International development cooperation in numbers

ODA has risen to record highs in recent years, but still falls short of commitments and is under pressure to respond to growing crisis response needs.

MDBs have significantly expanded their lending over the last 20 years; scaling up their resources is critical to meet heightened demands.
While blended finance has grown over the last decade, amounts mobilized remain far below expectations.

Mobilization of climate finance falls short of what is needed to effectively address the scale of climate challenges and remains grossly inadequate for the most vulnerable countries.

Global progress in improving quality, impact and effectiveness of development cooperation has been mixed, with less than half of ODA channelled through the public sector of recipient countries.
International development cooperation has grown since the adoption of the Monterrey Consensus in 2002. At the same time, the demands on development cooperation have increased substantially, largely due to the ever-growing impacts of the climate crisis and an expanding and more ambitious global development agenda. Most recently, the COVID-19 pandemic, conflict and the cost-of-living crisis have placed unprecedented demands on international development cooperation. Urgent action is needed to boost all types of international development cooperation and to use them as effectively as possible, not least by fulfilling long-standing commitments on official development assistance (ODA) and climate finance.

ODA has reached new highs but still falls short of both needs and commitments and is under pressure to respond to growing demands. In 2022, ODA provided by members of the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) reached $211 billion. ODA has more than doubled in real terms compared to the start of the new millennium. Yet, in a more crisis-prone world, there are concerns that growing expenditure on refugees and humanitarian aid as well as climate mitigation is cutting into support for long-term investments and other development priorities. This highlights the urgent need to increase the total ODA envelope to ensure that additional resources are available to address mounting challenges, and that these resources are targeted appropriately to countries most in need. Collectively, donors have also continued to fall short of ODA commitments, with a decreasing number of countries—four in 2022—meeting the United Nations target of providing 0.7 per cent of gross national income (GNI) as ODA.

Countries that are particularly vulnerable to the adverse effects of climate change and to debt vulnerabilities, such as least developed countries (LDCs) and small Island developing States (SIDS) need more concessional resources and grants. To better take into account the vulnerabilities of such countries, measures of vulnerability could be considered to inform allocation decisions for concessional financing. At the same time, innovative financing instruments and mechanisms should be explored to raise additional resources for financing sustainable development. The Fourth International Conference on Financing for Development could build on recent and renewed interest in innovative financing to bring mechanisms to scale.

Multilateral development banks (MDBs) are in a unique position to accelerate investments in sustainable development. MDBs remain a critical source of affordable, long-term finance for developing countries as well as countercyclical support in times of crisis. At the same time, the paid-in capital bases of MDBs have not increased in line with the expansion of the global economy or growing investment needs. Recent global shocks have increased the urgency for MDBs and their shareholders to review their scale, roles and functions to adapt and respond to the challenges in achieving the SDGs. In response, the MDBs have begun to undertake a wide range of reforms to expand their financial capacity and enhance their development impact, including through addressing global public goods, aligning lending and operations with the SDGs and improving the measurement of development and climate impact. The upcoming 21st Replenishment of the World Bank’s International Development Association (IDA), which is the primary source of concessional finance for LDCs and other lower-income countries, will need to be the largest ever to help meet SDG financing needs. The Fourth International Conference on Financing for Development should galvanize progress on these efforts to achieve ambitious outcomes.
Development cooperation needs to step up its political and financial engagement in mobilizing other (public and private) financial resources for sustainable development. The Addis Ababa Action Agenda recognized the importance of international public finance as a catalytic force. While there have been many good examples of the galvanizing effect of development cooperation, these remain too limited in scale and scope. Political engagement at home as well as technical assistance is needed to ensure that development cooperation helps to mobilize other resources, for example additional tax revenue by providing capacity support in this area, sustainable finance by deepening local markets, and mobilization of private investment at scale and for impact through a new approach to blended finance focused on impact. Support for sustainable trade and responsible business conduct can ensure that trade and investment flows contribute to sustainable development.

Climate finance—and the alignment of international development cooperation with climate and biodiversity goals—are not keeping pace with the escalating impacts of climate change. While climate finance has grown over time and an increasing share of climate-related development finance also targets biodiversity goals, commitments have yet to be fully met. Climate finance flows, mainly adaptation finance, remain grossly inadequate particularly for the most vulnerable countries, causing a further widening of the financing gap. While the creation of the Loss and Damage Fund marks a historic milestone, more financial commitments will be crucial. At the same time, the increasingly complex and fragmented global climate finance architecture has not only created monitoring and reporting challenges, but has also made coordination and access to finance more difficult for developing countries, particularly LDCs and SIDS. Several proposals have been put forward to improve the climate finance governance structure. Concerns also remain over how to ensure the additionality of support for climate change mitigation and other areas that have a global public good character. The Fourth International Conference on Financing for Development provides an opportunity to address these challenges, including additionality, and ensure that climate finance is effectively delivered at scale.

The effectiveness of development cooperation must be revitalized to pursue better development results and strengthen trust in a rapidly changing financing landscape. International development cooperation has changed in multiple ways over the last decade, with a more diverse set of providers, different modalities and more complex instruments, which have increased burdens on developing countries. Amid all these changes, delivering support effectively remains as important as ever, including to better allocate and mobilize more resources, while paying more attention to the quality, impact and effectiveness of development cooperation, which has been lagging.

This chapter will provide a brief overview of ODA trends over the past two decades within the context of a more crisis-prone world. It then elaborates on the role of MDBs, including as critical sources of affordable long-term finance to developing countries. The chapter also discusses developments in the area of blended finance and mobilized private finance and concludes with a discussion of South-South cooperation and finance for climate change and biodiversity.

2. Official development assistance

ODA trends in a more crisis-prone world

While ODA has risen to record highs in recent years, it has failed to keep pace with escalating needs and continues to fall short of commitments. ODA levels have risen significantly over the past three years, driven by responses to multiple crises. In 2022, ODA provided by members of the OECD DAC rose by 17 per cent in real terms to reach an all-time high of S211 billion, as calculated by the new grant-equivalent measure (figure III.C.1). However, this sharp increase was largely attributed to a surge in donor countries’ spending on processing and hosting refugees, as well as aid for Ukraine. ODA to Ukraine from DAC countries surged from less than $1 billion in 2021 to $17.8 billion in 2022. Excluding in-donor refugee costs, ODA in 2022 increased by 7.3 per cent in real terms compared to 2021.

Recent increases in ODA continue a broader upward trend since the adoption of the Millennium Declaration in 2000. Based on the previous cash-flow methodology, total net ODA to developing countries has more than doubled in real terms compared to two decades ago (figure III.C.2). However, most OECD DAC members are not meeting their international commitments. Since 2000, DAC donors, on average, have consistently failed to provide 0.7 per cent of their GNI as ODA and 0.15–0.20 per cent of GNI to LDCs (table III.C.1). In 2022, four donor countries met or exceeded the 0.7 per cent target and only two—Luxembourg and Sweden—met or exceeded both targets.

There are growing concerns that in a more crisis-prone world, persistently higher spending on refugees and humanitarian aid will come at the expense of support for long-term SDG investments. Amid a series of humanitarian crises and more protracted conflicts, in-donor refugee costs and humanitarian aid as a share of total net ODA have increased from just over 9 per cent in 2000 to 25 per cent in 2022 (figures III.C.2 and III.C.3). This trajectory poses a risk of diverting ODA support away from the poorest and other vulnerable countries and from investments in the SDGs and climate action. In 2022, DAC countries’ bilateral aid to LDCs and sub-Saharan Africa fell by 5.2 per cent and 8.6 per cent in 2022.

