest emitters of CO_2 amongst developing countries. India, which emitted over 2 million kilotonnes of CO_2 in 2011, was allocated the most mitigation-related ODA in 2012 (US$3.0 billion). China, the largest emitter among developing countries (8.3 million kilotonnes), received the 7th largest commitments in mitigation ODA, totaling US$0.3 billion. Brazil, (0.4 million kilotonnes, 7th largest emitter), was the second largest recipient of mitigation ODA commitments.

There is a much weaker correlation with CO_2 emissions per capita, however. Brazil is the 43rd largest emitter on a per capita basis. Kazakhstan is the largest developing country emitter on a per capita basis, yet received just US$1.1 million in mitigation ODA commitments. Egypt, which is the third largest recipient of mitigation ODA, ranks 36th among developing countries in terms of CO_2 emissions per capita.

Figure 52. Larger emitters are among the largest recipients of mitigation ODA



Source: Development Initiatives' calculations based on OECD DAC CRS.

Political volatility

As we look towards 2030, an increasing proportion of the world's poorest people will live in areas affected by conflict or fragility, either in whole countries or particularly vulnerable sub-national regions. In 1990, 20% of people in extreme poverty lived in countries affected by conflict or fragility.[40] The latest estimates suggest it is around 50%.[41] Given projected economic and demographic trends it is likely that these countries will soon account for the majority of the world's poorest people, left behind as poverty reduction continues elsewhere.

Conflict and fragility are neither a fixed state of being nor is there one single definition. Indeed, countries affected by conflict and fragility face a number of complex challenges, many of which are context specific, although with a number of common features such as a weak state.[42] While conflict does not affect all countries in this group, these states all face the risk of conflict and political instability. Therefore, it could be expected that ODA spent on humanitarian assistance and conflict, peace and security is likely to increase in line with the proportion of the world's poorest people who live in conflict affected and fragile environments. As this chapter highlights, however, the types and manifestations of fragility and vulnerability are variable and ODA will need to adapt in order to respond.

State weakness and reduced resilience within conflict affected and fragile states, particularly those in long-term crisis, mean these countries are also more vulnerable to the impact of natural disasters, which in turn can be a driver of conflict. The evidence is also clear that instability, shocks and disaster both push people into poverty and make it harder for them to escape. The added impact of climate change (particularly in increasing the frequency of natural disasters) is also likely to lead to a significant impact in fragile states in the future (Chronic Poverty Report: The Road to Zero Extreme Poverty 2014).

Ending poverty, therefore, will require a long-term, systematic approach to overcoming the complex and overlapping challenges of sustainable development in countries affected by conflict and fragility. Fluctuations in ODA levels based on political decisions taken in donor countries negatively affect long-term programming and planning. These changes hinder the main principles of aid effectiveness including predictability and mutual accountability (see Status quo: ODA delivery). Year on year changes can be expected in humanitarian assistance allocated to sudden-onset emergencies, but considerable fluctuations can also be seen in other sectors of ODA such as conflict, peace and security where a long-term approach is essential.

Given these complex problems, and the length of time it takes countries to emerge from conflict and fragility, it is important that ODA is used in a coordinated manner for investments that underpin long-term sustainable development and take environmental vulnerability into consideration, whilst also protecting people from the consequences of crises.

Many of the largest recipients of ODA are countries affected by conflict or fragility

Many of the largest recipients of ODA are countries affected by conflict or fragility states. In six of the last seven years, at least seven of the top 10 recipients of ODA have been countries in this

[40] (Kharas and Rogerson 2012)

[41] Latest estimates for 56 of the 69 countries classified here as fragile states are that around 540 million people live on less than $1.25 a day in fragile states, 47% of the global total (there are no data for 13 countries). However many of these estimates are based on old surveys: for 28 countries the most recent survey is at least 5 years old, for 8 countries it is pre-2005 and for one it is pre-2000.

[42] This heterogeneity amongst fragile states is a key challenge for classifying countries in a single fragile grouping. See

Annex A: Definitions for a discussion.

group (Table 7).[43] In 2012, seven of the top 10 recipients were countries in long-term crisis (those that have been classified as conflict affected or fragile for at least a decade).

Table 7. Most of the largest recipients of ODA are countries affected by conflict or fragility

	2006	2007	2008	2009	2010	2011	2012
1	Nigeria	Iraq	Iraq	Afghanistan	Afghanistan	DRC	Afghanistan
2	Iraq	Afghanistan	Afghanistan	India	DRC	Afghanistan	Viet Nam
3	Tanzania	Indonesia	India	Ethiopia	India	India	Cote d'Ivoire
4	Ghana	India	Indonesia	Viet Nam	Haiti	Pakistan	India
5	Ethiopia	China	Ethiopia	Indonesia	Pakistan	Viet Nam	Turkey
6	Uganda	Tanzania	China	Pakistan	Viet Nam	Ethiopia	Ethiopia
7	Zambia	Viet Nam	Bangladesh	Tanzania	Ethiopia	Kenya	Kenya
8	Cameroon	Ethiopia	Viet Nam	China	Indonesia	Indonesia	Bangladesh
9	Mozambique	Pakistan	Tanzania	Iraq	Tanzania	Tanzania	Pakistan
10	Madagascar	Sudan	Sudan	DRC	China	China	DRC

Source: Development Initiatives' calculations based on Fund for Fragile Peace and OECD DAC CRS. Blue countries are long-term fragile states; pink countries are other fragile states (based on classifications in the year in question).

Many countries affected by conflict or fragility are overlooked by ODA allocations

Fragility and conflict take into account a variety of different factors, and the grouping is not homogenous: disparities exist in the character, level and manifestation of conflict and fragility. The nature of these situations often, although not always, contributes to both the size and type of ODA allocations. For example, a lack of state legitimacy and corruption are both causes of fragility and conflict, as are factors that limit the capacity to absorb ODA, particularly in states classed as 'very fragile'. In these states, assistance is largely received in the form of humanitarian assistance channeled through multilateral institutions and/or characterized by the presence of multilateral intervention missions.

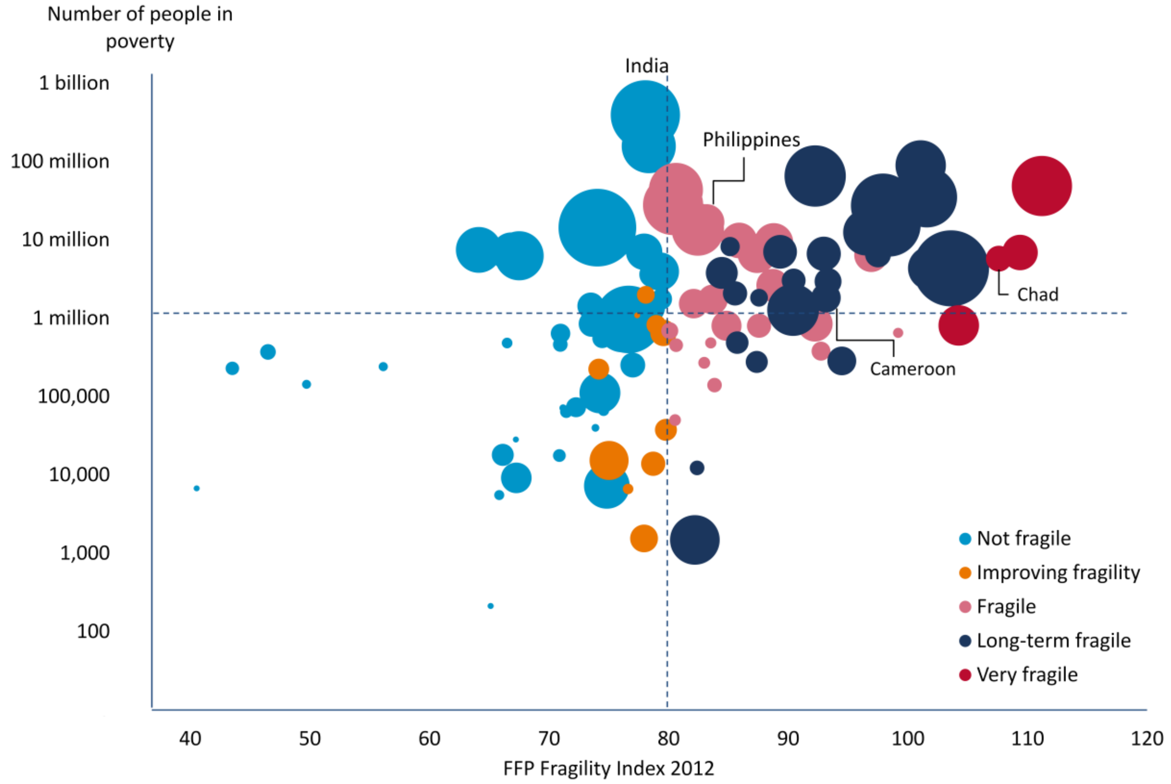
Somalia (US$911 million), for example, has appeared in the 'very high alert' category[44] more than eight times in the last 10 years. It has, however, never ranked in the top 30 recipients of ODA, and received proportionally larger amounts of humanitarian assistance compared with other ODA recipients. Even within the very fragile states, there is considerable variation: Chad (US$529 million) and Zimbabwe (US$1 billion) both, like Somalia, do not feature in the top 10 ODA recipients list in 2012 (Figure 53), and have never ranked in the top 30 recipients, and still do not receive large amounts of humanitarian assistance.

