

**ECONOMIC AND SOCIAL
COUNCIL**

Distr.
LIMITED
E/ESCWA/C.9/2019/6(Part III)
19 September 2019
ORIGINAL: ENGLISH

Economic and Social Commission for Western Asia (ESCWA)

Committee on Financing for Development in the States Members of the Economic
and Social Commission for Western Asia

First session

Amman, 11-12 December 2019



Item 7 (c) of the provisional agenda

The Arab Financing for Development Scorecard

International development cooperation

Summary

The Global Financing for Development Framework, encapsulated by the Addis Ababa Action Agenda, recognizes international development cooperation as a major channel to finance the 2030 Agenda. Yet, four years following the adoption of the framework, the official development assistance (ODA) of developed donor countries remains far below the United Nations target of 0.7 per cent of gross national income (GNI), and international public financial flows are failing to grow sufficiently to serve their intended purposes. Today, the financing gap for ODA among the Organisation of Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC) member countries (had donors fulfilled the target set by the United Nations), amounts to nearly \$3 trillion or 20 times more than the ODA actually provided in 2017.

Humanitarian aid and in-donor refugee expenses continue to represent a fifth of DAC member's ODA, noting that these types of expenditures do not target long-term investments needed for sustainable development as called for by the UN Secretary-General Strategy on Financing the 2030 Agenda (2018-2021). As humanitarian and in-country donor spending remains high, the share of budget support and "country programmable aid" (CPA) has decreased in recent years. More perplexing has been the elevated levels of tied aid, part of which must be spent in the donor country and declining grant-based ODA (including in the case of lending by multilateral development banks).

Today, nearly half of the total international humanitarian aid envelope is provided to the Arab region. In 2017, Arab ODA fell by 54 per cent, although continues to represent 75 per cent of non-DAC ODA, and 8 per cent of total reported DAC ODA, and 57 per cent of total aid and concessional lending provided by Arab national and regional development institutions, the Islamic Development Bank and the OPEC Fund for International Development is allocated to financing development outside the Arab region, and between 2011-2017 for every \$1 the Arab region received in ODA inflows, 87 cents were returned in ODA elsewhere.

The Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia is invited to consider the trends in the present document on international development cooperation.

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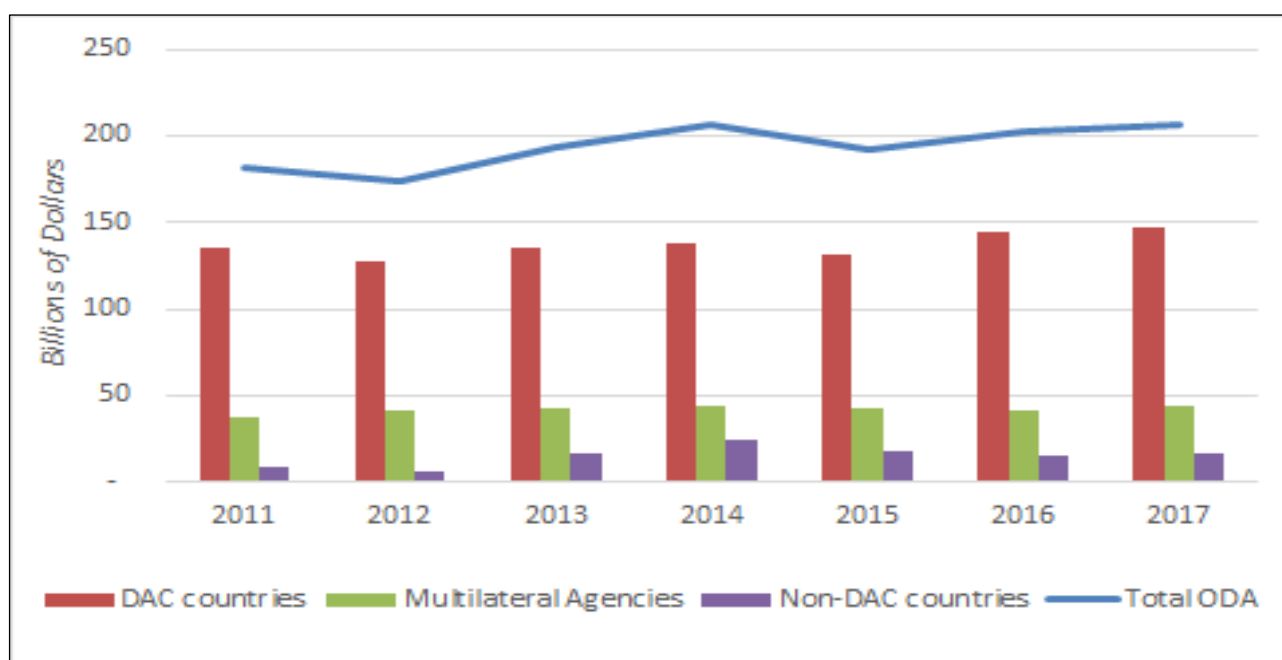
Introduction