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**Figure III.C.1**

**Official development assistance, 2018–2022**

*(Billions of United States dollars, 2021 constant prices)*

<table>
<thead>
<tr>
<th>Year</th>
<th>ODA (Grant equivalent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>47</td>
</tr>
<tr>
<td>2019</td>
<td>47</td>
</tr>
<tr>
<td>2020</td>
<td>49</td>
</tr>
<tr>
<td>2021</td>
<td>55</td>
</tr>
<tr>
<td>2022</td>
<td>52</td>
</tr>
</tbody>
</table>

**Source:** OECD Creditor Reporting System database.
As more countries pass per capita income “graduation” thresholds, more efforts are needed across all contexts to ensure a smooth and sustainable transition from requiring international support. In the context of international development cooperation, “graduation” encompasses three separate events, namely, graduation from: i) ODA eligibility; ii) multilateral concessional assistance, including concessional windows at MDBs (see MDB section); and (iii) LDC status. A country’s GNI per capita is a key metric in determining graduation in the first two cases, and also plays a role in LDC graduation (which also includes measurement criteria of allocation frameworks).

There is a need to strengthen the support provided to countries as they undergo graduation in all contexts, including by enhancing emphasis on pre-graduation planning, capacity development and extending exceptional and temporary support measures. As income per capita increases, some countries lose access to concessional finance, which increases the risk of financing gaps in critical areas of sustainable development such as health and education. Graduates that are highly vulnerable to climate-related disasters and shocks and other natural disasters face additional challenges. In response, in the 2020 and 2023 OECD triennial reviews of the DAC list of ODA-eligible countries, several SIDS were granted a delay in their graduation from ODA eligibility. ODA providers are also increasingly including greater flexibilities for different risks and vulnerabilities that graduated countries may encounter. In 2018, the DAC agreed on a set of rules and criteria for reinstating a country that had graduated on the DAC list of ODA recipients, particularly if the country had suffered a large negative per capita income shock. As discussed below, there are exceptions for multilateral concessional assistance that, for example, allow SIDS to access concessional funding even if they exceed income thresholds. However, there is a need to strengthen and institutionalize support provided to countries as they undergo graduation in all contexts. This could include increasing emphasis on mobilization of broader public and private resources, pre-graduation planning, capacity development in areas where financing constraints may be greatest and extending exceptional and temporary support measures for countries in transition.

Vulnerability criteria could be used to complement income measures in allocation decisions for concessional financing. Growing systemic risks and more frequent and severe natural hazards have increased the urgency of incorporating vulnerabilities into access to concessional finance. For SIDS in particular, their small size, remoteness and high vulnerability to climate-related shocks have constrained their capacity to mobilize public resources domestically. Hence, many low- and middle-income SIDS rely on ODA to a significant extent, while other high-income SIDS have seen significant accumulation of external debt. The new Multidimensional Vulnerability Index (MVI), which offers a comprehensive approach to characterize and measure vulnerabilities, could complement income-based criteria to determine more accurately the needs for accessing additional sources of financing and highlights the steps that countries must take to build structural resilience. In its report published in September 2023, the High-level Panel of Experts on a Multidimensional Vulnerability Index for Small Island Developing States found that 70 per cent of SIDS, 63 per cent of LDCs and 50 per cent of landlocked developing countries (LLDCs) scored above the median, highlighting their structural vulnerability and lack of resilience across multiple sustainable development dimensions. However, any decision to incorporate vulnerability criteria in allocation decisions must be carefully analysed for impacts on all eligible countries, and to ensure alignment with the eligibility criteria of allocation frameworks.

The focus areas of ODA allocation have shifted in response to changing global priorities and emerging challenges. CPA, which excludes donor refugee costs, humanitarian aid, debt relief and administrative costs, is the portion of aid that donors can programme for individual countries or regions, and over which partner countries could have a greater say. CPA has declined compared to its peak in 2009, coinciding with the growing focus of aid providers on humanitarian aid and refugee expenditure. In volume terms, CPA to developing countries has increased significantly over the past 20 years, mirroring the overall increase in ODA, and reaching a total of $97 billion in 2022 (figure III.C.4). CPA to most developing regions, including LDCs, LLDCs and Africa, grew at a rapid pace in the 2000s, but declined for many recipient countries in the post-world financial and economic crisis period. Between 2011 and 2019, total CPA to LLDCs and the SIDS contracted at an annual average rate of 1.2 per cent and 3.0 per cent, respectively. Amid the impact of recent crises and competing demands, a more constrained ODA budget environment could further decrease CPA to vulnerable countries.
On a sectoral basis, aid to social sectors remains the largest category of ODA to developing countries. Support to social sectors is crucial to help vulnerable countries strengthen their systems and build resilience to future shocks. Prior to the pandemic, ODA for the social sectors, including health and social protection systems, was on a declining trend, particularly for LDCs, LLDCs and SIDS. This trend has partially reversed over the last three years, driven by responses to COVID-19. Overall, aid flows do not, at the aggregate level, seem to be well matched with recipient country priorities, even though alignment with country priorities is acknowledged to be a key factor in the quality and effectiveness of development cooperation. For example, since 2009, LLDCs have experienced a steady decline in assistance channelled to the transport and storage sector, despite the acute logistical and infrastructure challenges faced by these countries. The adoption of integrated national financing frameworks informed by national development cooperation policies can guide allocation of ODA and other forms of international development cooperation to better support country priorities and national sustainable development strategies.
Figure III.C.4
**ODA by sector, on a cash basis, 2002–2022**
(Billions of United States dollars)

**Developing countries**

**Middle-income countries**

**Least developed countries**

**Africa**

**Landlocked developing countries**

**Small island developing States**

Source: OECD Creditor Reporting System database.

Note: The "Other" sector includes various categories, such as Other Commodity Assistance, Other Multisector, Action Relating to Debt, Humanitarian Aid, Administrative Costs of Donors, Refugees in Donor Countries, and Unallocated/Unspecified.
The share of ODA commitments with gender equality objectives has declined since the pandemic. Since 2011, the volume and share of DAC countries’ ODA commitments with gender equality as a policy objective had steadily increased, reaching $60 billion on average per year or 45 per cent of total bilateral allocable aid in 2019/20 (figure III.C.5). However, while volumes have continued to increase, the share fell to 43 per cent in 2021/22, down from 45 per cent in 2019/20. By sector, the integration of gender equality is particularly weak in the humanitarian and energy sectors despite evidence that integrating gender equality objectives in programming across every sector can strengthen the effectiveness and sustainability of interventions. Amid an increase in competing needs, there are also growing risks of distortion, dilution and diversion of finance, which would affect both the quality and quantity of financing for gender equality. To address this, donor countries should intensify efforts to prioritize gender-focused ODA commitments and enhance gender policy safeguards. Leadership commitment by donors and well-designed adaptive programming are crucial in helping to advance ODA for gender equality.

Amid a rapidly changing development finance landscape, there are multiple ongoing efforts to update and improve measurements of official support. In 2012, the OECD DAC began a process to modernize the way that ODA is measured and reported. The main objectives of this process are to ensure the integrity and comparability of DAC members’ data on development finance, create the right incentive mechanisms for effective resource mobilization and better reflect the changing development cooperation landscape. This includes the increasing significance of non-DAC providers, more diversified financial instruments, the importance of debt sustainability and the growing overlap between development policy objectives and other policy areas.

The DAC clarified the eligibility rules for peace and security (2016) as well as in-donor refugee costs (2017) and migration-related activities (2022), introduced the grant equivalent system for measuring ODA for a fairer reflection of actual efforts by donor countries and a more realistic comparison of grants and loans (2014), reached a consensus on the treatment of debt relief which introduced a hard ceiling equal to the nominal value of the original loan for debt relief of ODA claims (2020), and agreed on revised methods for treating private sector instruments in ODA, which will become effective in 2024. In parallel, there have also been efforts to develop a broader measure of cross-border resource flows beyond ODA and to support to the provision of global public goods as part of total official support for sustainable development (TOSSD) (box III.C.1).