Like poverty, conflict and fragility can also be sub-national in character. Sub-national crises are not always taken into consideration in the grouping.

[43] Fragile states are defined here using the Fund for Peace Fragility Index – all countries considered as 'very high warning' or above in 2012 are considered fragile states. See

Annex A: Definitions for more details.
[44] A score of 110 or higher in the Fund for Peace (FFP) Fragile States Index.

Figure 53. Poverty, fragility and overall ODA in 2012



Source: Development Initiatives' calculations based on Fund for Fragile Peace and OECD DAC CRS.

Humanitarian assistance and conflict, peace and security dominate ODA to many conflict affected and fragile

Many countries affected by conflict or fragility, particularly very fragile states, receive a high proportion of ODA as humanitarian assistance or assistance for conflict, peace and security.[45] In very fragile states, humanitarian assistance accounts for 28.8% of total ODA, compared to 8.3% in other countries affected by conflict or fragility, and 2.2% in all other recipient countries. Conflict, peace and security spending accounts for 4.8% of ODA in very fragile states, 2.1% in other countries affected by conflict or fragility, and 1.0% in other recipient countries.

Key elements of conflict, peace and security activities are ineligible for ODA according to 2007 guidelines (OECD DAC 2007).[46] Conflict, peace and security spending is one area under review for inclusion in total official support for development (TOSD) (see Box A) with the aim of capturing a broader picture of activities for all enablers of development. At the December 2014, OECD DAC High Level Meeting (HLM) a decision was taken to continue with this elaboration of the TOSD measure as a complement to ODA. The HLM communiqué also stated that within that wider definition of TOSD, peace, security and justice are likely to be reflected. ODA reporting instructions in this area will also be amended. Although the components of this measure will be outlined prior to the Third International Conference on Financing for Development in Addis Ababa, a final definition will be decided by the OECD Secretariat only once an agreement on the post-2015 development agenda has been reached (OECD DAC 2014).

[45] Conflict, peace and security is a OECD DAC CRS sub-sector within the wider government and civil society sector. The DAC has agreed guidelines of which activities can be included. See Footnote 47 for details.

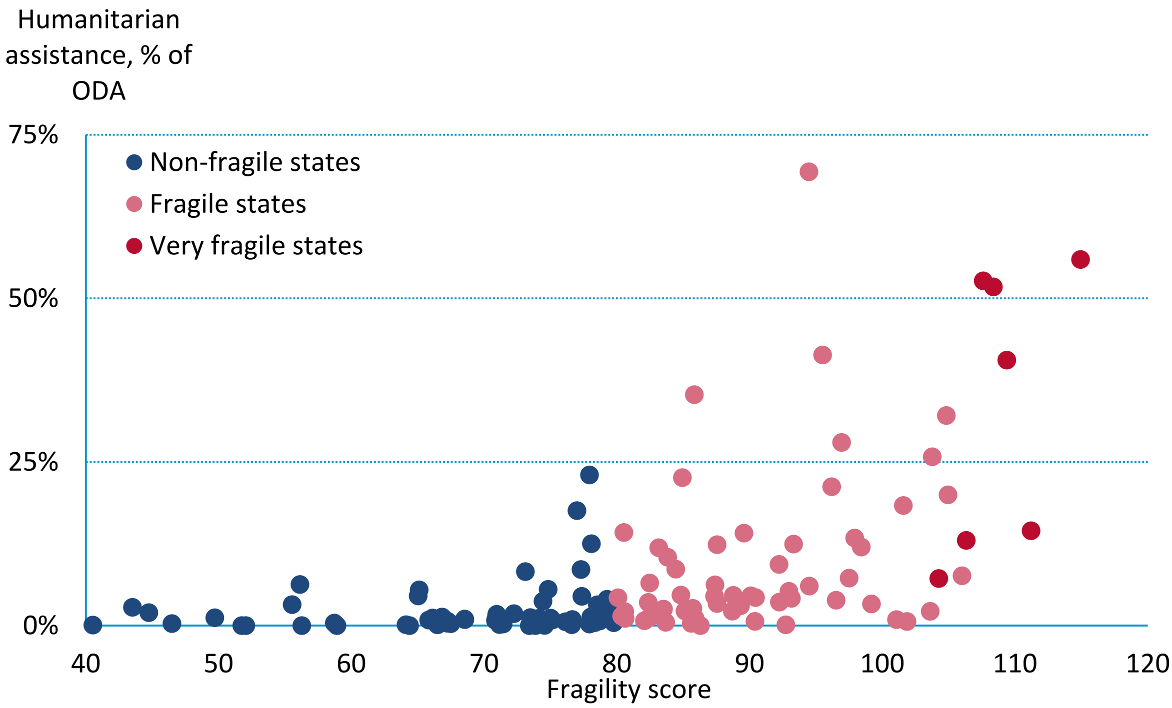
[46] These include, among other things, financing of military equipment and services, combating terrorism, as well as specific aspects of police training, peacekeeping, management of security expenditure, security sector reform (SSR), and civilian peacebuilding and conflict resolution.

Exceptions to both humanitarian assistance and conflict, peace and security sometimes occur because of the temporal nature of conflict and fragility. Measures evaluate a single point in time, whereas the state of conflict fragility is constantly evolving. For example, Syria's score of 94 (out of 120) on the 2012 index (based on events in 2011) placed it lower on the list of conflict affected and fragile states but humanitarian assistance is high (69.3%) because of a significant deterioration during 2012. Additionally, Libya has extremely high conflict, peace and security spending in 2012 (39.6%) but a low fragility ranking (85) due to the multilateral intervention in 2011.

Wider governance spending also accounts for a higher proportion of ODA in conflict affected and fragile states than in other countries. Excluding humanitarian assistance and conflict, peace and security spending, wider governance spending accounted for 17.2% of ODA in very fragile states, 12% in other conflict affected and fragile states and 8% in other countries.

The quality of ODA, as well as type and volume, to conflict affected and fragile countries is important. Indeed, this is even more critical in countries emerging from conflict where the state has either collapsed or been severely hampered in providing essential services needed for recovery. Transition compacts have traditionally been relatively light agreements between donors and fragile countries, identifying the most urgent priorities in post-conflict recovery and peace building. More recently, compacts have been formalised as an essential element of the New Deal for Engagement in Fragile States (International Dialogue on Peacebuilding and Statebuilding n.d.). Compacts are also one of four pillars from the OECD DAC's guidance for financing in transition countries (International Peace Institute 2012). Within the New Deal, compacts signed focus on national-led priorities with the goal of both building trust and ownership and reducing aid fragmentation and duplication. They are considered an essential tool for mutual accountability.

Figure 54. Humanitarian assistance accounts for a significant portion of ODA for many countries affected by conflict or fragility



Source: Development Initiatives' calculations based on FFP Fragile States Index and OECD DAC.

Although conflict, peace and security ODA is spent mainly in conflict affected and fragile countries, there is considerable disparity in the amount received within this group, and relatively little correlation with degree of fragility. Several European countries such as Ukraine (US$44.4 million) and Bosnia-Herzegovina (US$45.4 million) that were not considered conflict affected or fragile in

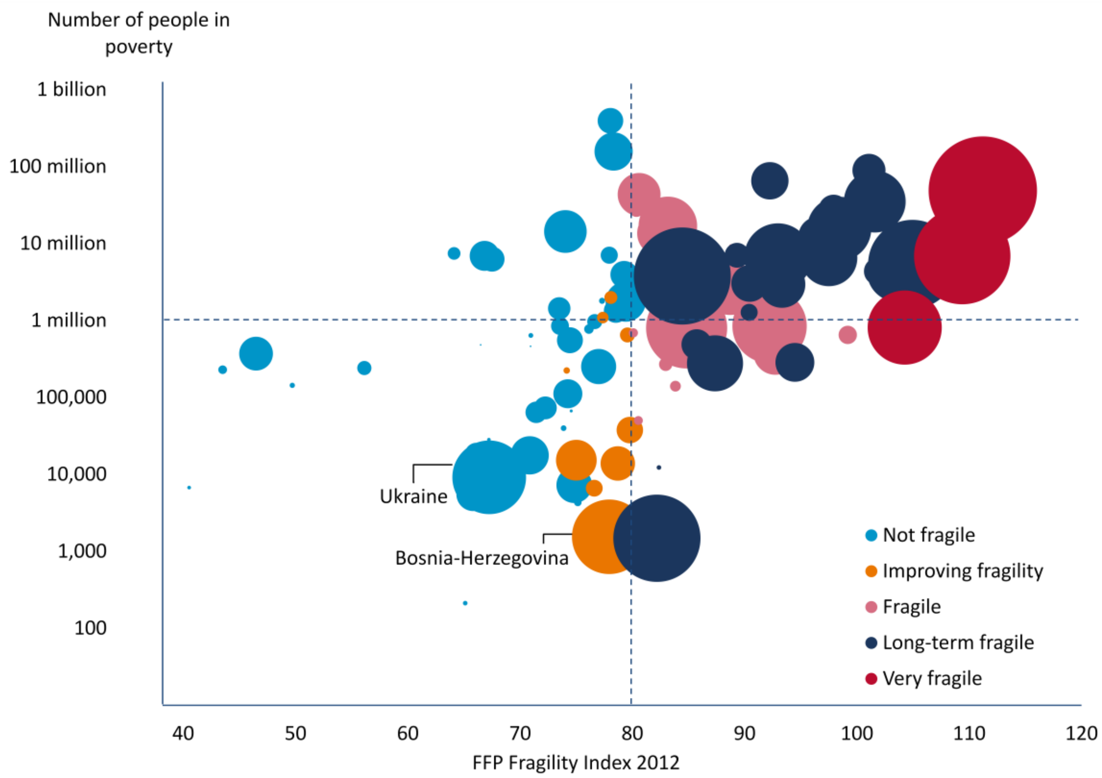
2012 continue to receive large amounts of conflict, peace and security spending. There is also little relationship between conflict, peace and security spending and the extent of poverty in recipient countries.

