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

International development cooperation

Summary

Halfway through the 2030 deadline for the Sustainable Development Goals (SDGs), official development assistance (ODA) remains far below the 1970 United Nations target reinstated in the Addis Ababa Action Agenda and in SDG target 17.2. International public financial flows are failing to grow at the pace and scale necessary to serve their intended purposes. Since 2015, unmet ODA commitments have created a development finance gap worth $1.5 trillion. Humanitarian aid and in-donor refugee costs accounted for a fifth of Development Assistance Committee (DAC)-ODA. However, when the cost of hosting refugees in donor countries is discounted, ODA figures seem to be inflated and ODA from 12 DAC countries fell in 2022, with several spending more than half of their ODA outlays to cover the cost of hosting refugees. Moreover, ODA pledges have consistently run higher than actual disbursements, creating a development finance gap worth $185 billion in unspent DAC-ODA between 2011 and 2021.

ODA to the Arab region increased by 20 per cent in 2021 compared to the preceding year, mainly as a result of the growth in Arab bilateral development assistance. Arab ODA contributions have outmatched the development assistance provided by non-DAC countries. ODA from Arab sources (both bilateral and regional) accounted for 34 per cent of the entire region's ODA intake. As a consequence, the share of DAC-ODA in the total development assistance received by the region dropped from 46 per cent in 2020 to 32 per cent in 2021, noting that undisbursed DAC-ODA to the Arab region amounted to $14 billion between 2011 and 2021, representing a hefty lost opportunity for development financing. By 2021, for every dollar that Arab countries received bilaterally from Arab donors, 53 cents of Arab bilateral ODA were channelled to other regions, and through Arab development funds and institutions.

The Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia is invited to consider the global trends and regional realities in the present document, and reflect on the Arab collective action needed to improve the definition, reporting, modes of delivery and effectiveness of international development cooperation to maximize SDG outcomes.

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Introduction

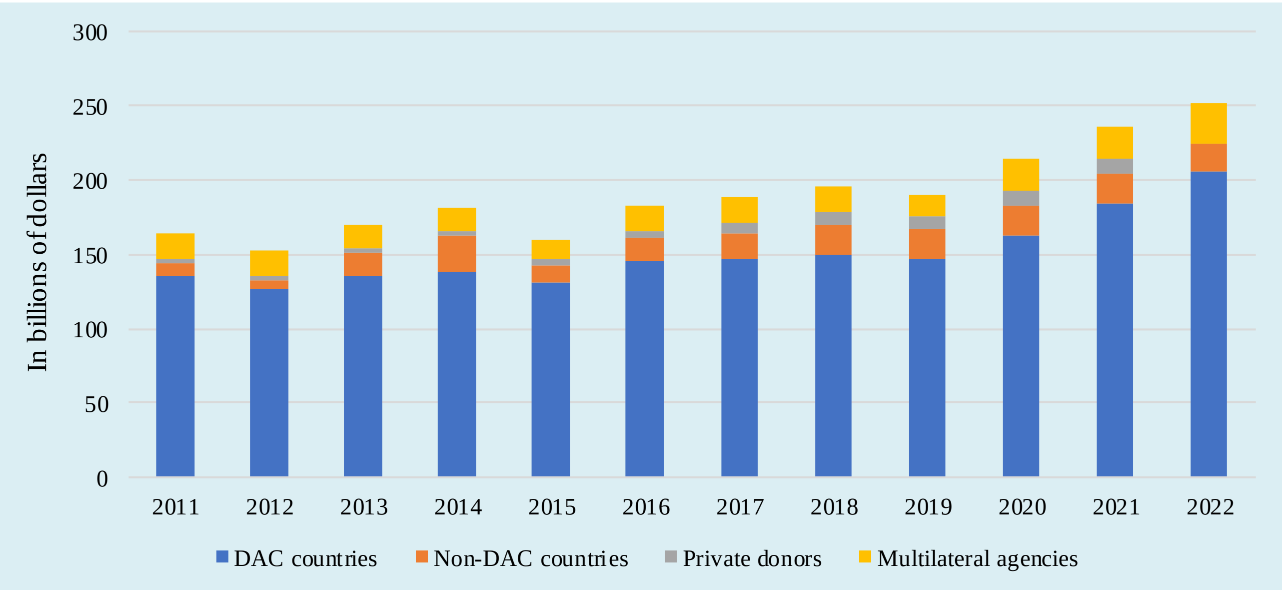
1. The fallout from the COVID-19 pandemic, the war in Ukraine and ensuing food, fuel and climate crises, and a fourth wave of debt accumulation have exacerbated the financing frailties confronting the Arab region. According to the Global Crisis Response Group on Food, Energy and Finance, 60 per cent of workers currently have lower real incomes than before the pandemic, and 60 per cent of the poorest countries are at a high risk of being in debt distress. Collectively, developing countries face a $1.2 trillion annual financing gap to deliver universal social protection.[1] Under these conditions, the Arab region's SDG-financing gap has widened, and the prospects of realizing sustainable development ambitions by 2030 are dwindling. The scale and scope of meeting development finance targets, including climate related ones, remains insufficient to attend to the region's financing rifts and financing inequalities.