Figure III.C.5
Volume and share of ODA commitments with gender equality and women’s empowerment as principal and significant policy objective, 2011–2022
(Billions of United States dollars, 2021 constant prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume of ODA with gender equality as a principal objective (left axis)</th>
<th>Volume of ODA with gender equality as a significant objective (left axis)</th>
<th>Share of ODA with gender equality objectives (right axis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011–2012</td>
<td>29%</td>
<td>31%</td>
<td>29%</td>
</tr>
<tr>
<td>2013–2014</td>
<td>31%</td>
<td>38%</td>
<td>31%</td>
</tr>
<tr>
<td>2015–2016</td>
<td>38%</td>
<td>42%</td>
<td>38%</td>
</tr>
<tr>
<td>2017–2018</td>
<td>42%</td>
<td>45%</td>
<td>42%</td>
</tr>
<tr>
<td>2019–2020</td>
<td>45%</td>
<td>43%</td>
<td>45%</td>
</tr>
<tr>
<td>2021–2022</td>
<td>43%</td>
<td></td>
<td>43%</td>
</tr>
</tbody>
</table>

Source: OECD Creditor Reporting System database.

i The introduction of the grant equivalent system and of a quantitative definition of concessionality aimed at correcting major inconsistencies in DAC members’ interpretation of the term “concessional in character” within the ODA rules.
An important improvement to the SDG indicator framework was adopted in 2022 with new indicator 17.3.1 on additional financial resources mobilized for developing countries from multiple sources, which includes a clear set of cascading sustainable development criteria to only count flows aligned with the SDGs. It contains six separate sub-indicators for data: a) Official sustainable development grants; b) Official concessional sustainable development loans; c) Official non-concessional sustainable development loans; d) Foreign direct investment; e) Mobilized private finance on an experimental basis; and f) Private grants. The United Nations Conference on Trade and Development (UNCTAD) and the OECD as co-custodians have undertaken to ensure that there are no overlaps in global reporting for this indicator in cases where countries or multilaterals provide their information to both organizations.

**Humanitarian finance**

Large-scale crises and emergencies have driven unprecedented humanitarian needs globally, but funding has not kept pace. Over the past two decades, financing requirements for the United Nations-coordinated humanitarian response plans have risen about 30-fold, from $2 billion in 2000 to a record high of $57 billion in 2023. The growth in humanitarian finance needs has accelerated in recent years due to the war in Ukraine, protracted armed conflicts, the global food crisis, the climate crisis and increasingly frequent disasters, as well as health epidemics (including COVID-19, Ebola, cholera and monkeypox). It is estimated that 300 million people worldwide are in need of humanitarian assistance in 2024, close to double the 168 million in 2019. With the rise in humanitarian needs far outpacing funding, the humanitarian financing gap has widened to its highest level ever (figure III.C.6). In 2023, only one third of requested funding was received, with the first decline in funding in 13 years. With competing pressures on aid budgets, there is a high risk that new emergencies will both remain underfunded and further divert resources away from longer-term development funding and support for existing crises, including in the African continent. This requires comprehensive action to reduce risk, address root causes and build resilience in humanitarian contexts.

**Progress in strengthening the humanitarian financing model has been mixed.** Given escalating needs and the evolving nature of crises, the international community has continued to explore new ways to improve the efficiency and effectiveness of humanitarian aid. Established in 2006, the United Nations Central Emergency Response Fund (CERF) remains a key instrument in funding very early responses to humanitarian emergencies. In 2016, Member States committed to doubling the annual funding target of CERF from $450 million to $1 billion, but contributions have fallen far short of the target, totalling $612 million in 2022. CERF funds now account for just over 1 per cent of global requirements, down from 9 per cent in 2007. The Contingency Fund for Emergencies of the World Health Organization (WHO), which was set up in 2015, has provided rapid responses to disease outbreaks and health emergencies, including the COVID-19 pandemic. Substantial progress has been made in delivering on the commitments of the 2016 Grand Bargain and the reformulated 2021 Grand Bargain 2.0, including improvements in cash assistance coordination, more flexible and multi-year funding, improved joint needs analysis and more harmonized reporting. However, challenges remain in other areas, including a lack of progress in ensuring the participation of affected people and limited direct funding to local and national actors.

**Box III.C.1**

**Broader measures of development support**

Total official support for sustainable development

Initiated by the OECD and developed by an international task force of experts created in July 2017, TOSSD aims to capture both cross-border resource flows to developing countries and support to international public goods and global challenges. It includes concessional and non-concessional support from traditional and emerging bilateral and multilateral finance providers, including South-South and triangular cooperation providers. It also captures private finance mobilized by official interventions. TOSSD data on 2022 flows was published in February 2024, covering activities from 119 respondents, including 58 countries and 61 multilateral organizations. Several pilot studies have also been conducted, including to ensure appropriate review of TOSSD data by developing countries. TOSSD 2022 data includes activity-level information for $438 billion of official support and an additional $62 billion of private finance mobilized by official interventions. TOSSD is one of the data sources for indicator 17.3.1.

From 2024 onwards, the TOSSD standard will be governed by the International Forum on TOSSD with a balanced representation of provider and recipient countries (including dual provider/recipient) and international organizations. Civil society organizations will have a permanent observer seat in all bodies of the International Forum on TOSSD.

**Figure III.C.6**

**Humanitarian response plans, funding gap, 2000–2023**

(Billions of United States dollars)

![Graph showing humanitarian response plans, funding gap, 2000–2023](https://tossd.org/docs/TORS_IFT_Oct_2023_final.pdf)

consequences of anti-money laundering or countering the financing of terrorism standards, or international sanctions, which highly complicates the delivery of humanitarian services. Political will and collective action over the next phase of the Grand Bargain (2023–2026) are needed to accelerate improvements to the humanitarian finance landscape. Innovative measures to expand the humanitarian finance toolbox should also continue to be explored, as called for in the 2016 Agenda for Humanity. These could include scaling up investments in pooled-funding mechanisms like CERF, which can help to simplify and expedite emergency responses.

The most cost-effective actions to tackle growing humanitarian needs are preventative, such as investments in disaster risk reduction, peace and security. Yet, insufficient attention is being paid towards prioritizing such investments. Despite the world experiencing the highest number of violent conflicts since 1945, DAC members’ spending on peacebuilding and conflict prevention in fragile contexts has declined to a 15-year low, accounting for 10.8 per cent ($5.27 billion) of its total ODA in 2021. Countries are recognizing the urgent need to shift away from reactive responses to crises towards scaling up pre-arranged funding, such as through improved joint planning and systematically mainstreaming disaster risk reduction into the humanitarian system. At the same time, anticipatory financing remains limited even when studies have shown that a large number of humanitarian crises are foreseeable.

Enhancing the coherence and complementarity between humanitarian assistance, development co-operation and peace efforts in contexts affected by crises remains critical. The growing prevalence of protracted crises threatens to reverse gains in sustainable development, while blurring the line between humanitarian and development needs. In 2022, four out of five people in need of humanitarian assistance lived in countries experiencing protracted crisis. The New Deal for Engagement in Fragile States by the Group of Seven (G7) Plus, which was endorsed in 2011, laid out a first set of principles to guide development interventions in fragile or conflict-affected situations. In 2017, the United Nations Joint Steering Committee to Advance Humanitarian and Development Collaboration was established to ensure that humanitarian assistance efforts and longer-term sustainable development programmes are more coherent, with the objective to achieve collective outcomes to reduce need, risk and vulnerability. Addressing humanitarian needs and human rights necessitates investments in promoting sustainable development recognizing the pivotal role of resilience.

3. The role of MDBs

MDBs are a critical source of affordable, long-term finance to developing countries and provide essential countercyclical support in times of crisis. The time horizons of MDBs and public development banks (PDBs) are longer than those of private investors, enabling them to provide long-term and concessional financing terms for investments that would otherwise not be competitive on a risk-return adjusted basis. MDBs provide grants, concessional finance and non-concessional finance at below-market rates, including for middle-income countries. MDBs have also provided vital countercyclical support to developing countries in times of crisis, as evidenced by the sharp increase in disbursements following the 2008 world financial and economic crisis and the recent COVID-19 pandemic shock in 2020.