Humanitarian assistance is overwhelmingly provided in conflict or natural disaster contexts. Drivers of conflict are included as indicators in the Fragile States Index, while factors contributing to exacerbating the negative impact of natural disaster events, such as demographic pressures, refugees and internally displaced persons, are also included. With just a couple of notable exceptions, such as Senegal and Thailand (US$46 million and US$85 million, respectively, both due to natural disasters), and Jordan (US$91 million, as a result of the crisis in Syria) in 2012, the majority of humanitarian assistance was provided to fragile states.

As conflict, fragility and poverty become increasingly intertwined and the links between extreme poverty and vulnerability to crisis become clearer, there is a need to more closely align humanitarian financing with the longer term goals of ending poverty and development assistance. Current allocations do not reflect variation in poverty levels between fragile states; for example, Nigeria and DRC have similar fragility scores and similar numbers of people living in extreme poverty, yet the latter receives over 20 times more humanitarian assistance (*Figure 55* (i)).

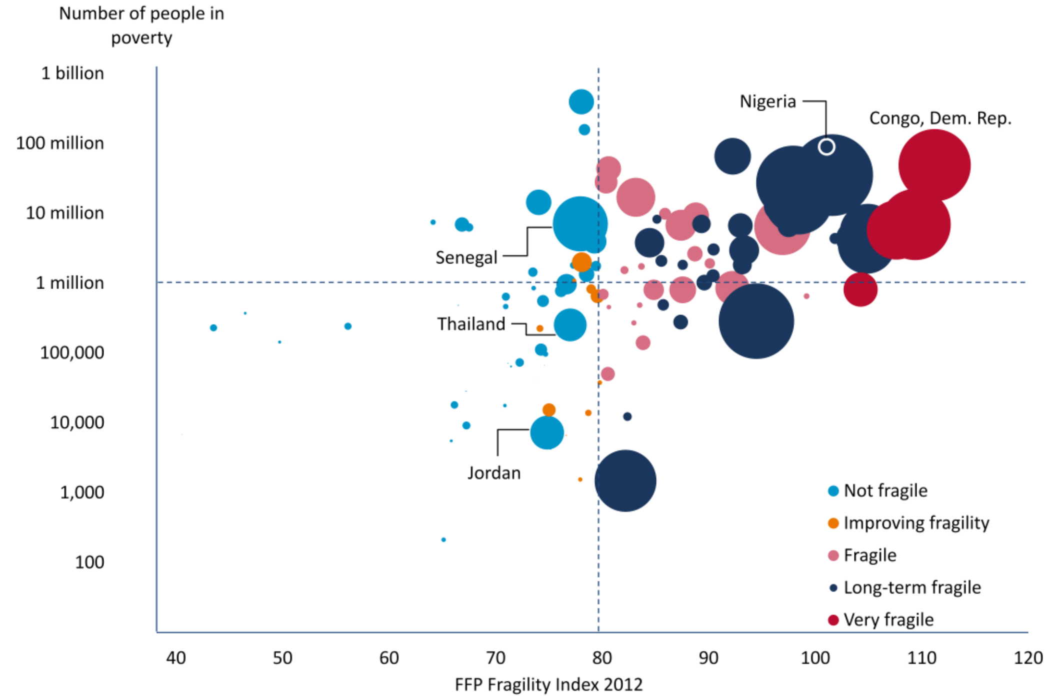
Figure 55. There is disparity in conflict, peace and security financing across conflict affected and fragile states; humanitarian assistance is overwhelmingly provided in conflict or natural disasters

(i) Poverty, fragility and Conflict, Peace and Security spending (within ODA) in 2012



Source: Development Initiatives' calculations based on Fund for Fragile Peace and OECD DAC CRS.

(ii) *Poverty, fragility and Humanitarian Assistance in 2012*



Source: Development Initiatives' calculations based on Fund for Fragile Peace and OECD DAC CRS.

Current allocations do not meet the need for sustained long-term financing in conflict affected and fragile states

Within the group of countries affected by conflict or fragility, seven countries stand out as having scores of over 110 on the index for three years or more and can be considered 'very fragile'. The same seven countries also appear in the list of long-term humanitarian assistance countries identified by the Global Humanitarian Assistance Report 2014 (Global Humanitarian Assistance Programme 2014). Around 66% of humanitarian assistance from OECD DAC donors in 2012 went to long-term humanitarian assistance recipient countries,[47] which are experiencing either recurrent or protracted crises. An estimated 179.5 million people live in extreme poverty in the 30 long-term recipient countries of humanitarian assistance.

This illustrates the challenge for ODA and humanitarian assistance to move from working in silos to a coordinated approach that addresses those in extreme poverty and investing in building resilience over the long term, together.

However, current financing flows are not aligned with the need for sustained long-term financing.

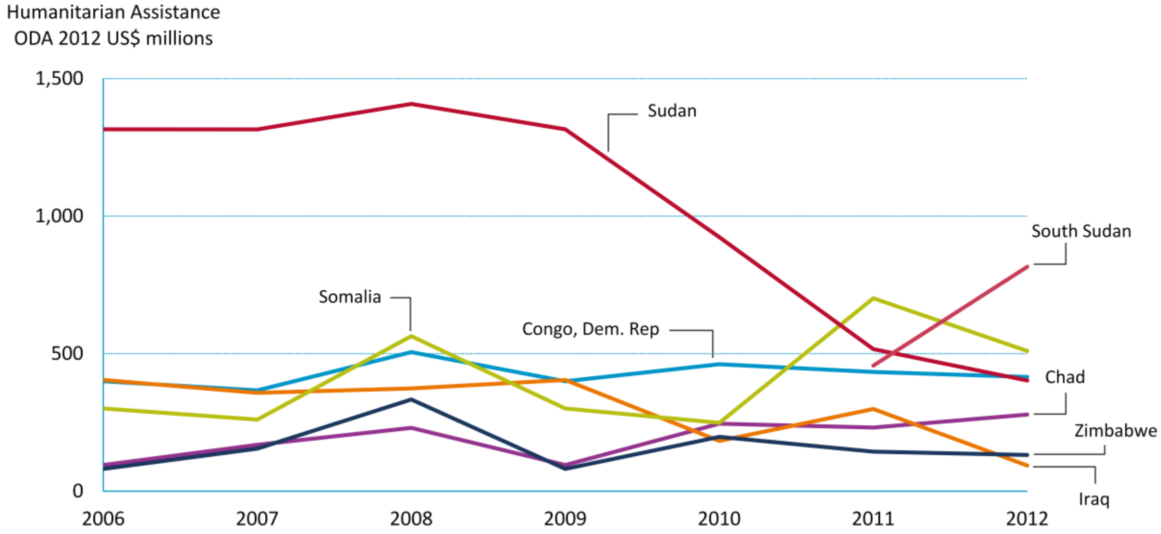
Humanitarian assistance is delivered in short-term cycles, often with a 6–12 month time horizon. Given the responsive nature of humanitarian assistance, whereby flows often rise to meet acute needs, volumes to the countries most affected by conflict or fragility have remained relatively constant (Figure 56). The most significant change has been in Sudan where humanitarian assistance has decreased significantly. This is, however, a reflection of South Sudan's independence, as the combined amount of the two separate countries is roughly equal to the decline.

ODA, however, which should provide more predictable, longer-term assistance, has fluctuated for many very fragile countries (Figure 57). ODA to DRC almost tripled between 2009 and 2011, before falling 60% in 2012. Flows to Iraq almost quartered between 2006 and 2009. Humanitarian assistance to these two countries showed less variation over the same period.

---

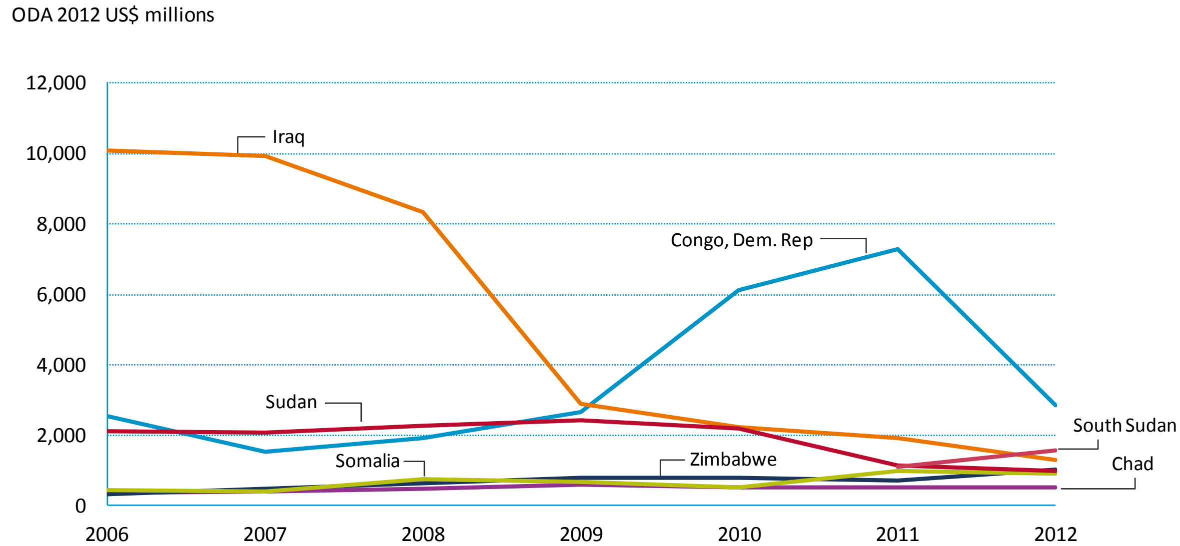
[47] Defined as countries that have received above-average levels of humanitarian assistance for at least 8 of the last 10 years.