Assessing international development finance

Global trends and regional realities

2. Official Development Assistance (ODA) from countries of the Development Assistance Committee (DAC) increased by 11.4 per cent, amounting to $206 billion in 2022 (figure 1**Error! Reference source not found.**). Despite this growth, ODA provided by countries of the Organisation for Economic Co-operation and Development (OECD)-DAC averaged 0.36 per cent of their gross national income (GNI), falling short of the 1970 United Nations target reflected in SDG target 17.2, which calls for donor countries to allocate 0.7 per cent of their GNI to development assistance, with at least 25 per cent provided in the form of grants. Among the 31 members of OECD-DAC, five countries met or surpassed their ODA commitments, namely Denmark at 0.7 per cent, Germany at 0.83 per cent, Norway at 0.86 per cent, Sweden at 0.9 per cent, and Luxembourg at 1 per cent. The opportunity cost of unmet DAC ODA obligations since 1970 for low-income and middle-income countries is estimated at $6.5 trillion.

Figure 1. ODA by donor, 2011–2022



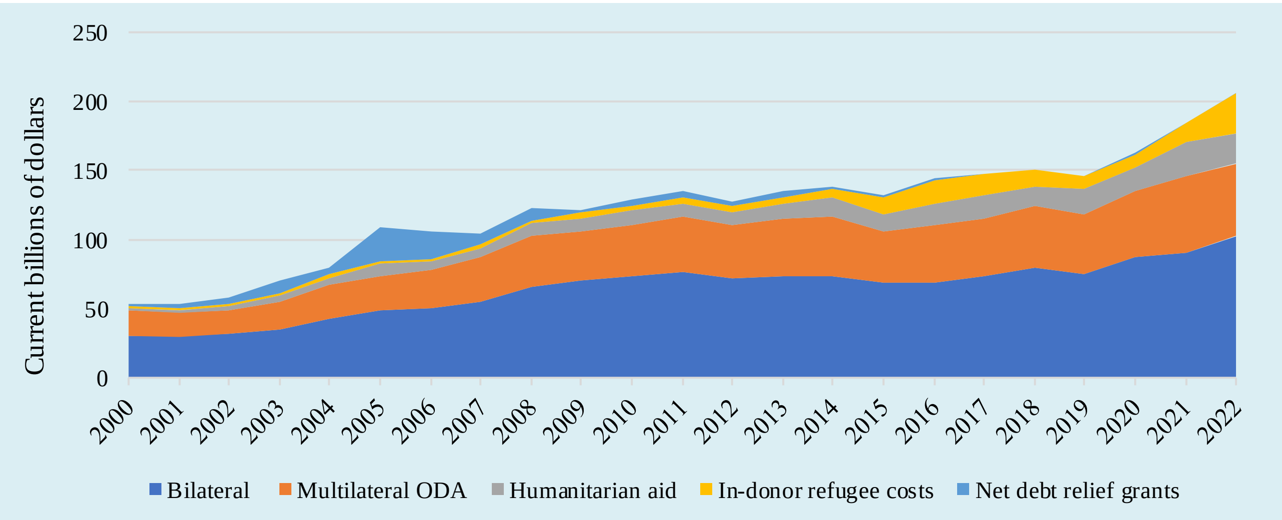
Source: Compiled by ESCWA based on the OECD database.