1. The Addis Ababa Action Agenda (Action Agenda) considers international public finance as a prime source of financing sustainable development complementing developing countries' efforts in mobilizing their own public resources domestically. The Action Agenda recognizes that many countries still fall short of meeting their official development assistance (ODA) commitments, given that only a few donor countries have met the 0.7 per cent of ODA/gross national income (GNI) target and the 0.15 to 0.20 percent of ODA/GNI to least developed countries. Therefore, the Action Agenda called to step up action to achieve the UN-ODA targets.¹ Yet four years after the adoption of the Action Agenda, the 2019 United Nations Inter-Agency Task Force on Financing for Development (IATF-FfD) found that international public financial flows are still failing to grow to carry out its essential functions of financing the 2030 Agenda. The following section captures the salient findings of the IATF-Ffd with respect to the global trends in international development cooperation.

I. INTERNATIONAL DEVELOPMENT COOPERATION: GLOBAL TRENDS

2. In 2017, ODA reached \$162.97 billion, including ODA provided by DAC² and non-DAC countries. ODA channeled through multilateral development agencies amounted to \$43.7 billion bringing the figure of international development finance to \$206.6 billion (excluding private contributions of \$6 billion).³

Figure 1. Total ODA provided by DAC, non-DAC countries and multilateral agencies, 2012-2017



Source: Compiled by ESCWA based on the OECD Database.

3. In 2017, the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) provided \$147.2 billion in ODA. This marked a modest nominal increase compared to \$144.9 billion provided in 2016, although ODA decreased 0.1 per cent when measured in constant 2016

¹ United Nations, Addis Ababa Action Agenda: Financing for Development, 2015.

² The DAC has 24 members: Australia, Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Germany, Greece, Ireland, Italy, Japan, South Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

³ <https://stats.oecd.org/> (accessed on 15 April 2019).

prices. In real terms, ODA witnessed a small decrease of 0.6 per cent in 2017 (after adjusting for inflation and currency fluctuations), despite the fall in donor assistance for refugees from 11 to 9.7 per cent of total net ODA (\$14.2 billion), compared to 11 per cent in 2016, owing to the declining number of new arrivals in DAC member countries. In 2018, DAC countries provided \$149.3 billion, a fall of 2.7 per cent in real terms compared to 2017 (see para. 12). Non-DAC ODA increased to \$15.76 billion in 2017 compared to \$14.1 billion in 2016.

4. In 2017, total aid allocated to humanitarian response amounted to \$27.3 billion, the fifth consecutive increase year-on-year since 2013. This figure comprises \$20.7 billion provided as international public aid from governments - of which \$14.4 billion came from DAC members and \$6.54 billion from private sources). In 2018, DAC humanitarian aid amounted to \$15.3 billion, although this represents a fall of 8 per cent in real terms. Total humanitarian requirements to response plans coordinated by the United Nations amounted to \$25.2 billion in 2018. However, the 2018 response plans received funding for only 61 per cent of the humanitarian requirements. In terms of disbursements, nearly 50 per cent of international humanitarian aid was provided to the Arab region (\$13.2 billion in 2017 and \$14.8 billion in 2018).⁴ Today, six Arab countries are among the top 10 recipients of humanitarian aid (Syrian Arab Republic, Yemen, Iraq, the State of Palestine, Jordan and Lebanon). The number of internally displaced people due to conflict and violence in the Arab region reached 14 million in 2017.

5. Nearly a fifth of OECD-DAC-ODA in 2017 (or a quarter of net bilateral ODA which accounts on average for 71 per cent of total DAC-ODA) continued to be dedicated to humanitarian expenditure and in-donor refugee spending that does not target long-term investments for sustainable development.

6. By the end of 2017, the forcibly displaced population increased by 2.9 million to reach 68.5 million worldwide. Data from the UN High Commissioner for Refugees (UNHCR) shows that 40 million were internally displaced, 25.4 million acquired/maintained refugee status (including 5.4 million Palestinian refugees under the United Nations Relief and Works Agency (UNRWA) mandate), while 3.1 million were asylum seekers. As humanitarian disbursements keep rising and in-country donor spending remains high, the share of budget support and “country programmable aid” (CPA) in overall ODA has decreased in recent years. These are the flows over which developing countries have significant say and for which donors should be held accountable for delivering “as programmed”. The share of CPA, nonetheless, fell from 54.9 per cent of DAC countries’ gross bilateral ODA in 2010 to 48.3 per cent in 2017.