Figure 56. Humanitarian assistance to very fragile countries has remained relatively constant



Source: Development Initiatives' calculations based on OECD DAC CRS and FFP Fragile States Index.

Figure 57. ODA levels to very fragile countries have fluctuated



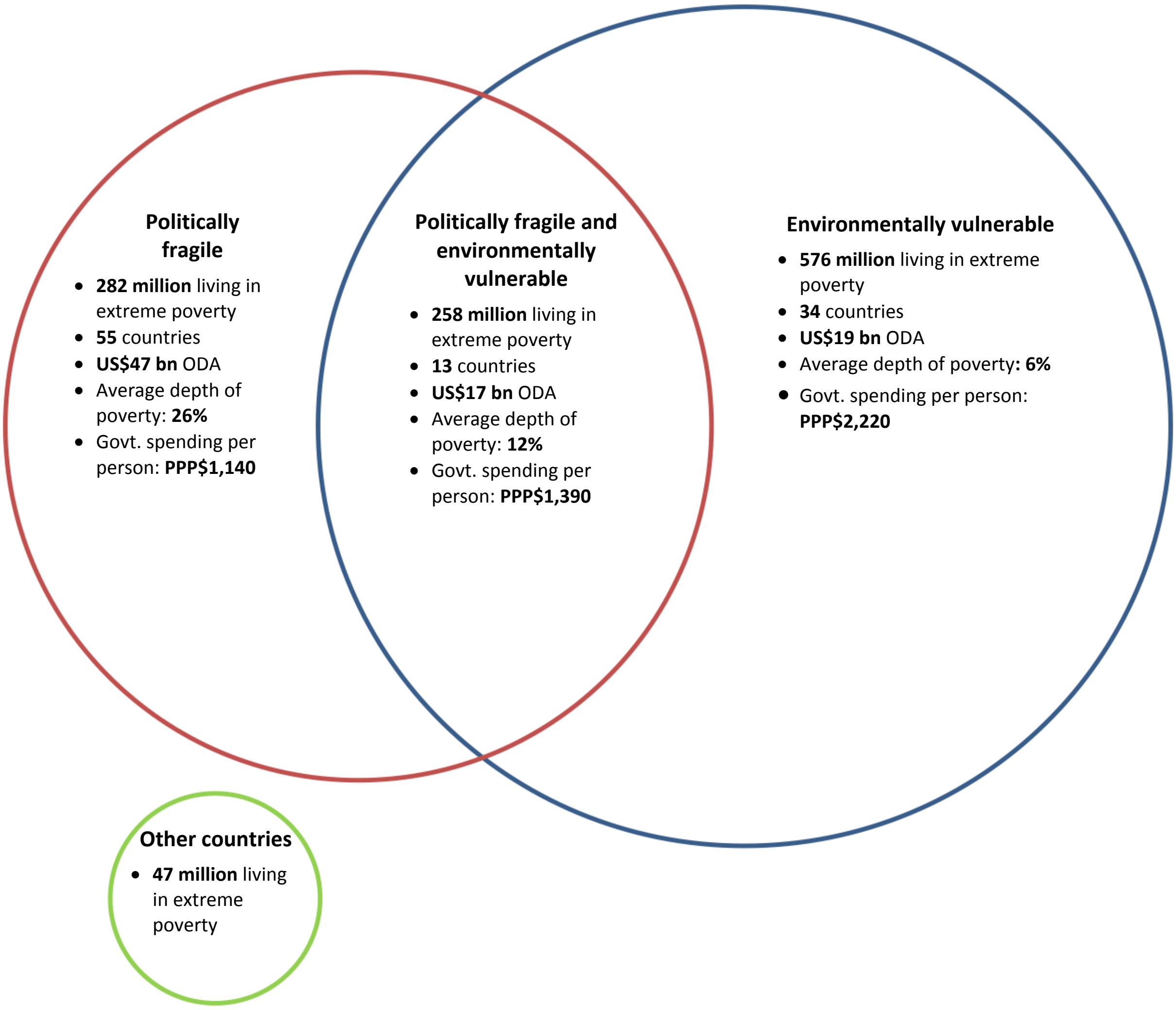
Source: Development Initiatives' calculations based on OECD DAC CRS and FFP Fragile States Index.

Overlapping factors: political volatility and climate vulnerability

State weakness and reduced resilience in countries affected by conflict or fragility, particularly long-term fragile states, means that certain countries are facing both political volatility and climate vulnerability. The blend of ODA needs to take this into account. Climate change also increases the risks faced by vulnerable people and is likely to exacerbate conflict and fragility (Intergovernmental Panel on Climate Change 2014). The overlaps between conflict, fragility and environmental vulnerability will be important to identify in order for ODA (as well as other resources) not only to respond but also to anticipate those most vulnerable and develop resilience systems.

Thirteen countries are both politically fragile and environmentally vulnerable (Figure 58).[48]

Figure 58. 96% of people living in extreme poverty live in countries that are politically fragile, environmentally vulnerable, or both

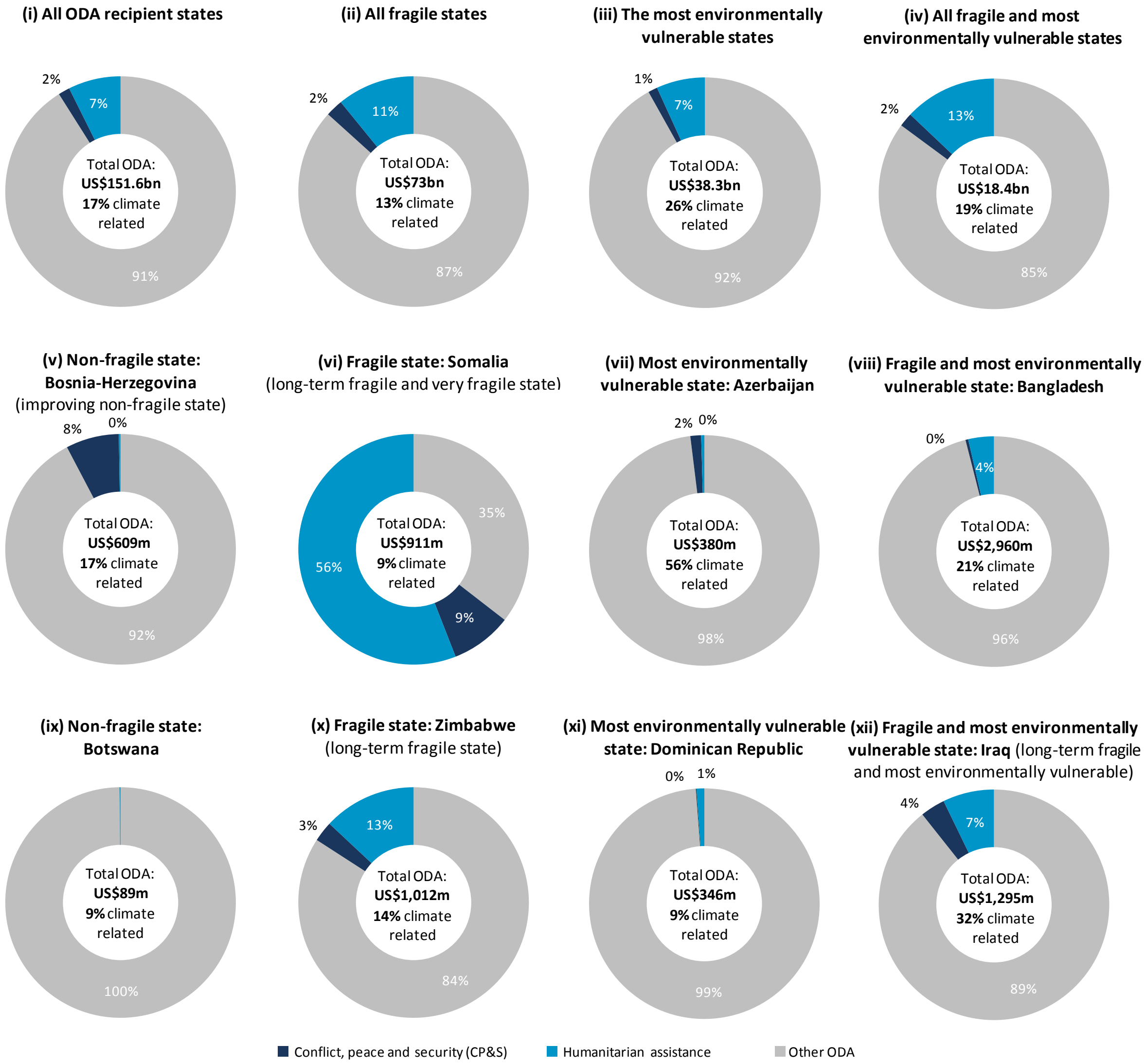


Source: Development Initiatives' calculations based on OECD DAC CRS, FFP Fragile States Index, and the EVI. The size of each circle represents the number of people living in extreme poverty in each group of countries. Note that non-developing countries are excluded. Depth of poverty refers to the gap between the average income of people living below the poverty line and the poverty line. ODA figures are gross ODA in 2012 excluding non-transfers.