The focus areas of MDB lending have evolved over the past few decades amid a changing global landscape and a more diverse set of development priorities. Historically and in line with their original mandates, the primary focus of many major MDBs, such as the World Bank’s International Bank for Reconstruction and Development (IBRD) and the Asian Development Bank, was to provide financing for large-scale infrastructure projects. This was broadened to include support for policies and programmes to reduce poverty and strengthen health, education and other human development programmes. In recent years, growing attention has also been paid to alignment with sustainable development and the SDGs, and to considerations of how best to support global public goods such as addressing climate challenges and pandemics.

Over the past two decades, MDB lending has grown significantly, although concessional funding has declined. Annual disbursements increased from $30 billion in 2000 to $96 billion in 2022 (figure III.C.7). The establishment of two South-led multilateral financial institutions over the past decade have provided additional sources of infrastructure finance, while contributing to the strengthening of South-South cooperation (see section 6). While concessional finance as a share of total MDB lending to developing countries rose in the early 2000s, it has since declined from a peak of 35 per cent in 2004 to 13 per cent of total MDB lending in 2022. Similarly, the share of grants to LDCs and SIDS has declined from peaks seen in the 2000s. This trend may reflect the challenge of providing higher volumes of financing with no associated increase in the volume of donor contributions, leading to fewer concessional resources.

The World Bank’s IDA remains the largest source of concessional financing. IDA remains the primary source of concessional financing for lower-income countries. The most recent replenishment of IDA (IDA20) was finalized in December 2021, with a record-high $93 billion financing package for fiscal years 2022 to 2025. In 2023, the World Bank established a new Crisis Facility for IDA aimed at scaling up support for the world’s poorest and most vulnerable countries, including to address food insecurity and extreme climate events. In the face of multiple global shocks, however, the World Bank board has emphasized the need for donor countries to further boost the availability of IDA resources going forward. Further measures to strengthen IDA’s medium- to long-term financing capacity were assessed at the December 2023 mid-term review of IDA20. At that time the next replenishment was launched, and IDA21 negotiations will continue through 2024.

Development banks are in a unique position to accelerate investments in sustainable development. Scaling up MDB resources and better aligning MDB operations with the SDGs is critical to meeting heightened demands. Relative to the size of the global economy and to needs, the financial capacity of MDBs remains limited. With the exception of the African Development Bank, the paid-in capital bases of MDBs have not increased in line with the expansion of the global economy or with growing investment needs (figure III.C.8). The Addis Ababa Action Agenda already stressed that development banks should make optimal use of their resources and balance sheets consistent with maintaining their financial integrity. It also encouraged MDBs to update and develop their policies in support of the sustainable development agenda and establish a process to examine their own scale, roles and functions in order to adapt and better respond to the challenges in achieving the SDGs. Recent multiple global shocks, including the COVID-19 pandemic and the growing
climate crisis, have increased the urgency of such a review. The Group of Twenty (G20) Independent Review of MDBs’ Capital Adequacy Frameworks laid out proposals for the MDBs to optimize the use of their resources and balance sheets. In addition, the SDG Stimulus, the Bridgetown Initiative, the Summit for a New Global Financial Pact, and other initiatives have recognized the potential for PDBs, in particular MDBs, to expand lending to meet the investment needs for sustainable development.

In response, MDBs are undertaking reforms to expand their financial capacity. Efforts to enhance financial capacity include capital management reforms, guarantee programmes and the issuance of hybrid capital (see Table III.C.2 for an overview of measures taken by MDBs). World Bank shareholders agreed to a reform package boosting its lending capacity at its Annual Meetings in October in Marrakech, including through the creation of a portfolio guarantee mechanism, increasing the limits on bilateral guarantees, the launch of a hybrid capital instrument (including via channelling Special Drawing Rights (SDRs), and a lowering of the minimum loan-to-equity ratio of IBRD. Going forward the institution will look at ways to better utilize callable capital. In total, measures being implemented or under consideration across the MDBs could yield $300 billion to $400 billion of additional lending capacity over the next decade.

The rechannelling of SDRs through MDBs has the potential to further expand lending capabilities and is under active consideration. The AfDB jointly with the Inter-American Development Bank (IADB) has put forward an innovative proposal that allows countries to provide their SDRs as hybrid capital, which they can leverage to provide long-term financing for development and climate projects. The instrument would have a multiplier effect, leveraging SDRs by between three to four times, while maintaining the reserve asset status of SDRs. MDBs are already prescribed holders of SDRs. In 2023, the IMF approved five new institutions to be prescribed holders, bringing the total number to 20. While several major countries have expressed interest in channelling SDRs through MDBs, technical challenges remain.

Figure III.C.7

Lending by MDBs, 2000–2022
(Billions of United States dollars, current)


In response, MDBs are undertaking reforms to expand their financial capacity. Efforts to enhance financial capacity include capital management reforms, guarantee programmes and the issuance of hybrid capital (see Table III.C.2 for an overview of measures taken by MDBs). World Bank shareholders agreed to a reform package boosting its lending capacity at its Annual Meetings in October in Marrakech, including through the creation of a portfolio guarantee mechanism, increasing the limits on bilateral guarantees, the launch of a hybrid capital instrument (including via channelling Special Drawing Rights (SDRs), and a lowering of the minimum loan-to-equity ratio of IBRD. Going forward the institution will look at ways to better utilize callable capital. In total, measures being implemented or under consideration across the MDBs could yield $300 billion to $400 billion of additional lending capacity over the next decade.

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Amid mounting challenges to sustainable development, MDBs are also taking steps to better align their lending and business practices with the SDGs and climate action. For example, the World Bank has a new vision to create a world free of poverty on a livable planet. To this end, it will create a Livable Planet Fund by opening the Global Public Goods Fund to governments and philanthropies. Resources from the Livable Planet Fund will be used as part of the framework for providing financial incentives for investments in global public goods, including helping countries to better navigate long-term social and human capital investments and to incentivize the exit from coal as part of energy transitions. A new Corporate Scorecard aligned with the new vision and mission of the World Bank was endorsed by shareholders in December 2023. The World Bank has also expanded its Crisis Preparedness and Response Toolkit with fast access to cash for emergency response, scaled up access to pre-arranged financing for emergency response and expanded catastrophe insurance.

Improving the terms of lending of MDBs, including through the provision of longer-term and local currency loans, can provide more breathing space for developing countries. MDBs are also
considering a range of reforms to adjust the terms of their lending. These include the provision of ultra-long-term loans to allow time for investments to have an impact on economic growth and development, with the World Bank exploring loan maturities of 35 to 40 years to help countries better navigate long-term social and human capital investment. Increasing local currency financing, as is the case with the New Development Bank, can reduce the risk of debt distress arising from currency volatility, while contributing to the lowering the debt risk profile of borrowers. At the same time, the inclusion of climate resilient debt clauses in MDB loan contracts, which is now being pioneered by several development banks, would provide breathing space for countries hit by natural disasters or other exogenous shocks.