[1] To guarantee basic social protection, low-income countries would need to invest an additional $77.9 billion per year, equivalent to 15.9 per cent of their gross domestic product (GDP) (*Source*: International Labour Organization, World Social Protection Report 2020–22: Social protection at the crossroads- in pursuit of a better future, 2021).

3. Beyond the headline figures, the cost of hosting refugees in donor countries amounted to $29.3 billion or 14.3 per cent of DAC-ODA in 2022. This is higher than the 2016 record witnessed against the backdrop of the war in the Syrian Arab Republic. The highest costs, as a share of their respective ODA contributions, were recorded by Poland (65 per cent), Czechia (65 per cent) and Ireland (51 per cent). When these in-donor costs are discounted, it appears that ODA from 12 DAC countries fell in 2022.[2] Net debt relief, which does not necessarily involve new aid transfers and COVID-19 support, were counted as ODA and mostly provided as loans amounting to $61.8 million (figure 2). Humanitarian aid reached $22.3 billion, while contributions to core budgets reached only $4.7 billion, constituting 2.3 per cent of total DAC-ODA. Support to Ukraine amounted to $16.1 billion or 7.8 per cent of total ODA. Humanitarian aid and refugee in-donor costs witnessed the largest increase, both rising by roughly 40 per cent. The reporting of costs that do not necessarily belong to ODA in 2022, including debt relief[3] ($116 million), in-donor refugee costs ($29.3 billion) and vaccine donations ($1.5 billion) allowed DAC donors to overestimate ODA figures by $30.9 billion (or almost 15 per cent of their total ODA).[4]

4. ODA inflows to 16 Arab low-income and middle-income countries in 2021 amounted to $48 billion.[5] In terms of growth rates, ODA to the region increased by 20.4 per cent overall, mostly led by growth in ODA of Arab countries and multilateral agencies[6] (figure 3). Arab donors' ODA contributions have outmatched the development assistance provided by non-DAC countries. ODA from Arab sources (bilateral and regional development funds and institutions) accounted for 34 per cent of the region's entire ODA intake.

Figure 2. Components of DAC countries' ODA, 2000–2022



Source: Compiled by ESCWA based on the OECD database.

[2] Australia, Czechia, Denmark, Finland, Greece, Hungary, Italy, New Zealand, Norway, Sweden, Switzerland, and the United Kingdom of Great Britain and Northern Ireland.