[48] These countries are Bangladesh, Fiji, Haiti, Indonesia, Iraq, Korea, Dem. Rep., Lebanon, Nigeria, Pakistan, Philippines, Sri Lanka, Syria, and West Bank and Gaza Strip.

The overall volume and breakdown of ODA disbursement for humanitarian assistance and conflict, peace and security spending is relatively similar between countries affected by conflict or fragility and those environmentally vulnerable states. However, the breakdown for individual countries differs considerably reflecting the different situations in the same year. Somalia receives the majority of ODA as humanitarian assistance, while Bangladesh, a long-term fragile state and environmentally vulnerable state, receives a very small amount of conflict, peace and security spending.

Figure 59. The mix of ODA to politically fragile and environmentally vulnerable recipients



Source: Development Initiatives' calculations based on OECD DAC CRS, FFP Fragile States Index, and the UN EVI. 'Climate related' refers to the proportion of ODA that is marked as adaptation or environment relevant (principal or significant).

Part III: Improving ODA allocation for a post-2015 world

5. A vision for an ODA targeting discipline that can underpin the end of poverty

Key messages

- ODA has a key role in efforts to leave no-one behind, end poverty and transition to sustainable development. To do so, its mandate needs to be reformed. The objective of ODA should be refined from the current 'promotion of economic development and welfare' to 'benefit the poorest 20% of people in developing countries'.
- Refining the purpose of ODA and establishing a strong targeting discipline can significantly increase the effectiveness of allocations post-2015 and drive resources towards achieving the goals.
- ODA should target *appropriate* assistance to the poorest people, wherever they are in developing countries
    - The design of appropriate assistance should consider the resources that people have access to and the vulnerabilities they face
    - Appropriate assistance does not always mean large-scale financial transfers
- A targeting discipline for decision makers should incentivise them to ensure that assistance impacts the poorest people and is provided in an appropriate modality
- The nature and complexity of poverty calls for some specific recalibrations in ODA
    - ODA needs to be allocated in the context of domestic policy and resources, both to help increase domestic resource mobilisation and to recognise that government expenditure in many countries will not be enough to achieve even the most basic goal of extreme poverty eradication
    - ODA will have a particular comparative advantage in reaching populations left behind by progress in areas of climate vulnerability and political fragility
- Decision making can only be as good as the information on which it is based. There is a need to significantly improve the quality and coverage of data, particularly disaggregated data on gender and for indicators measured at sub-national level.

The emerging post-2015 development agenda presents many paradigm shifts from the MDGs that challenge the role of ODA and current model for allocations. The shift in ambition from halving poverty to ending it in all its forms everywhere; the principle of leaving no-one behind; the move from an aid-led agenda to an all-resources agenda; and the move from separate sustainability and development agendas to a single unified and universal sustainable development agenda, all challenge the current model of ODA allocations. The role of ODA and the way that it is allocated must evolve if it is to effectively support a more ambitious and holistic post-2015 development agenda.

ODA investments must be guided by a more focused *purpose* fit for the post-2015 world, linked to ending poverty, impact on the world's poorest people and transitioning to sustainable development. Poverty has a special place at the centre of the post-2015 development agenda and, as in the MDG framework, is likely to be the primary goal. Yet ending extreme poverty is a much greater challenge than halving it, and to achieve and sustain this goal requires resources dedicated to the task.

ODA is the only international public resource that has the potential to be targeted explicitly at ending poverty and impacting the world's poorest people. While private resources are larger in aggregate and hold immense potential to contribute to sustainable development, they are bound by the need to seek profit and are concentrated in more economically developed countries. Even governments need to serve all citizens and have numerous pulls on their resources; and with limited resources, domestic capacity in many countries is insufficient to eradicate poverty by 2030. ODA has a comparative advantage in underpinning efforts to achieve the end of poverty and can play a key role in driving investments that meet basic needs, supporting increased resilience and mobilising other resources to impact the poorest people in developing countries.

The purpose of ODA should be refined to focus on ending poverty, rather than promoting economic development and welfare more broadly as at present

ODA allocations are more poverty sensitive than other resources, yet the lack of incentives within the current architecture for targeting the poorest people means that allocations do not respond effectively to the distribution, depth, dimensions or other characteristics of poverty.

The current objective of ODA, for the "promotion of the economic development and welfare of developing countries", was established in 1972 (Führer 1994). However, this broad concept covers a wide range of spending, from that which is invested with the goal of reducing poverty or increasing welfare, to that which has less to do with these objectives but is nonetheless eligible to count as ODA. There are, for example, many countries in which high growth rates have driven rising inequality and thus had little impact on poverty. In these contexts, the current criteria for economic development and welfare would not differentiate between ODA that seeks to further increase headline economic growth and ODA that seeks to impact the lives of the poorest parts of the population – both would be eligible.

The evidence shows that agencies with a clear mandate for poverty reduction are far more effective at targeting their resources on the poorest than those with a broader or less specific mandate (see chapter 2).

The declining relevance of ODA country eligibility criteria

Current eligibility criteria determine at the national level whether countries should be eligible to receive ODA. This decision is based largely on average income per person (see Box B). Yet the system does not differentiate between investments that target the poorest or the richest in a country, so long as that country is eligible to receive ODA. This system is inadequate for an agenda that seeks to leave no-one behind, and for a world in which poverty and vulnerability to environmental and political risks in many countries are sub-national phenomena.

To make effective use of ODA in ending poverty and transitioning to sustainable development we need a system that incentivises allocations that benefit the poorest and discourages the use of ODA for investments that benefit wealthier people.

ODA investments should aim to impact the poorest 20% of people in developing countries

The objective of ODA, for "the promotion of economic development and welfare", should be refined to "benefit the poorest 20% of people in developing countries". The poorest 20% of people are a priority – 17% of people in developing countries still live in extreme poverty and it is the poorest 20% who are at most risk of being left behind.

Focusing ODA on this goal will help to drive improved allocations that make the most of ODA's comparative advantage in the context of other resources. This would, in turn, ensure that there is a resource dedicated to the principle of leaving no-one behind, and the success of ODA should be assessed against the impact it has on the poorest people. It will maximise progress to end extreme poverty by 2030 as well as longer term efforts to end poverty in all its forms everywhere and transition to sustainable development.

Targeting the poorest 20% would drive ODA investments across the three pillars of sustainable development – economic, social and environmental – that benefit the poorest people. It would not mean reducing investments outside the social sectors – for instance in economic sectors, governance, environmental sustainability or GPGs – rather, it should enhance the effectiveness of spending in these areas by focusing on their impact on the poorest people. Poverty has many dimensions and, as the analysis has shown, the sustainable end to poverty requires investments across a broad range of sectors. Indeed, there is a need to scale up investments in many of these sectors.

The refined objective of targeting the poorest 20% of people in developing countries should be formalized at the international level and institutionalized across the aid sector by the agencies and institutions that provide ODA.

Box K: Income-group-based decision making

Country status within the World Bank's income groups system has in practice been a key determinant of many ODA allocation decisions. The income group system is widely used across the ODA community to both understand country development and prioritise allocations.

Yet income groups like low, lower-middle and upper-middle present an extremely narrow view of progress and one that is in increasingly sharp contrast with the modern definition of sustainable development. The system has been compared to reducing a medical examination to a simple temperature check: it presents an accurate assessment of one key symptom, but misses many important others.

The post-2015 development agenda is rooted in a number of principles that call for a more holistic understanding country progress and allocating resources across countries:

- The goal of progress across all three dimensions of development: environmental, social and economic
- The emphasis on leaving no-one behind

The sole focus of the income group system on the economic dimension of development, and the use of national averages that do not account for inequality, make the income group system inappropriate for understanding progress or allocating resources under the post framework.

Ignoring the social and environmental dimensions of development paints an often misleading simplification: that countries facing diverse challenges are at similar levels of development because their GNI per capita is at a similar level.

Effective decision making on ODA investments within the post-2015 development agenda cannot be achieved by using income groups as a basis for allocating resources.

ODA should provide assistance appropriate to the context

ODA should provide appropriate assistance to the poorest 20% wherever they are – whether in an LDC with low domestic resource levels or a rapidly growing emerging economy. Crucially, the nature of assistance should vary in different contexts and does not always require large financial transfers that draw resources away from the poorest countries.

Two factors are key in determining the nature of assistance: the wider resources that the poorest 20% of people have or could have access to, and the vulnerabilities and risks that they face.

Resources

The discussion on financing and other means of implementation for a post-2015 development agenda has emphasised the primacy of domestic resources and the principles of national ownership, leadership and country-led implementation. ODA should provide support for this domestically led implementation. Within this context, the choice of ODA instrument should be guided by an understanding of the wider resources that are present, in particular the resources and capacity of the domestic government, as well as the private sector and other actors.