Eligibility to MDB concessional windows is primarily based on income per capita, but MDBs have increasingly incorporated elements of vulnerability into access criteria. As of December 2022, 36 countries had graduated from IDA. Since the founding of IDA, 46 countries have graduated, and 10 of these graduates have since re-entered, or “reverse graduated” from IDA. While a country’s graduation process from IDA begins when its income per capita exceeds an operational cut-off ($1,314 in fiscal year 2024), several exceptions exist, reflecting an acknowledgement of the impact of vulnerability on development. The small Island economies exception, which has been in place since 1985, allows IDA-eligible small island economies continued access to IDA even with higher incomes. In 2017, small economy terms were extended to IDA-eligible non-island small States, which benefited Bhutan, Djibouti, Guyana and Timor-Leste. In 2019, the small island economies exception was further extended to IBRD small island economies based on vulnerability along with income and creditworthiness criteria, which benefited Fiji. An exceptional allowance was also made to Jordan and Lebanon in response to the Syrian refugee crisis. In 2024, the small island economies exception was further extended to qualifying IDA and IBRD non-island small States, in effect establishing a broader small States exception, effective starting July 2024. Several regional development banks’ concessional facilities, including the Asian Development Bank and the Caribbean Development Bank, also include exceptions that allow SIDS to access concessional funding even if they exceed income thresholds. Use of vulnerability measures to inform allocations of concessional finance could provide much-needed support to vulnerable countries such as SIDS.

Closer cooperation across MDBs and PDBs can strengthen the entire development bank system and deliver greater impact. At the Marrakech meetings, 10 MDBs signed an agreement aimed at better coordination and cooperation, covering five areas: i) scaling up financing capacity, including use of hybrid capital and portfolio guarantees while stepping up their joint approach to credit rating agencies; ii) boosting efforts on climate and better tracking of outcomes beyond the current joint climate finance reporting; iii) enhancing country-level cooperation; iv)
The importance of cooperation among the broader ecosystem of PDBs is critical. The amounts mobilized from the private sector by blended finance activities from the official sector have grown steadily over the last decade. However, these amounts remain far below expectations. The potential for blended finance as an innovative solution to finance sustainable development, as well as principles for its use, was a main focus of the Addis Agenda in 2015. Blended finance involves the use of public development finance to crowd in additional finance, notably private finance. The main objective of blended finance is to incentivize private sector investment in areas or projects that would otherwise not be competitive with other investment opportunities, in support of national development priorities and the SDGs. Between 2012 and 2022, total private finance mobilized by bilateral and multilateral development finance providers grew by an average of 12.55 per cent annually, to reach $61.5 billion in 2022 (figure III.C.9). Of the total mobilized, $55.5 per cent targeted the energy and banking sectors, while 5.6 per cent went to projects in social sectors (figure III.C.10). The lower share of blended finance in social sectors largely reflects the lack of a commercially viable financial return in many social sector transactions.

### 4. Blended finance and mobilized private finance

The amounts mobilized from the private sector by blended finance activities from the official sector have grown steadily over the last decade. However, these amounts remain far below expectations. The potential for blended finance as an innovative solution to finance sustainable development, as well as principles for its use, was a main focus of the Addis Agenda in 2015. Blended finance involves the use of public development finance to crowd in additional finance, notably private finance. The main objective of blended finance is to incentivize private sector investment in areas or projects that would otherwise not be competitive with other investment opportunities, in support of national development priorities and the SDGs. Between 2012 and 2022, total private finance mobilized by bilateral and multilateral development finance providers grew by an average of 12.55 per cent annually, to reach $61.5 billion in 2022 (figure III.C.9). Of the total mobilized, $55.5 per cent targeted the energy and banking sectors, while 5.6 per cent went to projects in social sectors (figure III.C.10). The lower share of blended finance in social sectors largely reflects the lack of a commercially viable financial return in many social sector transactions.
### Figure III.C.9
**Amounts mobilized from the private sector by official development finance interventions, 2012–2021**
*(Billions of United States dollars, current)*

![Graph showing amounts mobilized from the private sector by official development finance interventions, 2012–2021.](image)

**Source:** OECD.

### Figure III.C.10
**Mobilized private finance by sector, 2019–2021 average**
*(Billions of United States dollars, current)*

<table>
<thead>
<tr>
<th>Sector</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>0.4</td>
<td>0.5</td>
<td>0.6</td>
<td>0.5 (1%)</td>
</tr>
<tr>
<td>Health and population</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
<td>1.1 (2%)</td>
</tr>
<tr>
<td>Water and sanitation</td>
<td>0.9</td>
<td>1.0</td>
<td>1.1</td>
<td>1.0 (2%)</td>
</tr>
<tr>
<td>Other social sectors</td>
<td>0.8</td>
<td>0.9</td>
<td>1.0</td>
<td>0.9 (2%)</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>2.1</td>
<td>2.3</td>
<td>2.4</td>
<td>2.25 (5%)</td>
</tr>
<tr>
<td>Communication</td>
<td>1.2</td>
<td>1.3</td>
<td>1.4</td>
<td>1.3 (3%)</td>
</tr>
<tr>
<td>Energy</td>
<td></td>
<td></td>
<td></td>
<td>6.8 (15%)</td>
</tr>
<tr>
<td>Banking and business services</td>
<td></td>
<td></td>
<td></td>
<td>17.8 (39%)</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>2.4</td>
<td>2.6</td>
<td>2.8</td>
<td>2.65 (5%)</td>
</tr>
<tr>
<td>Industry, mining and construction</td>
<td></td>
<td></td>
<td></td>
<td>10.0 (22%)</td>
</tr>
<tr>
<td>Trade (…) and tourism</td>
<td>0.8</td>
<td>0.9</td>
<td>1.0</td>
<td>0.9 (2%)</td>
</tr>
<tr>
<td>Environmental protection</td>
<td>0.6</td>
<td>0.7</td>
<td>0.8</td>
<td>0.7 (1%)</td>
</tr>
<tr>
<td>Other multisector</td>
<td>0.3</td>
<td>0.4</td>
<td>0.5</td>
<td>0.4 (1%)</td>
</tr>
<tr>
<td>Unspecified</td>
<td>0.3</td>
<td>0.4</td>
<td>0.5</td>
<td>0.4 (1%)</td>
</tr>
</tbody>
</table>

**Source:** OECD.

**Note:** CIVs = Collective Investments Vehicles, SPV = Special Purpose Vehicles.
The expansion of blended finance has slowed in recent years, constrained by the challenging global macroeconomic context, with some estimates suggesting that deal volume halved in 2022. Convergence, a global network for blended finance, highlighted that the increase in global interest rates has constrained the balance sheets of many global banks, which are a critical source of debt capital in blended finance. Mounting debt burdens, high inflation and rising geopolitical uncertainty have also contributed to the deterioration in investor risk appetite, leading to a decline in the availability of affordable capital in emerging market economies. Amid these challenging macro-circumstances, the total volume of blended finance deals is estimated to have fallen by nearly half in 2022 compared to the previous year.

Only a small proportion of private finance has been channelled to LDCs. Middle-income countries attract the majority of blended finance deals. Only about 15 per cent of private finance mobilized between 2018 and 2020 went to LDCs—and to only a small number of large-scale projects—reflecting the fact that blended finance, like private finance, is drawn to areas with lower barriers to private capital mobilization. It can also indicate a tendency of blended finance to focus on less costly projects with lower-risk profiles, with projects in LDCs often characterized by less attractive risk-return profiles and potentially lower developmental impacts. In this respect, the Inter-agency Task Force has stressed that for blended finance to be applicable to LDCs, there must be a switch from a search for bankability to a search for quality and impact.

A new approach to blended finance is needed in order to realize its potential to meet the growing demand for development support. As highlighted in earlier Financing for Sustainable Development Reports, the Addis Agenda sets forth several guiding principles for blended finance which should be central in efforts to scale up such finance. These principles include: First, blending needs to be aligned with country priorities and be a part of broader national sustainable development strategies. Second, the primary focus of all blended deals should be development impact rather than quantity or degree of leverage. Third, analysis should always include measurement of the cost of blending versus other financing mechanisms, as well as ensuring that the public sector is not overcompensating private partners. In addition, different groups of actors have defined principles for blending for their own activities, including the 2017 OECD/DAC Blended Finance Principles for Unlocking Commercial Finance for the SDGs, and the 2017 DFI Working Group Enhanced Blended Concessional Finance Principles. The 2021 OECD-UNDP Impact Standards for Financing Sustainable Development, a guide and self-assessment tool, could help to increase the SDG impact of investments, including through improved monitoring and transparency.