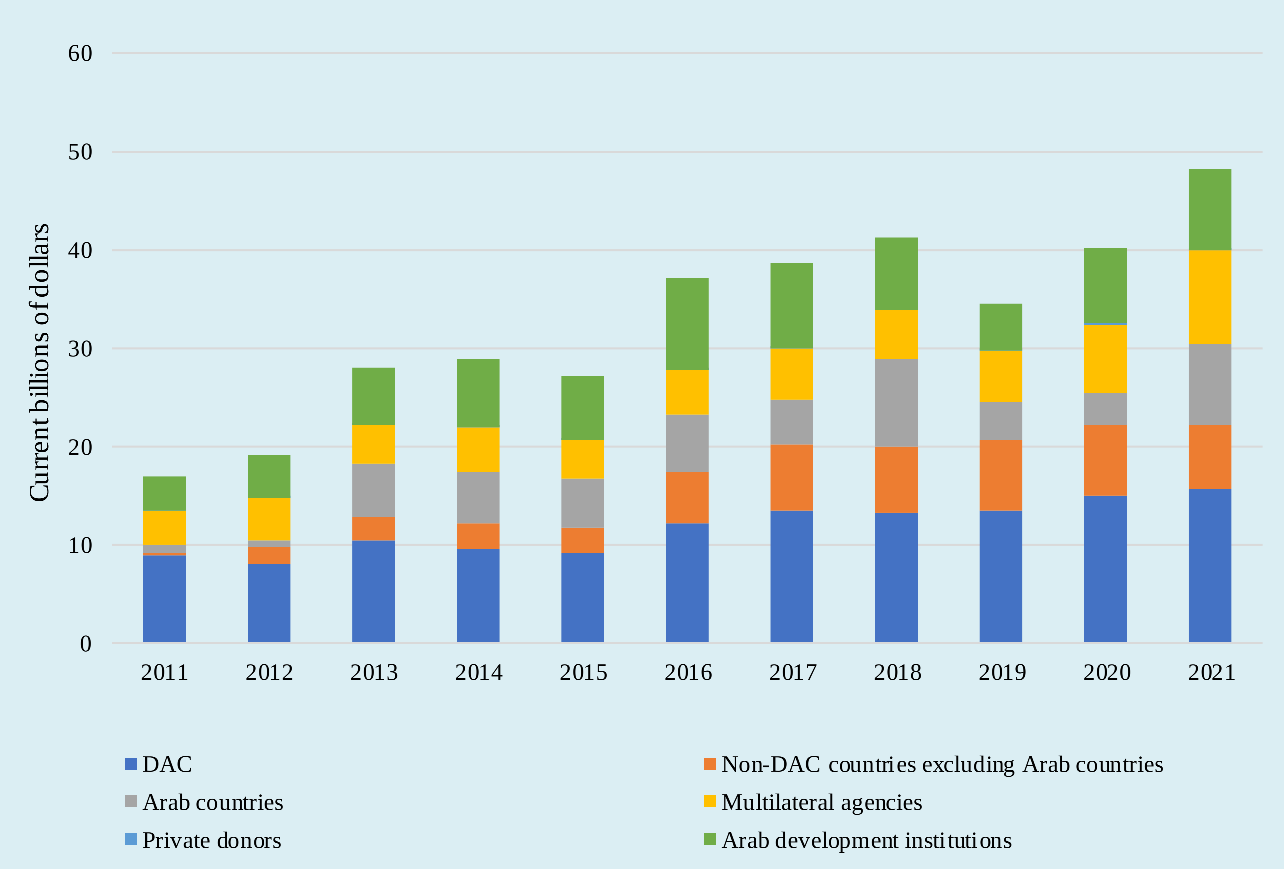
[3] In 2020, a decision by DAC was adopted that allows additional ODA to be reported when donors cancel or reschedule their ODA loans to developing countries.

[4] European network on debt and development, Little to celebrate: An assessment of Official Development Assistance in 2022 (June 2023).

[5] This estimate includes the commitments of Arab development institutions: the Islamic Development Fund, the Abu Dhabi Fund for Development, the Organization of Arab Petroleum Exporting Countries (OAPEC) Fund, the Saudi Fund for Development, the Arab Fund for Economic and Social Development, the Kuwait Fund, the Arab Monetary Fund (AMF), the Arab Bank for Economic Development in Africa, the Arab Gulf Programme for Development (AGFUND), and the Qatar Fund for Development.

[6] Multilateral agencies include European Union institutions, the International Monetary Fund, regional development banks, the United Nations, and the World Bank.