7. To make matters more perplexing, a sectoral breakdown of ODA shows a decreasing share of assistance being spent on social sectors, which fell from 40.0 per cent of total ODA in 2010 to 35.1 per cent in 2017. On the other hand, in-donor spending has been rising, not only in the form of in-donor refugee costs, but also in other forms of in-donor expenditures namely, scholarships and student costs in donor countries, in-donor spending on development awareness and administrative costs.

8. In 2016, the share of untied aid reported by DAC countries accounted for 79.8 per cent of total ODA. Untied aid remains critical as it allows developing countries to source more competitively priced inputs that are potentially better suited to national needs than what might be available from tied sources. According to the IATF-FfD, elevated levels of informally tied aid remains a concern. The distribution of aid points towards the continued practice of “informal tying”, as 51 per cent of the value of reported bilateral ODA contracts flowed to firms in the donors’ own countries.⁵

9. The ODA effort of DAC members remains far below the United Nations target of 0.7 per cent of GNI. Whereas five countries met or exceeded that target (Denmark, Luxembourg, Norway, Sweden and the United

⁴ According to the Financial Tracking Service, 16 Arab countries received humanitarian assistance in 2018 (Algeria, Comoros, Djibouti, Egypt, Jordan, Iraq, Lebanon, Libya, Mauritania, Morocco, the State of Palestine, Somalia, Sudan, the Syrian Arab Republic, Tunisia and Yemen). Source: Organisation for Economic Development and Co-operation (OECD) QWIDS.

⁵ OECD, 2018 Report on the DAC Untying Recommendation, DAC Meeting, 11 June 2018 (DCD/DAC(2018)12/REV2) p. 8.

Kingdom), ODA from all DAC countries together was only 0.31 per cent of GNI in 2017, down from 0.32 per cent in 2016.

10. One of the concerns expressed in international development discourse over ODA allocation has been that, while total ODA increased significantly since 2015, countries with relatively greater needs have not proportionally shared that growth. ODA provided to the least developed countries (LDCs) in 2017 increased by 10.2 per cent in real terms over 2016. However, this mainly reflected increases in aid flows for humanitarian assistance to the Democratic Republic of Congo, Somalia and Yemen. Overall, ODA to LDCs accounted for only 0.06 per cent of DAC members' GNI in 2017, and only three DAC members provided more than the United Nations target of 0.15 per cent of GNI in aid to LDCs (Luxembourg, Norway and Sweden).

11. Since 2010, the overall share of grant-based ODA has declined according to the IATF-FfD, as there has been an increase in the use of concessional loans, raising the question of whether ODA may be contributing to the build-up of debt in developing countries. During the period 2010-2012, loans made up an average 12.4 per cent of gross bilateral ODA disbursements, rising to an average of 15.2 per cent during 2016-2017. Over 60 per cent of the ODA financing of projects in the economic infrastructure and services sector were in the form of loans during 2013-2017, mainly in the transport and energy sectors (75.9 and 68.1 per cent, respectively), and to a lesser extent the communications sector and banking and business sectors (36.8 per cent and 25.6 per cent, respectively). The share of loans and, more generally, the degree of concessionality of ODA remains a concern for countries that are graduating from the LDC category.

12. In 2018, official development assistance was reported based on a new discounted rate and "grant equivalent" methodology, instead of on the cash flow basis that had been previously used. The new measure counts the grant (or concessional) portion of an official loan from issuance, instead of its full face value, but does not net out interest payments from countries to donors.⁶ In other words, both principal and interest payments are taken into consideration, but discounted to the value they represent in today's money. According to this methodology, 2018 net ODA by DAC member countries amount to \$149.3 billion, down 2.7 per cent from 2017 in real terms. The implementation of the ODA grant-equivalent methodology adds 2.5 per cent to 2018 ODA levels for all DAC countries combined,⁷ with impacts on individual country figures ranging from 40.8 per cent (Japan) to -3.5 per cent (Germany).⁸

13. The Action Agenda calls upon multilateral development banks (MDB)⁹ to increase lending in support of sustainable development. In 2017, total lending by MDBs – including the World Bank, regional development banks, and other multilateral and intergovernmental agencies reached \$63.0 billion, out of which \$22.5 billion was concessional. Between 2012 and 2016, multilateral funding grew by 27.7 per cent. This was driven mainly by the increase of non-concessional lending from MDBs, funded through capital markets and loan repayments. As a result, the share of grants and concessional lending in multilateral lending has declined.¹⁰

⁶ The new "grant-equivalent" ODA figures are not comparable with historical data; the OECD will continue to publish data according to the cash flow basis, but the headline reporting of ODA will be based on the new methodology.