5. South-South cooperation

The evolution of South-South cooperation initiatives has been marked by a growing recognition of its transformative potential. The history of South-South cooperation dates back over 70 years, marked by the establishment of the first United Nations technical aid programme by the Economic and Social Council in 1949. Since then, South-South cooperation has evolved significantly, including through the adoption of the Buenos Aires Plan of Action (BAPA) for Promoting and Implementing Technical Cooperation among Developing Countries in 1978 and the establishment of the United Nations Office for South-South Cooperation in 2013. Another milestone was set at the High-level United Nations Conference on South-South Cooperation in 2009, which highlighted the crucial roles that national governments, regional entities and United Nations agencies play in supporting and implementing South-South and triangular cooperation. Following the adoption of the 2030 Agenda, this commitment was reaffirmed at the second High-level United Nations Conference on South-South Cooperation (BAPA+40) in 2019, which emphasized the significance of South-South cooperation in accelerating progress towards sustainable development.

South-South cooperation has expanded in scope, volume and geographical reach. South-South cooperation has evolved substantially over the years to include a more diverse range of both governmental and non-governmental actors, while encompassing a larger number of developing countries. South-South cooperation has proven to be a valuable complement to North-South cooperation across both financial and non-financial areas of development cooperation. This was evident during the COVID-19 pandemic, when a wide range of South-South cooperation initiatives supported developing countries, including through providing finance, humanitarian relief and medical supplies. There have also been growing efforts to measure South-South cooperation flows in a comparable manner, resulting in a voluntary conceptual measurement framework (further details below) developed and agreed upon by countries of the global South. Reflecting the rich modalities of South-South cooperation, the framework was welcomed by all Member States.

South-led development banks have enhanced the availability of financial resources for long-term investments in developing countries. In 2015, two new South-led multilateral financial institutions were established with the primary objective of mobilizing resources for infrastructure and sustainable development, namely the New Development Bank and the Asian Infrastructure Investment Bank. In tandem with growing operations and member countries, the balance sheets of both banks have expanded consistently over the past few years. For the New Development Bank, total assets have increased from $10 billion in 2017 to $26 billion in 2022, with total loans of $33 billion to more than 96 projects. To enhance its development impact, the New Development Bank is not only expanding its membership, but has also committed to more financing in local currency loans. Meanwhile, the total assets of the Asian Infrastructure Investment Bank have increased from $18 billion in 2017 to $47 billion in 2022. As of end-2023, the Asian Infrastructure Investment Bank had approved a total of 251 projects with financing of over $50 billion, benefiting many middle-income countries, LDCs, SIDS and LLDCs. At the same time, lending by regional and subregional development banks, such as those in Latin America and Africa, continue to play an important complementary role to multilateral institutions as their regional knowledge enables them to likely be more effective in responding to regional needs and demands.

The development of a United Nations Conceptual Framework to Measure South-South Cooperation marks a breakthrough in the measurement of South-South cooperation, allowing for the quantification of both financial and non-financial dimensions. Variations in approaches, modalities and instruments of South-South cooperation across countries have made it challenging to develop a common definition and to quantify global trends of South-South cooperation. Progress
in South-South cooperation measurement reached a milestone in 2021, when a voluntary Conceptual Framework was developed by a subgroup on South-South cooperation as part of the Inter-agency Expert Group on SDG Indicators Working Group on Measurement of Development Support. This Framework would inform SDG indicator 17.3.1 on “additional financial resources mobilized for developing countries from multiple sources”, which was adopted by the United Nations Statistical Commission in 2022. The Commission also welcomed this Framework and requested that it be enabled by the co-custodianship of UNCTAD and led by countries from the global South. In 2023, UNCTAD, in collaboration with the United Nations Regional Commissions and other United Nations entities, launched a capacity development project to test the Framework in eight pilot countries in Africa, Asia and Latin America. The project is intended to strengthen coordination on data collection, while generating feedback on the feasibility and challenges of measuring financial and non-financial forms of South-South cooperation by applying the Framework in these countries. In 2023, the Islamic Development Bank launched its South-South Cooperation Index, a composite measure to assess the existence, effectiveness and growth of the elements of national South-South cooperation ecosystems of a country. Other innovative tools to measure South-South cooperation, including measurement of its effectiveness, are also being developed (Box III.C.2).

There is also a subset of Southern providers that report to the OECD: over the past two decades, development assistance flows from the 19 non-DAC countries that report to the OECD have risen from $1.1 billion in 2000 to $17.7 billion in 2022. In recent years, a few developing countries, including Türkiye and the United Arab Emirates, have provided ODA of more than 0.7 per cent of their GNI. Arab providers account for almost half of non-DAC reported development assistance, with flows directed mainly through grants to the Middle East and North African region. As another major effort, China’s Belt and Road Initiative has expanded to include over 150 countries across Asia, Latin America, Africa and parts of Europe since its launch in 2013. With the primary objective of boosting global connectivity and trade through infrastructure development, the Belt and Road Initiative has established over 3,000 cooperation projects and generated nearly a trillion dollars in investments. In 2021, China launched the Global Development Initiative with the aim of revitalizing global development partnerships for the SDGs as well as to foster synergies though South-South cooperation.

Triangle cooperation is an important link between South-South and North-South cooperation. According to data compiled by the OECD, although triangular cooperation still constitutes a small share of development finance flows, its volume and usage has grown significantly over the past two decades. The largest share of triangular cooperation is with partners in Latin America and the Caribbean, and there has been a visible rise in its usage in sub-Saharan Africa and the Asia-Pacific region since 2018. While triangular cooperation is used across a range of sectors, most partners use it as an experience and knowledge-sharing instrument, particularly in regard to how to support the government and civil society. The involvement of multiple partners may sometimes create coordination challenges, leading to higher implementation costs. To better assess the evolution of triangular cooperation and its effectiveness, there is a need for all partners to improve the monitoring and reporting of its use at the national level, and to encourage better monitoring at the regional and global levels.

The United Nations system continues to support South-South and triangular cooperation. Most United Nations entities are mainstreaming South-South and triangular cooperation as implementation modalities toward realizing the SDGs. In 2022, 73 per cent of United Nations entities reported integrating South-South and triangular cooperation into their global strategic plans. Many United Nations entities are also enhancing the demand-driven nature of South-South cooperation. The United Nations system continues to support South-South and triangular cooperation. Most United Nations entities are mainstreaming South-South and triangular cooperation as implementation modalities toward realizing the SDGs. In 2022, 73 per cent of United Nations entities reported integrating South-South and triangular cooperation into their global strategic plans.

### Box III.C.2

**Innovative tool to measure the effectiveness of South-South Cooperation**

Between 2020 and 2022, Colombia, a member of the Steering Committee of the Global Partnership for Effective Development Co-operation (GPEDC), led the development of a Self-Assessment Framework on the Effectiveness of its South-South Cooperation. With support from the Islamic Development Bank and the United Nations Development Programme (UNDP), the tool has been piloted in seven countries, namely Bangladesh, Cabo Verde, Colombia, El Salvador, Indonesia, Kenya and Mexico. The tool utilizes responses to 61 questions to construct a multi-dimensional index of South-South cooperation effectiveness. Efforts to develop this tool involved the comparison of internationally agreed principles of effective development cooperation and those of South-South cooperation, as summarized in the 2016 UN Framework of Operational Guidelines on United Nations Support to South-South and Triangular Cooperation. As well as identifying common ideas between both spaces. It aims to contribute to the design and characterization of a more robust methodology to measure the effectiveness of South-South cooperation, as well as to provide insights into how a country manages the effectiveness of its South-South cooperation and to identify areas for potential improvement. In the results, country ownership was found to be the most well-applied principle among respondents, potentially explained by the highly demand-driven nature of South-South cooperation. The results, however, also revealed that ownership is interpreted as national government-centric, with opportunities for improvement through consultations with local governments in areas where South-South cooperation activities are carried out, and with non-public stakeholders. The use of Data Governance Frameworks to standardize the use of data for informing South-South cooperation-related policy was identified as a key challenge, as only one of the seven pilot countries has a Data Governance Framework finalized and in use.