In many contexts mobilising the impact of existing resources may be the most sustainable and appropriate model of assistance. Many of the world's poorest people live in fast-growing economies with domestic institutions that have increasing resources within their control. Yet finance is just one of many barriers to ending poverty and growing national wealth alone in a country where poverty persists should not drive donors to disengage. The poorest in many emerging economies are disconnected from national growth that is often driven by particular sectors or regions of the country, and may also have limited access to public services.

ODA can play an important role in these contexts – for example, by helping governments to grow the human and technical capacity needed to expand the reach of basic services or connect small businesses to mainstream economic growth; by providing assistance to develop systems that can be used to control and monitor how growing resources are spent; or by supporting triangular co-operation to share knowledge of how countries have overcome common challenges.

In other contexts, where domestic resources are scarce and access to wider finance is limited, grant-based financing remains an appropriate modality for much assistance. Grants may also be preferred to loans when a country is at risk of debt distress or when financing is targeted at key transformative sectors such as social protection, smallholder agriculture, education or healthcare.

Vulnerabilities

Many of the world's poorest people face risks and vulnerability that can perpetuate, deepen or draw people back into poverty. 96% of people living in extreme poverty live in countries that are either politically fragile, environmentally vulnerable, or both (see chapter 4).

Addressing the vulnerabilities and risks that the poorest face is an important component of holistic development assistance. It is human factors – the strength of resilience mechanisms and coping strategies – that determine the lasting severity of climate shocks. Assistance that builds resilience and develops coping mechanisms for the most vulnerable people is essential for realizing and safeguarding poverty reduction.

Countries affected by conflict or fragility account for a growing proportion of extreme poverty, from 20% in 1990 to around 50% today. These countries face complex, overlapping challenges. Understanding and addressing these vulnerabilities and challenges must be an essential part of efforts to end poverty and demands a systematic, long-term approach and sustained financing.

Box L: Specific recalibrations for ODA post-2015

Alongside steps to refine the purpose for ODA and establish a strong targeting discipline, there are also a number of specific issues for which ODA allocations should be recalibrated.

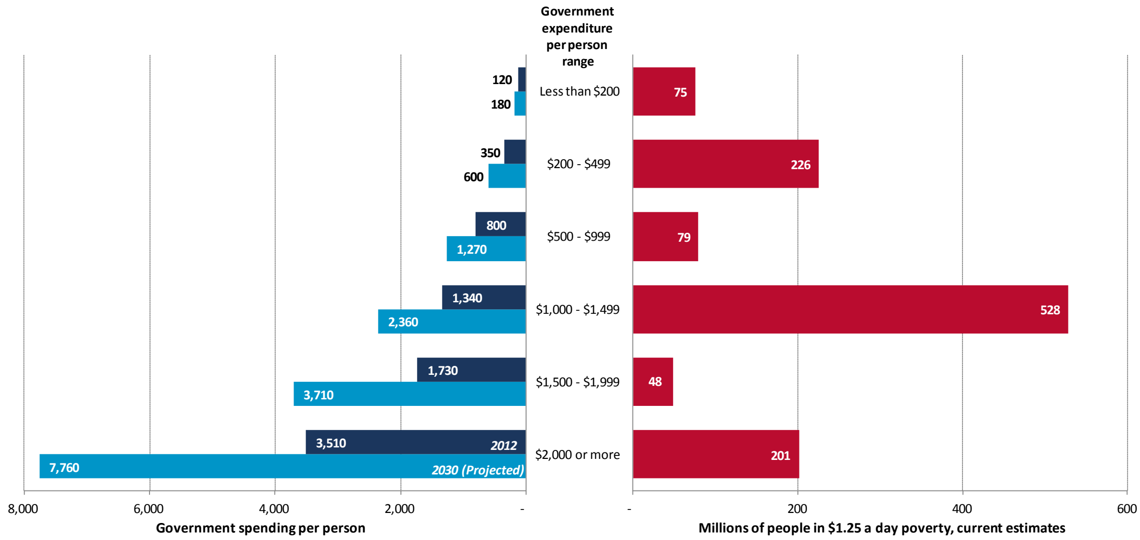
Domestic resources

Within an implementation framework that is primarily led by domestic institutions, ODA has an important role to play in supporting the effective mobilisation and use of domestic resources. The nature of this assistance will vary from country to country, with countries falling into two broad groups.

In 71 countries that are home to 83% of people in extreme poverty, government spending is less than PPP$4 a day per person (PPP$1,500 a year per person) – and in some, significantly less (Figure 57). For many of these countries government resources are likely to remain scarce, without a significant change in trends. In these contexts ODA can support governments to increase domestic resources by supporting improvements in tax systems, legislation and enforcement, as well as supporting international efforts to reduce illicit finance. Current levels of ODA for domestic resource mobilisation are small at less than one-tenth of one percent of ODA (see Box G) and there is room for this type of support to be scaled up.

Where resources are growing, the challenges of developing sufficient technical and human capacity to use resources effectively through service provision are pertinent. Even in stable, well-functioning states the challenges for governments to reach the very poorest are considerable. In these contexts there may be an important role for ODA, for example through assistance to develop human and technical capacity to expand and deepen basic service delivery.

Figure 60. Countries with the lowest domestic resources are likely to experience slowest growth



Source: Updated from Investments to End Poverty (2013).

Climate vulnerability

Over 800 million people live in extreme poverty in environmentally vulnerable countries (see chapter 4). Sustainably ending extreme poverty in these countries requires investments that reduce vulnerability to climate shocks and safeguard progress that has been made. While geography and location determine the likelihood of experiencing a climate shock, it is human factors such as the strength of resilience mechanisms and coping strategies that determine the severity of that shock, and these are weakest for the poorest.

Sustainably ending poverty will require a significant scale up in adaptation financing. Current adaptation ODA levels are within range of only the most conservative estimates of the scale of needs. In 2012 new commitments totalled US$10.1 billion, while estimates of financing needs ranged from US$4 billion per year to US$171 billion. Additional financing must be additional to current commitments.

Political fragility

In 1990, 20% of people in extreme poverty lived in countries affected by conflict or fragility; today it is almost 50% (over 500 million people). With high rates of population growth, and as poverty reduction continues elsewhere, these countries will soon account for the majority of the world's poorest people.

Ending poverty will require sustained, long-term investments in conflict affected and fragile contexts, where government resources are low and private resources do not flow in large volumes (outside the extractives industries). Investments in safeguarding peace and security and building institutions that can drive longer term sustainable progress are needed if poverty is to be ended in countries affected by conflict or fragility, and this will require substantial resources with a long-term outlook.

ODA that targets the end of poverty therefore needs to address political fragility in a systematic, coordinated manner that provides sustainable means to drive long-term progress. As much of the assistance that fragile states receive is humanitarian assistance or conflict, peace and security ODA, it is important that poverty reduction objectives are incorporated into the decision-making frameworks for these financing streams.

Box M: Decision making can only be as good as the information on which it is based

Effective decisions about how to allocate resources require accurate, timely, disaggregated data on the scale of needs and the resources available in different contexts. Yet current data are often partial, inaccessible, out of date or of insufficient quality to answer even basic questions about the state of needs or scale and characteristics of resources. There is an urgent need to invest in improving this information to underpin effective resource allocation.

Poverty data is based on household surveys. Much of this data is out of date: the latest estimates for 31 countries are at least 10 years old and for a further 55 countries at least five years old. Inconsistent methodologies and data sources compound the problem and reduce the reliability of poverty estimates. For example, we now believe that over 800 million people have been lifted out of extreme poverty in East Asia since the 1980s – yet in that decade it was thought that there were only around 280 million people living in extreme poverty in the region. (Investments to End Poverty 2013).

While information on ODA has improved dramatically over the last decade, there are still significant gaps in our knowledge about this resource. There is no effective system for reporting information on how much ODA is used to stimulate domestic resource mobilisation – laborious keyword searches are the only way to estimate the scale of this type of assistance – and little is known about the scale and nature of partnerships between ODA and the private sector. Reporting on the relevance of spending to adaptation covers less than half of ODA, and reporting on other important areas such as gender equality is also poor. The gender relevance of 50% of ODA is not reported, and reporting has actually declined since 2009 (Henon 2014).

Moving forward there is also a need to significantly scale up investment in disaggregated data so that we better understand needs and resources below the national level. Poverty in many countries affects particular groups rather than the whole population and, to underpin effective targeting of the poorest people, it is essential that data on needs and resources below the national level are improved.

While there is a cost to investing in better information and stronger statistical systems, the benefits through enhanced targeting and more effective resource use are significant (see *How better information would improve targeting: an example using sub-national data*).

An ODA targeting discipline that can underpin the end of poverty

The finalisation and implementation of the post-2015 development agenda presents an important opportunity to recalibrate ODA allocations to underpin the principle of leaving no-one behind, the drive to end poverty and the transition to sustainable development.

To drive this recalibration there is a need for a strong targeting discipline that incentivises the provision of appropriate assistance for the poorest 20% of people in developing countries, wherever they are. This targeting discipline should replace current ODA eligibility criteria and the practice of using income groups as a basis for allocation decisions.

This targeting discipline must incentivise decision makers to ensure that assistance impacts the poorest people in developing countries and is appropriate to the context.

Ensure that ODA impacts the poorest

The first step in a targeting discipline is determining whether ODA should be spent on a particular activity. The key questions a decision maker should ask are:

- Does it target poverty reduction across the three dimensions of sustainable development?
- Will it benefit the poorest 20% of people?