⁷ Donor Tracker, "The OECD's new way of counting ODA loans-what's the impact?", June 2019.

⁸ OECD, "Development aid drops in 2018, especially to neediest countries", 10 April 2019.

⁹ Multilateral development banks (MDBs), the United Nations Development System and vertical funds such as the Global Fund to Fight Aids, Tuberculosis and Malaria and the Global Alliance for Vaccines and Immunization (GAVI), together form a second pillar of international development cooperation. In 2017, two South-led development banks have joined the family of MDBs: the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB).

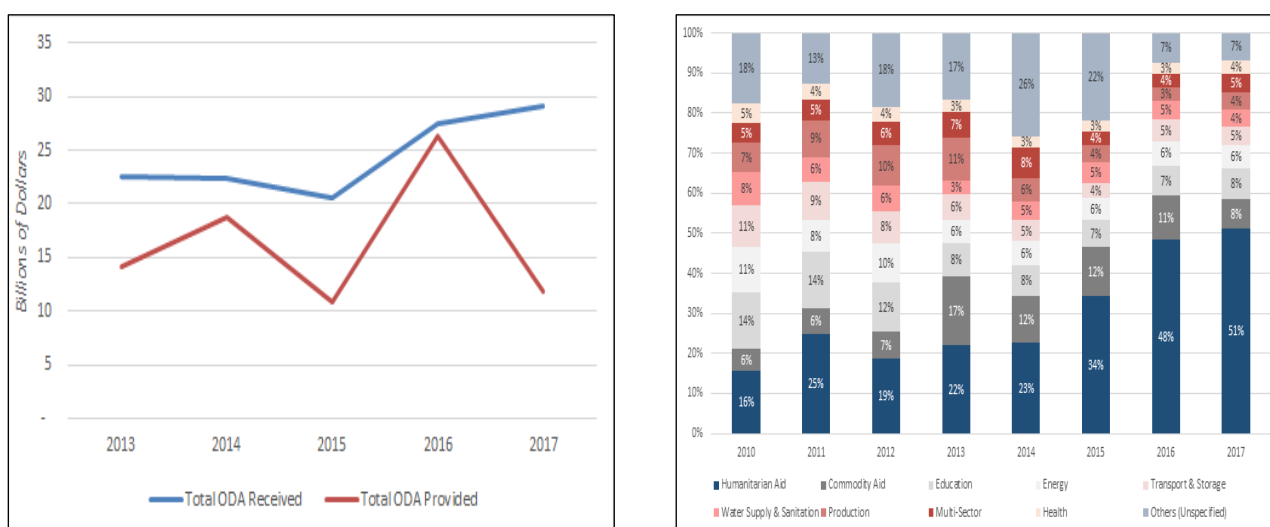
¹⁰ OECD, *Multilateral Development Finance: Towards a New Pact on Multilateralism to Achieve the 2030 Agenda Together*, (Paris, 2018), pp. 34-35.

II. DEVELOPMENT COOPERATION: REGIONAL REALITIES

14. In 2017, Arab countries (namely the GCC countries, excluding Bahrain) provided a total of \$11.9 billion in ODA representing a decrease of 54 per cent from the \$26.2 billion registered in 2016. ODA provided by Saudi Arabia and the United Arab Emirates represented nearly 95 per cent of the entire Arab ODA allocations. The accrued ODA provided by Arab countries (six GCC and three non-GCC countries) between 1970 and 2017 reached \$241.7 billion. In 2017, ODA from Arab countries represented 75 per cent of non-DAC ODA, and 8 per cent of total reported DAC ODA. In 2017, the ODA as a percentage of GNI for Saudi Arabia and UAE reached 1.14 per cent and 0.87 per cent respectively, surpassing the 0.7 per cent target level.¹¹

15. In 2017, total ODA received by Arab countries amounted to \$29.1 billion compared to \$27.3 billion in 2016 or 17.2 per cent of the entire ODA envelope for that year (ODA provided by DAC, non-DAC including \$5 billion from Arab bilateral donors, multilateral agencies and private donors). The numbers reflect a 6.2 per cent increase from 2016 levels. However, most of the increase was in the form of humanitarian assistance while education and sanitation sector ODA allocations dropped reflecting a downward trend since 2010, whereas ODA directed on health remained stable (figure 2).