Figure 3. ODA flows to Arab countries by source, 2011–2021



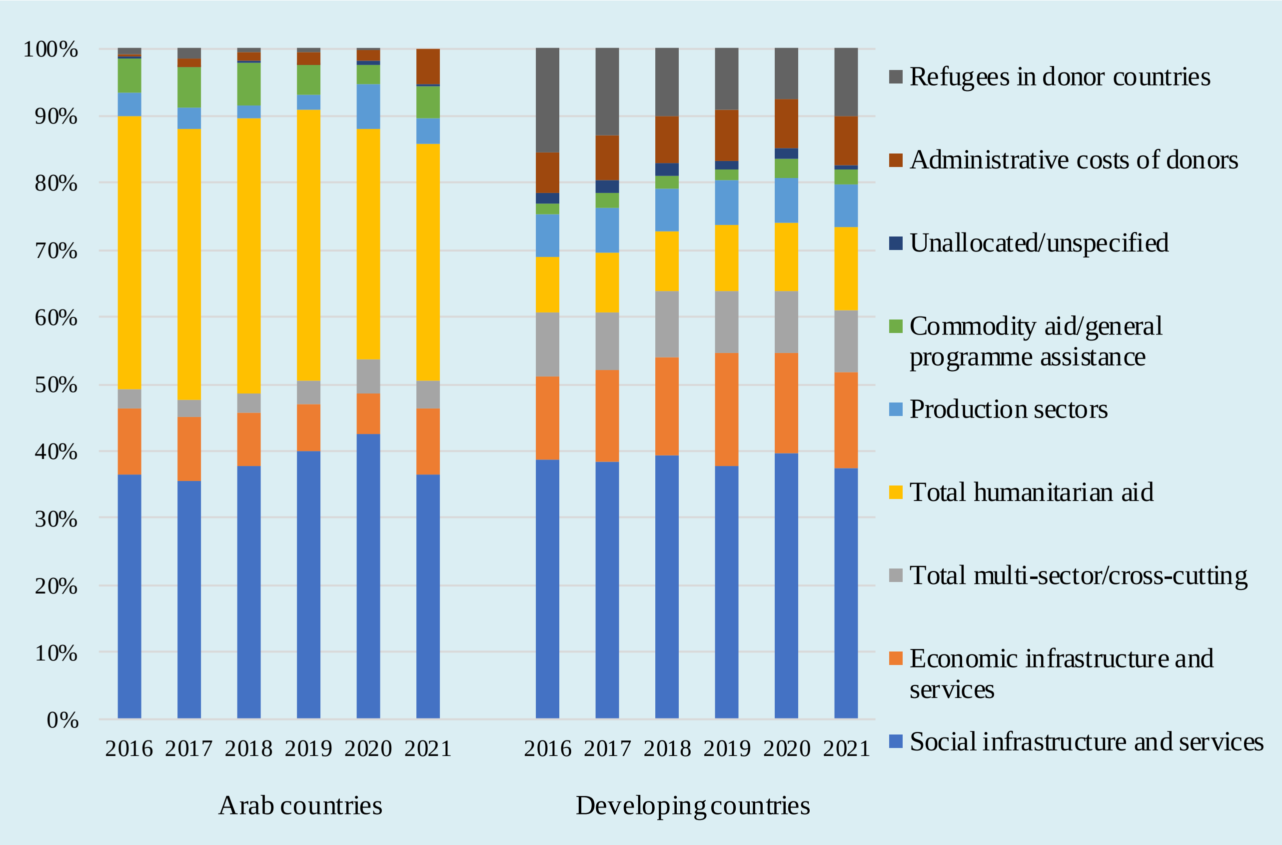
Source: ESCWA, based on OECD and AMF.

5. A more detailed analysis of ODA received by Arab countries from DAC shows that 72 per cent of the committed ODA was allocated as humanitarian aid, and for social infrastructure and services (figure 4). Humanitarian aid continues to account for a large share of the overall ODA received by Arab countries. More long-term solutions to regional instability could improve the region's ODA configuration and its ability to address humanitarian emergencies. Six Arab countries (Egypt, Jordan, Somalia, the Sudan, the Syrian Arab Republic and Yemen) were among the top 20 ODA recipient countries, with the share of humanitarian and social infrastructure assistance in the region's ODA intake being the highest among other priorities.