Colombia and Indonesia are currently leading efforts to further refine the tool and expand its application and uptake in other countries, including in Africa, Asia and Latin America and the Caribbean, in conjunction with the roll-out of the fourth monitoring round of the GPEDC.

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efforts to strengthen knowledge-sharing, codify good practices and broker South-South partnerships. For example, the “South-South Galaxy” platform coordinated by the United Nations Office for South-South Cooperation, promotes knowledge-sharing and partnership development, including through connecting Southern partners with financing mechanisms. The new United Nations Framework to Measure South-South Cooperation for SDG indicator 17.3.1 has started bringing United Nations entities together to support Member States in their efforts to quantify South-South cooperation. The Development Cooperation Forum knowledge platform provides an interactive platform for South-South cooperation among Member States on more than 12 topics regarding development cooperation, supporting discussion forums, initiatives, experiences and national policies.

Through regional agreements, the International Atomic Energy Agency supports countries in the Global South in building capacities to apply nuclear technologies and techniques in several areas, including agrifood systems and energy.

6. Finance for climate change and biodiversity

Mobilization of climate finance falls short of what is needed to effectively address the scale of climate challenges and remains grossly inadequate for the most vulnerable countries. There are large investment gaps in climate change mitigation and adaptation as well as in disaster risk reduction; lack of investment in climate action is threatening to become a vicious circle in many countries, as limited resources prevent countries from investing in resilience, in turn making them more vulnerable to climate shocks. Both public and private financing will be needed to close these investment gaps, not least significant concessional public finance for vulnerable developing countries. At the 2009 United Nations Climate Change Conference in Denmark (COP15), developed countries agreed to jointly provide and mobilize $100 billion a year by 2020 to support climate action in developing countries. While climate finance has grown significantly over time, the target is yet to be met. The latest OECD assessment of progress showed that climate finance provided and mobilized amounted to $89.6 billion in 2021, an increase of over 70 per cent compared to 2013 (figure III.C.11).

While public climate finance has increased strongly over the past decade, private finance mobilized continues to be significantly lower in recent years, particularly on climate adaptation investments. This is despite growing interest in sustainable investing by the private sector. At the same time, climate finance channelled to countries that are most vulnerable to climate change remains grossly insufficient. Of the total climate finance mobilized between 2016 and 2021, only 17 per cent was channelled to LDCs and 3 per cent to SIDS.

Figure III.C.11
Climate finance provided and mobilized by developed countries for developing countries, 2013–2021
(Billions of United States dollars)

Source: Based on biennial reports to the United Nations Framework Convention on Climate Change, OECD Development Assistance Committee and Export Credit Group statistics, as well as complementary reporting to the OECD.

Note: Figures may not add up to totals due to rounding. The gap in time series in 2015 for mobilised private finance results from the implementation of improved measurement methodologies in OECD data collections from 2016 onwards. These improved methodologies measure the mobilisation effect of public interventions, taking into account the specific mechanisms employed to attract investments from the private sector, such as guarantees, collective investment vehicles, syndicated loans or project finance. Such an instrument-specific and granular approach is not fully compatible with the estimates developed for 2013–14. As a result, volumes of private finance mobilised and grand totals in 2016–18 and in 2013–14 respectively are not directly comparable.

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The growing impacts of climate change underscore the importance of more ambitious climate finance goals and national commitments. At the 2023 United Nations Climate Change Conference in Dubai (COP28), countries concluded the first “global stocktake” of progress made on climate action since the Paris Agreement. The stocktake noted that the amount of climate finance remains insufficient despite growing financial pledges for climate action, including a record $12.8 billion for the second replenishment of the Green Climate Fund. Amid intensifying climate challenges, the stocktake stressed the urgent need to raise ambitions and accelerate implementation of climate action across all areas. Furthermore, in 2015, countries agreed that prior to 2025, they would set a New Collective Quantified Goal (NCQG) raising the climate finance target from a floor of $100 billion per year to account for the needs and priorities of developing countries. The discussions on the NCQG will conclude at COP29 at the end of 2024.

The global climate finance architecture has become increasingly complex and fragmented. There has been a proliferation of climate funds over the past two decades. As of end-2022, there were an estimated 81 active climate funds, consisting of 62 multilateral funds as well as bilateral, regional and national funds. While each individual fund was established with a separate purpose, as a whole they are contributing to a fragmented aid landscape, with different implementing agencies and bureaucratic processes. This has not only created monitoring and reporting challenges but has also made coordination and access to finance more difficult for developing countries, especially LDCs and SIDS. As the urgency to ramp up climate investments grows, so have calls for reforms to enhance the coherence and effectiveness of the global climate finance architecture. Proposals include shorter-term measures such as improving the coordination and specialization of funds, and longer-term strategies such as the consolidation of dispersed funds to create mechanisms at scale.

The adaptation finance gap is widening. Although adaptation finance has increased over the past decade, it has not kept pace with growing climate risks. Despite pledges made at COP26 to double adaptation finance by 2025, adaptation finance has recently been falling: bilateral adaptation-related ODA reached $27 billion in 2021, according to data provided by OECD DAC members. This marked a decrease from the $30 billion reported in 2020 (although it was an increase over the 2019 volume of $20 billion). At the same time, estimates of adaptation costs have risen significantly and are expected to increase further amid accelerating climate impacts. Against this backdrop, the adaptation finance gap has widened to its highest ever, with adaptation needs estimated at 10 to 18 times greater than finance flows. Bridging this gap requires more than just an increase in public resources, but also, where possible, greater private finance. To attract more private capital to adaptation activities, new and innovative instruments and mechanisms are being explored (box III.C.3). These include the African Development Bank’s Adaptation Benefits Mechanism which aims to share risks and incentivize investments in adaptation.

MDBs are playing a stronger role in funding climate action, but shareholders need to ensure that funding for mitigation in particular is additional. In response to the growing urgency to scale up climate finance, MDBs are raising their climate ambitions, including to provide higher levels of adaptation finance. In recent years, the provision of climate finance by MDBs has surpassed the targets they set in 2019.

Box III.C.3
Innovative development finance

The potential for innovative finance to enhance development cooperation was first recognized in the Monterey Consensus. Shortly thereafter, the Leading Group on Innovative Financing for Development was established with the aim of promoting innovative solutions for financing across various areas, including health, poverty eradication, food security and climate change. While no agreed definition exists, innovative financing for development has often been understood to include sources and mechanisms that raise additional funding for sustainable development on top of conventional ODA.

While there have been some successes in innovative financing, particularly early in the period, overall uptake has remained limited. Earlier discussions were focused on solidarity taxes, which were successfully used in funding UNITAID (to address HIV/AIDS, tuberculosis and malaria). Other measures to better manage aid flows have also been introduced, such as ODA securitization and advanced market commitments for funding vaccines (most recently for COVID-19 vaccines). As noted in the Addis Agenda, these earlier innovative instruments still have the potential to be replicated and scaled up.

The series of global shocks over the past few years have reignited interest in the innovative public finance agenda, in particular to scale up financing of global public goods, including for health and climate action. Following the success of COVAX, the multilateral mechanism for equitable global access to COVID-19 vaccines, there have been growing discussions on enhancing future pandemic preparedness, including through the establishment of a pandemic vaccine pool. At COP28 in Dubai, a group of international organizations and development finance institutions announced plans to boost innovative financial instruments for sustainable climate and nature-linked sovereign financing.

Other recent innovative finance proposals include imposing a levy on shipping emissions, taxes on extreme wealth and a facility to support food imports for countries most exposed to surging food prices.