Figure 2. Arab official development assistance, received by sector, 2012-2017



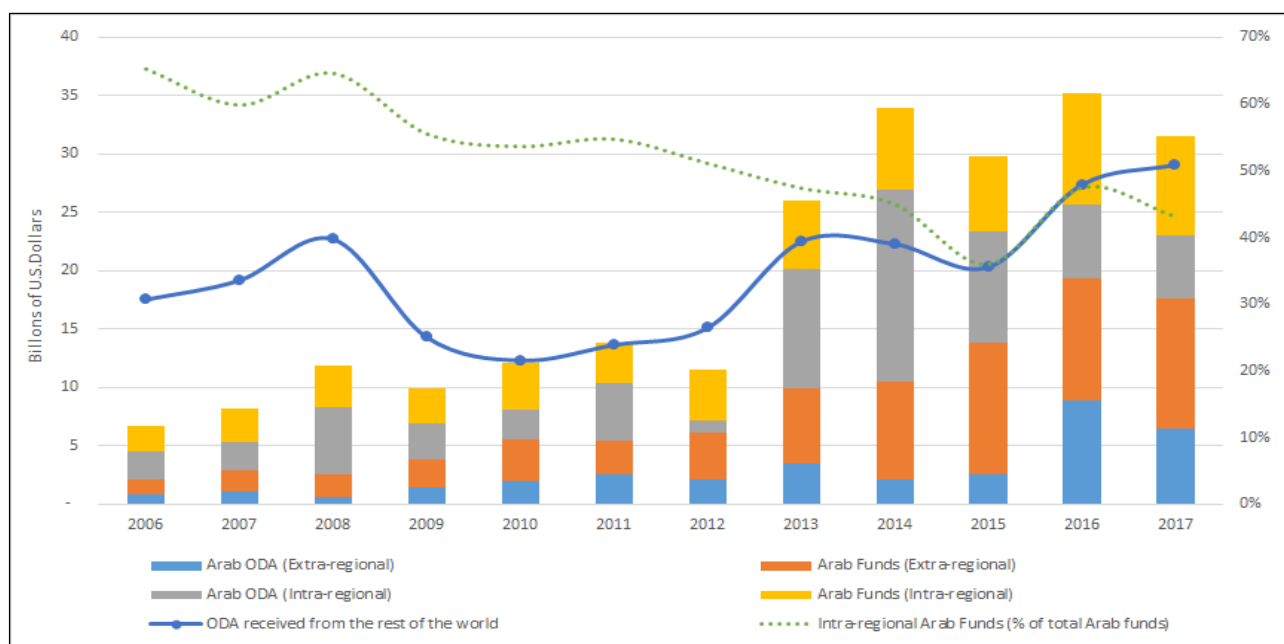
Source: ESCWA based on the OECD (received) and AMF (provided); Source by Sector: QWIDS. (billions of United States dollars, current).

16. In 2017, the Arab Coordination Group provided \$19.7 billion in development assistance in the form of loans and aid (figure 3). This level represents a 1.5 per cent decrease of \$0.3 billion from 2016 figures. Less than half of Arab funds ODA disbursements were directed to Arab countries which received \$8.5 billion or 43.2 per cent of the total aid provided by the Arab Coordination Group. Most of these flows focused on supporting infrastructure projects with an emphasis on energy. Energy projects received \$6 billion, roughly 30.7 per cent of total flows during 2017.¹²

¹¹ Arab Monetary Fund, The Joint Arab Economic Report 2018 (Abu Dhabi, 2018).

¹² Arab Monetary Fund, The Joint Arab Economic Report 2018 (Abu Dhabi, 2018).

Figure 3. Arab official development assistance, bilateral assistance, and assistance from Coordination Group institutions, 2006-2017



Source: ESCWA, based on OECD and AMF.

17. The concessionality of bilateral ODA has declined since 2010. In turn, concessional loans have increased. By 2017, concessional loans made up 15 per cent of ODA. According to the IATF-FfD, “these trends reflect the overall shift from social sectors [support] to economic aid for productive investment”. The increase in loans nonetheless raises critical questions as to whether ODA is contributing to the build-up of debt in developing countries. According to the OECD, ODA grants are the most important instrument that Arab countries and institutions use (58 per cent). This is also the case with DAC members (85 per cent) and other providers beyond the DAC that report to the OECD (78 per cent). As it stands and between 2011-2017, the Arab Financing for Development Scorecard finds that, for every \$1 the Arab region received in ODA inflows, 87 cents were returned in ODA elsewhere (both bilateral and Arab funds).