6. ODA pledges consistently run higher than disbursements. Over the period 2011–2021, the gap amounts to $185 billion globally. For the Arab region, the gap amounts to $14 billion over the same period. This can be seen as a lost opportunity in financing.

7. Non-DAC ODA amounted to $17.8 billion or 7.1 per cent of total ODA in 2022, of which Arab bilateral ODA accounted for half (excluding Arab development institutions). In turn, ODA received by Arab countries from non-DAC countries reached around $14.6 billion, which accounts for 82 per cent of the world's global non-DAC countries development assistance. While ODA from DAC countries to the Arab region increased by only 4 per cent, the share of DAC ODA in the total ODA received by the region dropped from 46 per cent in 2020 to 32 per cent in 2021. Multilateral ODA to Arab countries increased by $2.4 billion, representing 19.7 per cent of total ODA.

Figure 4. Distribution of DAC ODA by sector



Source: ESCWA, based on OECD.

8. The $100 billion climate finance commitment made by developed countries to support developing countries on climate action is far from bridging the annual $1 trillion in external climate financing needed by 2030 for emerging and developing countries other than China.[7] The insufficiency in financing for climate mitigation and adaptation, along with the current geographically unbalanced climate financing, calls for an increase of improved financing for climate resilience.

9. Over 75 per cent of global climate finance flows were raised and spent domestically in advanced economies.[8] Geographically, East Asia and the Pacific, Western Europe and Northern America received 75 per cent of the total financing. In contrast, the regions that were contributing the least to greenhouse gas emissions were most vulnerable to climate change, such as Africa, which received less than 5 per cent of climate finance. Shadow reporting on climate finance suggests that climate finance is overcounting actual finance available to developing countries. According to experts, the value of climate finance provided was only about a third of that which was reported (the reported value of climate finance was $83.3 billion in 2020, while the actual value was only $21–$24.5 billion)[9] owing to an overestimation of the climate relevance of funds, where mitigation and adaptation were not the central objective of the reported project or programme.

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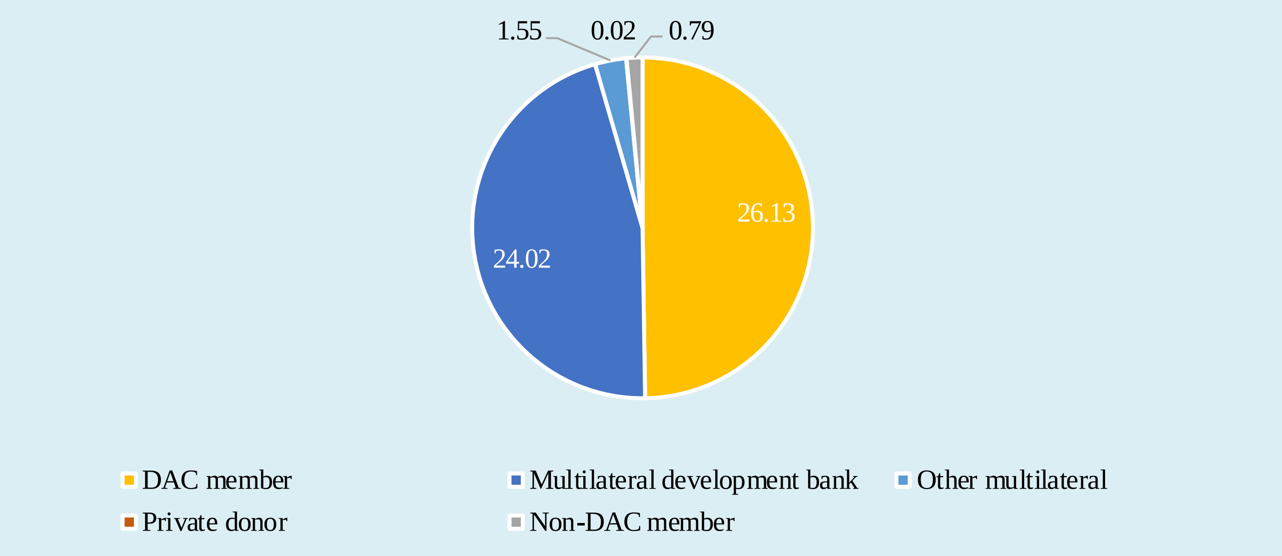
[7] Report of the Independent High-Level Expert Group on Climate Finance, Finance for climate action Scaling up investment for climate and development, 2022.