Under a repurposed architecture for ODA these two questions will help determine whether ODA should be spent on a particular activity. For example, they can guide decisions on whether to use ODA to finance spending on energy projects: if a project aims to increase access to energy for the poorest 20% then it meets the criteria; if it is about 'greening' energy infrastructure and does not impact or disproportionately benefit the poorest then, although it may make a valuable contribution to the post-2015 development agenda, it should be financed by other resources.

This targeting framework should help decision makers to think through and justify the linkages between proposed ODA investment and impact on the poorest 20% of people in developing countries, and to be accountable for their choices. This does not mean focusing on short-term investments that have a direct impact, but clarity in the causal linkages should allow an effective balance of necessary shorter and longer term investments.

Ensure that assistance is appropriate to the context

For activities that target poverty reduction and benefit the poorest 20% the targeting discipline should incentivise assistance provided in an appropriate modality. There are two key questions a decision maker should evaluate in determining how ODA should be spent:

- What other resources are present?
- What vulnerabilities do people face?

There are many factors to consider in designing appropriate support: the scale, nature and causes of poverty; the vulnerabilities and risks that the poorest face; the access that the poorest have to public services and economic opportunities; and the resources and capacity of domestic institutions to address domestic problems.

References

2nd HLF on Aid Effectiveness. *The Paris Declaration on Aid Effectiveness.* 2005.

3rd HLF on Aid Effectiveness. *Accra Agenda for Action.* 2008.

4th HLF on Aid Effectiveness. *Busan Partnership for Effective Development Co-operation.* 2011.

Alonso, José Antonio, Ana Luiza Corte, and Stephan Klasan. *LDC and other country groupings: How useful are current approaches to classify countries in a more heterogeneous developing world?* UN Department of Economic and Social Affairs, 2014.

Asia-Pacific Effective Development Co-operation Report. UNDP Asia-Pacific Development Effectiveness Facility, 2014.

Badiee, Shaida. *Reviewing the World Bank's Analytical Country Classification: An Update.* World Bank, 2013.

Bester, Angela. *Accountable and effective cooperation in a post-2015 era.* UNDESA.

Birdsall, Nancy, Nora Lustig, and Christian J. Meyer. *The strugglers: the new poor in Latin America?* Center for Global Development, 2013.

Buchner, Barbara, et al. *The Global Landscape of Climate Finance 2013.* Climate Policy Initiative, 2013.

Chronic Poverty Report: The Road to Zero Extreme Poverty. Chronic Poverty Advisory Network, 2014.

Development Cooperation Forum. "2014 Germany High-Level Symposium: Accountable and effective development cooperation in a post-2015 era." 2014.

Führer, Helmut. *The story of official development assistance.* OECD, 1994.

Fund for Peace. "Fragile States Index 2014." 2014.

Global Humanitarian Assistance Programme. "Global Humanitarian Assistance Report 2014." 2014.

Global Partnership for Effective Development Co-operation. *Busan Monitoring Survey.* 2014.

Griffiths, Jesse. *The State of Development Finance for Developing Countries.* Eurodad, 2014.

Henon, Sarah. *Gender relevance not known for half of aid in 2012.* Development Initiatives, 2014.

Hulme, David. *The Millennium Development Goals (MDGs): A short history of the world's biggest promise.* Brooks World Poverty Institute, 2009.

IMF. *Review of the policy on debt limits in fund-supported programs.* IMF, 2013.

Intergovernmental Committee of Experts on Sustainable Development Financing. "Final Report." 2014.

Intergovernmental Panel on Climate Change. *Climate Change 2014: Impacts, Adaptation, and Vulnerability.* IPCC, 2014.

International Dialogue on Peacebuilding and Statebuilding. "A dialogue to achieve better results in fragile states."

International Peace Institute. "Transition Compacts: Lessons from UN Experiences." 2012.

Investments to End Poverty. Development Initiatives, 2013.

Kharas, Homi, and Andrew Rogerson. *Horizon 2025: Creative destruction in the aid industry.* Overseas Development Institute, 2012.

Manuel, Marcus. *Getting to zero poverty by 2030 - stop giving more to those that need it the least.* October 2014. http://www.developmentprogress.org/blog/2014/10/07/getting-zero-poverty-2030-%E2%80%93-stop-giving-more-those-need-it-least.

Ocampo, José Antonio, and Natalie Gómez Arteaga. *Accountable and effective development cooperation in a post-2015 era.* Development Cooperation Forum, 2014.

OECD DAC. *Addressing the boundary between ODA and total official support for development (TOSD) in the field of peace, security and justice.* OECD, 2014.

OECD DAC. *Casebook on Conflict, Peace and Security activities.* OECD, 2007.

OECD DAC. *DAC List of ODA Recipients.* OECD DAC, 2014.

OECD DAC. *Shaping the 21st Century: The Contribution of Development Co-operation.* OECD, 1996.

OECD. *Handbook on the OECD-DAC Climate Markers.* OECD, 2011.

Open Working Group. "Proposal of the Open Working Group for Sustainable Development Goals." 2014.

Oxford Poverty & Human Development Initiative. *Multidimensional Poverty Index 2014.* Oxford University, 2014.

Pratt, Craig, Ursula Kaly, and Jonathan Mitchell. *Manual: How to Use the Environmental Vulnerability Index (EVI).* United Nations Environment Programme (UNEP). South Pacific Applied Geoscience Commissions (SOPAC)., 2004.

Pritchett, Lant. *Who is not poor? Proposing a higher international standard for poverty.* Center for Global Development, 2003.

Ravallion, Martin. *Do poorer countries have less capacity for redistribution.* World Bank, 2009.

Ravallion, Martin, Shaohua Chen, and Prem Sangraula. *Dollar a day revisited.* World Bank, 2008.

Shepherd, Andrew, et al. *The geography of poverty, disasters and climate extremes in 2030.* Overseas Development Institute, 2013.

Strawson, Tim, and Guto Ifan. *Aid for domestic resource mobilisation: how much is there?* Development Initiatives, 2014.

Sumner, Andy. *Global Poverty and the New Bottom Billion: Three-quarters of the World's Poor Live in Middle-income Countries.* Institute of Development Studies, 2010.

Tew, Rob. *ODA loans.* Investments to End Poverty Discussion Paper, Development Initiatives, 2013.

UN Millennium Project. "Millennium Development Goals Needs Assessments: Country Case Studies of Bangladesh, Cambodia, Ghana, Tanzania and Uganda." 2004.

UN Task Team Working Group on Sustainable Development Financing. "Financing for sustainable development: Review of global investment requirement estimates." 2014.

UNCTAD. "The Least Developed Countries Report 2012." 2012.

UNEP, and SOPAC. *Building Resilience in SIDS; The Environmental Vulnerability Index.* UNEP; SOPAC, 2005.

—. *Environmental Vulnerability Index.* 2014. http://www.sopac.org/index.php/environmental-vulnerability-index (accessed November 2014).

UNFCCC. *Investment and Financial Flows to Address Climate Change.* New York: United Nations Framework Convention on Climate Change, 2007.

United Nations. "Monterrey Consensus on Financing for Development." 2002.

WHO. "The World Health Report: Health Systems Financing - The Path to Universal Coverage." 2010.

World Bank. "How does the World Bank classify countries?" 2014.

Annex A: Definitions

Country groupings

Developing countries are defined in the study by the OECD's list of ODA eligible countries, which includes 148 countries (OECD DAC 2014).

Environmental vulnerability is defined according to the EVI (Environmental Vulnerability Index) to define environmental vulnerability (UNEP and SOPAC, Environmental Vulnerability Index 2014). Countries classified as 'extremely vulnerable' or 'highly vulnerable' in the EVI are classified as environmentally vulnerable in this study. The EVI is a composite index that captures and describes the vulnerability of countries' natural environments. It was developed by UNEP, SOPAC (South Pacific Applied Geoscience Commission) along with many other partners and finalised in 2005. The EVI assigns countries a score based on an average of their score against 50 indicators. These indicators are designed to capture the various components of vulnerability across: hazards and their probability of occurring; environmental resistance; and existing damage. Countries are then grouped and characterised as one of the following: resilient; at risk; vulnerable; highly vulnerable; or extremely vulnerable (UNEP and SOPAC 2005). The EVI is ultimately a simplified representation of complex, interactive systems with a single measure. The EVI makes the following assumptions: 1) the more undamaged environments are, the better their resilience to natural and anthropogenic shocks will be; 2) natural environments in good condition generally serve the needs of humans better than damaged ones (particularly for ecosystem services); and 3) human behaviours, choices and socioeconomic conditions are part of environmental vulnerability and the EVI seeks to measure these as part of the index (Pratt, Kaly and Mitchell 2004).