[8] Climate Policy Initiative, Global Landscape of Climate Finance 2021, December 2021.

[9] Report of the United Nations Secretary-General, Trends and progress in international development cooperation, 2023.

Figure 5. Climate-related development finance commitments by provider type to the Arab region (Current billions of dollars)



Source: Compiled by ESCWA based on the OECD database entitled "Climate-related development finance datasets".

10. From 2011 to 2021, total climate-related development finance to the Arab region amounted to a total of \$52 billion.[10] Approximately 60 per cent of these funds were allocated to mitigation efforts, while the remaining 40 per cent were directed towards adaptation initiatives. Notably, commitments from DAC-ODA accounted for 50 per cent of the overall amount, with multilateral development banks emerging as the second major source, representing 46 per cent of these commitments (figure 5). Moreover, grants constituted approximately 25 per cent of total commitments during the same period.[11] However, it is evident that the current pace of climate financial support falls significantly short of meeting the estimated climate finance requirements for the Arab region, which are projected to amount to \$570 billion by 2030.[12]

11. Double counting of climate finance and ODA must be reconsidered. The line between ODA and climate finance is thin. It is important that financial commitments on both sides are fulfilled. For example, a recent study shows that between 2011 and 2018, only 6 per cent of climate finance provided by developed countries was new and additional to ODA.[13] Climate-related development assistance is not part of the United Nations target of allocating 0.7 per cent of DAC countries' GNI as ODA. Thus, climate finance should remain additional to DAC-ODA commitments, while Arab countries need to strengthen efforts to develop robust climate finance projects and mainstream climate considerations into development cooperation. These efforts can facilitate climate finance mobilization from multilateral development banks, other multilaterals, and the private sector.

12. In 2021, for every dollar of bilateral Arab ODA received by Arab countries, 53 cents of Arab ODA were channeled to other regions. Moreover, for every dollar in development assistance committed from national and regional Arab development funds and institutions, \$1.22 more were pledged to other regions. Whereas for every dollar disbursed by Gulf Cooperation Council countries (Kuwait, Qatar, Saudi Arabia and the United Arab Emirates) as development assistance within the Arab region, 20 cents were paid out to other territories.

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[10] Current dollars.

[11] Estimates based on climate change: OECD DAC external development finance statistics.

[12] The Comoros, Djibouti, Egypt, Iraq, Jordan, Mauritania, Morocco, the State of Palestine, Somalia, the Sudan and Tunisia.

[13] Care, New and additional climate finance contributed in 2018, 2021.

13. Over the years, OECD-DAC introduced several amendments to how ODA is calculated. Some of these amendments have led to improvements in the quality of ODA, including recommendations to untie ODA, while others inflated ODA figures by including debt relief granted to creditors, excess vaccine donations and expenditures on hosting refugees, albeit none of these represent a transfer of funds to developing countries. In 2021, OECD-DAC began to revisit how ODA is measured, whereby only the grant element in loans would be reported as ODA. The rules also include thresholds for the grant element that can be reported as ODA: 45 per cent for low-income countries, 15 per cent for low-middle-income countries, and 10 per cent for upper-middle-income countries.

14. A United Nations high-level panel was appointed in February 2022 to develop a multidimensional vulnerability index (MVI). If accepted as the pre-eminent measure of assessing vulnerability, it could lead to application of MVI by donors as a complementary criterion to income per capita. Vulnerability depends on three categories of factors: the magnitude and frequency of exogenous shocks, a country's exposure to these shocks, and its capacity to cope with them (known as resilience). MVI risk informed development cooperation would involve a shift in the allocation of financial and non-financial resources, including concessional financing, technical assistance, capacity-building, technology transfer and skills sharing, towards resilience-building measures for the most vulnerable. However, special attention must be paid to financial assistance that does not exacerbate the heavy debt burdens already borne by many countries. The Development Cooperation Forum argues that an internationally agreed index would provide an opportunity for countries to better communicate their vulnerabilities using standardized metrics.

15. The 2023 Financing Sustainable Development Report highlights the following considerations and issues to review as the international community approaches the 2030 deadline:

- The volume of ODA commitments and disbursements should be fulfilled in line with existing targets, and grant element thresholds should be met and scaled up to prevent backtracking and avoid having non-concessional ODA become another factor adding to the debt build-up in developing economies.

- Additional support for Ukraine, post-conflict reconstruction needs, and in-donor refugee costs should not come at the expense of cross-border ODA flows to countries in need.

- Traditional ODA cannot equate to South-South cooperation due to differences in historical context, scope and motivation. The two strands entail significant divides, such as on solidarity, equality, mutual benefit, respect for national sovereignty and non-interference in domestic affairs, as well as conditionalities related to human rights, good governance and democracy.

- Curbing growing food crises requires both humanitarian aid to address immediate needs, and development assistance to tackle the structural causes of food insecurity.

- Better targeting of international development cooperation is needed, both in terms of recipients (as fiscally constrained and debt-vulnerable countries need more concessional resources and grants), and to sustain support to social sectors (there are concerns that some Governments will spend less on health between now and 2027 than they did in the pre-pandemic period due to rising debt payments).

- Blended finance can be mobilized by recapitalizing multilateral development banks and through balance sheet optimization to scale their lending to help meet the broader demand of the private sector for development financing.

- Blending should be aligned with country priorities and be part of broader national sustainable development strategies.

- Analysis should always be conducted to measure the cost of blending versus other financing mechanisms, and to ensure that the public sector is not overcompensating the private partner.

- Emphasis must be placed on providing grants and other concessional finance instead of loans to climate-vulnerable countries to ensure that further debt burdens are not imposed.
- Integrated national financing frameworks (INFFs) can help developing countries to lay out the best use of development cooperation resources and the appropriate mix of public and private finance to support their national sustainable development priorities.
- Climate finance can be mobilized through a range of instruments from a variety of sources, international and domestic, public and private. Most developing countries consider climate financing as entitlement rather than aid. They think that it should be considered as an obligation for those who caused the emissions historically and should not be structured as repayable loans.
- Climate-related development assistance should not be counted as part of the United Nations target of allocating 0.7 per cent of DAC countries' GNI as ODA. Yet, OECD countries report resources provided to other countries as ODA based on specific criteria, rather than relying on channels or terms through which they are provided.
- A key agreement was that climate financing should be "new and additional" and not at the cost of the SDGs. Resources prioritizing climate at the cost of non-climate development finance increase the vulnerability of a population for any given level of climate shocks, and additionality of climate financing is thus essential.[14]
- According to the United Nations Framework Convention on Climate Change (articles 4.3 and 4.5) developed countries committed to provide "new and additional" financial resources for climate action, although it is difficult to separate climate action from development action, particularly in the case of adaptation.
- To enhance country ownership, donors should entrust more ODA to Governments of developing countries.
- Vulnerability, if properly defined, can be a complementary criterion, but cannot be the sole criterion for allocation or to determine eligibility. MVI must account for multidimensional vulnerabilities not only related to climate change, and should go beyond capturing the contexts of Small Island Developing States.

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[14] Intergovernmental Panel on Climate Change, Climate Change 2022: Mitigation of Climate Change, 2022.