Conflict affected and fragile states are defined by the Fund for Peace (FFP) States Index (previously known as the Failed States Index) (Fund for Peace 2014). The report classifies countries affected by conflict or fragility as those countries considered 'very high warning' or above in this index. Heterogeneity amongst these countries is a key challenge for classifying countries in a single grouping. However, classifications are useful for analysis, and this paper uses the Fund for Peace (FFP) Fragile States Index (previously known as the Failed States Index) (Fund for Peace 2014) to define the group of countries affected by conflict or fragility, including all countries that are considered 'very high warning' or above. This index allows for fragile groupings and comparison with countries outside of the grouping. This definition is used in this paper for analysis, though the situation in many countries affected by conflict or fragility are diverse and although levels of fragility can guide donor countries ODA flows 'tailor-made approaches and solutions' will need to be considered (Alonso, Corte and Klasan 2014). The Fragile States Index is compiled using 12 indicators of risk based on the assumption that fragility has various attributes and can be manifested in a number of ways and although there is no one single definition there is some degree of commonality as regards attributes and manifestations. The FFP Fragility Index has been chosen because the index allows for sub-groupings within the group and multi-year (2005-2012) calculations. The FFP index is well-respected globally and is used in the OECD Fragile States compilation (along with the World Bank fragile states list) and the majority of countries align with the OECD fragile states list. Within the FFP index there are a number of sub-groupings. The larger group of Fragile States incorporates those countries with an index score higher than 80 ('very high warning'). Within this fragile states group are the 'long-term fragile states' which have appeared on the list of 'Fragile States' every year for a decade (between 2005-2014). Another sub-group is those states which have appeared in the FFP 'very high alert' group at least twice within the decade, 'very fragile states'. This group includes: Chad, DRC, South Sudan, Sudan, Somalia and Zimbabwe. South Sudan has been included amongst those most fragile states. The reason for its inclusion is that although the country only came into existence officially in 2011, the country previously formed part of Sudan and the conflict between north and south contributed to the fragility within Sudan and therefore the scores for Sudan are used as a proxy for Sudan.

Income groups: LICs, MICs (LMICs/UMICs) are defined by the World Bank, based on GNI per capita in US$ (using the Atlas methodology). The study uses income group status in 2012 which are based on the thresholds: LICs – GNI per capita less than US$1,025; LMICs – GNI per capita between US$1,026 and US$4,035; UMICs – GNI per capita between US$4,036 and US$12,475; HIC – GNI per capita exceeding US$12,476 (World Bank 2014).

Least Developed Countries (LDCs) are defined according to the United Nations criteria set by the Committee on Development Policy (UNCTAD 2012). There were 48 LDCs in 2012: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, DRC, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

Annex B: Data notes

Government spending

The two key measures of government spending – total spending and spending per person – are presented using different bases. Total government spending is presented in US$ to allow comparison with international resource flows. Government spending per person is presented in PPP$ as purchasing power parity gives a more accurate indication of spending power within each country.

Note that government spending per person figures are presented using the 2011 update from the International Comparison Program (International Comparison Program, 2014). Government spending figures presented in other reports (such as Investments to End Poverty, Development Initiatives, 2013) have used the previous 2005 PPP$ basis so some of the numbers differ slightly.

Extreme poverty

Extreme poverty is defined in this study by the international $1.25 a day poverty line.

Country data on extreme poverty are sourced from the World Bank and the figures used in this report are based on the latest available data from each country. Data are based on surveys carried out periodically in each country, so there is wide variation in the timeliness of data. Of the 124 countries for which data on extreme poverty are included in the report, 38 were carried out in since 2010, 55 between 2005 and 2009, 17 between 2000 and 2004, and 14 pre-2000. There are no estimates for poverty since 1990 in 24 developing countries.

Multidimensional poverty

Multidimensional poverty refers to various aspects of poverty and deprivation that go beyond income alone. Multidimensional poverty data in the study is sourced from the Multidimensional Poverty Index (Oxford Poverty & Human Development Initiative 2014), which captures information on deprivation in education, health and living standards. The measures in each area are used to derive an overall multidimensional poverty score for each country.

Private sector relevant ODA

Private sector relevant ODA in this study is defined split into two categories, defined and based on data from the OECD DAC. Core private sector ODA refers to ODA that aims to directly stimulate the development of the private sector; wider private sector ODA refers to ODA that aims to strengthen the environment in which the private sector operates, for example by improving the business climate or developing infrastructure. The purpose and channel codes included in each measure are:

Core private sector ODA: formal financial sector intermediaries (all channels); informal/semi-formal financial sector intermediaries (all channels); monetary institutions (private sector channel of delivery only); agriculture (private sector channels only); forestry (private sector channels only); fishing (private sector channels only); industry (private sector channels only); mineral resources and mining (private sector channels only); construction (private sector channels only); trade policies and regulation (private sector channels only); tourism (private sector channels only).

Wider private sector ODA: energy (private sector channels only); financial policy and admin management (all channels); education/training in banking/financial services (all channels); business support services and institutions (all channels); privatisation (all channels); monetary institutions (all other channels, except private sector channels included in core private sector ODA); agriculture (all other channels); forestry (all other channels); fishing (all other channels); industry (all other channels); mineral resources and mining (all other channels); construction (all other channels); trade policies and regulation (all other channels); tourism (all other channels).

Adaptation and mitigation ODA

Adaptation and mitigation ODA refers to the portion of ODA where adaptation to or mitigation of climate change is its primary, or secondary, objective.

This is identified using the OECD Rio markers – policy markers which are applied when donors report their ODA to the OECD DAC, and used to flag the policy objectives of their support. These markers distinguish between projects that have adaptation/mitigation to climate change as their core, primary objective (described as "principal"), and those which include either as a secondary objective (described as "significant"). Reporting against the Rio markers is relatively poor and data gaps exist.

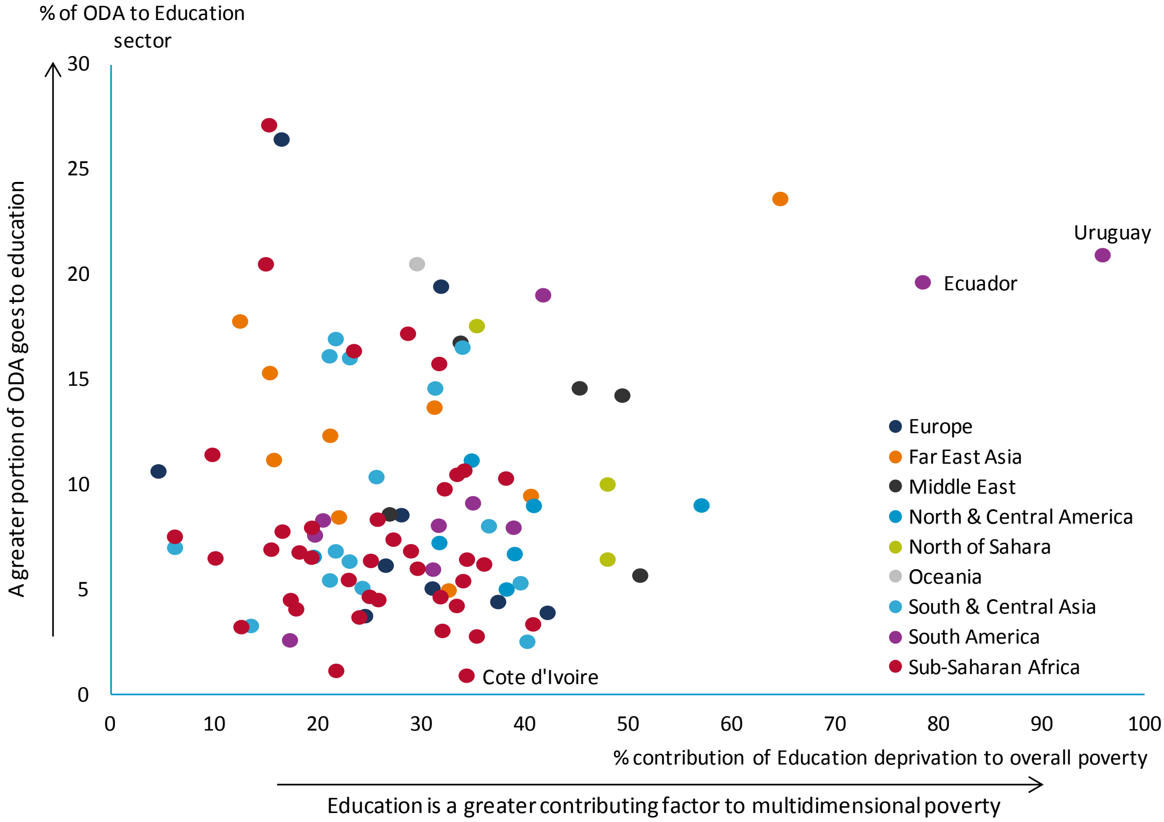
Reporting against disbursements is especially poor. Commitments data is comparatively better and therefore gives a better representation of the scale and characteristics of the support to adaptation and mitigation efforts in this particular instance.

The value for these portions of ODA is derived using the sum of commitments made to those projects marked as either principal or significant with the adaptation or mitigation Rio marker. This captures all relevant bilateral commitments, including those channeled through multilateral organisations, and commitments made and reported by multilaterals organisations.

Annex C: Sectoral ODA allocations and the dimensions of poverty: education

The story in education is similar to that in health (see *Sector ODA allocations and the dimensions of poverty: health*): ODA does not appear to prioritise education in countries in which it is a greater contributing factor to overall multidimensional poverty. For countries such as Uruguay, Ecuador and Cote d'Ivoire, education is a significant contributing factor to multidimensional poverty, but is not prioritized by ODA allocations (Figure 61).

Figure 61. ODA does not prioritise education in many countries where it is a significant cause of multidimensional poverty



Source: Development Initiatives calculations based on MPI, OECD DAC, Chronic Poverty Report 2014–15.

Contacts

Tim Strawson, Development Initiatives, ***tim.strawson@devinit.org***, Senior Analyst, Lead author

Cordelia Lonsdale, Development Initiatives, ***cordelia.lonsdale@devinit.org***, Engagement Advisor

DCF Team, Development Cooperation Policy Branch, Office for ECOSOC Support and Coordination, UNDESA, ***dcf@un.org***