With financing for low- and middle-income countries reaching a record $61 billion in 2022, a few MDBs, including the World Bank and the Asian Development Bank, recently revised their climate finance commitments to above their post-2020 targets. In addition to increasing financial flows, MDBs also have an opportunity to improve how these funds are programmed and disbursed. Climate and debt-vulnerable countries, such as LDCs and SIDS, need more concessional resources and grants. The MDBs launched the Joint Methodological Principles for Assessment of Paris Agreement Alignment in June 2023 and have been implementing this...
framework for aligning their operations with the goals of the Paris Agreement. This includes working together to strengthen the global response to the threat of climate change in the context of sustainable development and efforts to eradicate poverty, by keeping global warming well below 2°C Celsius above pre-industrial levels and pursuing efforts to stay below 1.5°C Celsius; fostering adaptation, resilience and low-emissions development without threatening food production; and ensuring that finance flows are consistent with a pathway towards low-emissions, climate-resilient development. MDBs also need to develop mechanisms to better account for climate finance to ensure that increasing financing for climate action does not come at the expense of development finance for other priorities.

Global climate finance discussions reached an important breakthrough at the end of 2023 with the creation of the Loss and Damage Fund. Loss and damage first appeared in negotiated outcomes as part of the Bali Action Plan in 2007, but discussions only gained momentum from 2013 onwards. In 2022, the United Nations Climate Change Conference in Sharm el-Sheikh (COP27) decided to establish a Loss and Damage Fund to support vulnerable countries in addressing the escalating effects of climate change. The creation of the Fund reflects the growing recognition that developed countries, largely historically responsible for climate change, should provide support to developing countries in dealing with irreversible losses and costly damages due to climate disasters. At COP28, governments pledged around $700 million to the Fund, which will be hosted at the World Bank on an interim basis. In light of the size of climate-related losses, which have been estimated at around $400 billion a year by 2030 for developing countries, more financial commitments from developed countries will be crucial, as will be the mobilization of other sources of financing, including private finance. For the Fund to be effective, its efforts should also be coordinated with existing climate adaptation and mitigation initiatives to help close gaps in the current architecture and ensure complementarity and a more holistic approach.

Biodiversity finance

Biodiversity loss is a threat to human well-being and sustainable development. The unprecedented decline in biodiversity and environmental degradation pose systemic risks to a large degree of social and economic goals. Over half of the world’s GDP is moderately or highly dependent on nature and is thus exposed to the risks posed by biodiversity loss. The international community must mobilize more financial resources to halt and reverse the decline in biodiversity. The Addis Agenda contained a range of commitments to protect ecosystems, including one that encourages the mobilization of financial resources to conserve and sustainably use biodiversity and ecosystems. This was consistent with the Strategic Plan for Biodiversity 2011–2020 and its Aichi Targets of the Convention on Biological Diversity. The latest progress report showed, however, that at the global level none of the 20 targets had been fully achieved, although six targets have been partially achieved, including target 20 on resource mobilization. ODA for biodiversity-related objectives more than doubled over the period of the Strategic Plan for Biodiversity, from $5.4 billion in 2011 to $11.1 billion in 2021, but the broader biodiversity financing gap remains large.

In the follow-up to the Strategic Plan, the Kunming-Montreal Global Biodiversity Framework was adopted in December 2022, marking a historic agreement that lays out a set of ambitious goals and targets to address the rapid loss of biodiversity. These targets include the repurposing of $500 billion per year in harmful subsidies, mobilizing at least $200 billion per year for biodiversity-related funding, and raising international financial resources for developing countries, in particular LDCs and SIDS, to at least $30 billion per year. To support the implementation of this framework, the Global Biodiversity Framework Fund was launched in 2023, with Canada and the United Kingdom providing initial contributions for its capitalization. The Global Biodiversity Framework Fund, which is now operational, forms part of the Global Environment Facility (GEF), which is the main financing mechanism of the Convention on Biological Diversity. Since its inception in 1991, the GEF has delivered nearly $22 billion in grants and mobilized another $119 billion in co-financing. In 2022, the GEF finalized a record $5.3 billion in pledges for its eighth replenishment round, with biodiversity protection as the largest component of its new programming period.

Despite their potential to tackle the climate crisis and biodiversity loss, the implementation of nature-based solutions (NbS) is hindered by financing and capacity constraints. The International Union for the Conservation of Nature defines NbS as actions that address societal challenges through the protection, sustainable management and restoration of ecosystems, benefiting biodiversity and human well-being. Financing for NbS currently stands at around $20 billion per year, accounting for only one-third of the levels needed to achieve climate, biodiversity and land degradation targets by 2030. The public sector continues to provide the bulk of funding for NbS, with private capital constituting 17 per cent of investments in NbS. There are several barriers to unlocking private finance for NbS. NbS projects often do not offer financial returns competitive on a risk-return basis with other investment opportunities, with much of the investment to date through the philanthropy of impact investors. In addition, there is an absence of a consistent methodology to track NbS financing to gauge impact. In 2023, a new database that matches biodiversity-related projects with public and private funders was launched, which could facilitate a more effective mobilization of resources for biodiversity conservation and restoration.

7. Quality, impact and effectiveness of development cooperation

Effective development cooperation must once again become a central focus of financing discussions to address massive global development challenges in a changing financing landscape. The importance of effective development cooperation was first recognized in the Monterrey Consensus, which called not only for a substantial increase in ODA and other resources for development, but also for enhanced effectiveness of development cooperation. In the years after Monterrey, this agenda was discussed and strengthened through the Development Cooperation Forum—created at the 2005 World Summit—and officially launched in 2007. Since then, the Forum meets biennially to review trends, progress and emerging issues in international development cooperation and promote coherence and coordination among diverse actors and activities. The Addis Agenda recognized the need for continued efforts to improve the quality, impact and effectiveness of development cooperation through the Development Cooperation Forum, taking into account efforts...
in other relevant forums, such as the GPEDC, in a complementary manner. The GPEDC, a multi-stakeholder platform that supports evidence-based dialogue and action on effective development cooperation through a global monitoring exercise, emerged from the aid effectiveness process, including the 2005 Paris Declaration on Aid Effectiveness, the 2008 Accra Agenda for Action and the Busan Partnership for Effective Development Cooperation in 2011. Monitoring by and discussions in these two different platforms dealing with international development cooperation reveal that progress in implementing these commitments has been mixed, and there is a need for reform and revitalization of this agenda.

Global progress in improving the quality, impact and effectiveness of development cooperation has been mixed since the adoption of the Addis Agenda. In the Addis Agenda, Member States agreed to align development cooperation activities with national priorities, including by reducing fragmentation and accelerating the untying of aid, particularly for LDCs and countries most in need. However, a 2021 survey on the quality of ODA showed that 10 years after the initiation of the Busan Partnership for Effective Development Co-operation and six years after the Addis Agenda, progress has been mixed.

Countries are taking steps towards strengthening the enablers of development cooperation but the alignment of development partners with these enablers has been declining. A key factor in improving the quality, effectiveness and impact of international development cooperation is the strengthening of country ownership, guided by coherent national development cooperation policies, country results frameworks, development cooperation information systems and national development cooperation forums. Since the adoption of the Addis Agenda, developing country governments have made some progress in these areas. For example, 82 per cent of 2022 Development Cooperation Forum Survey respondents reported the adoption of national development cooperation policies (up from 72 per cent in 2016) and highlighted their role in mobilizing and aligning not only ODA but also other modalities of international development cooperation. Over the same time period, countries reported engaging an increasingly diverse range of development cooperation modalities and actors.

Yet, before the COVID-19 pandemic, the alignment of development partners with partner country priorities and country-owned results frameworks had been declining. Less than half of ODA is channelled through the public sector of recipient developing countries, and only one third in LDCs (figure III.C.12).

While there has been some progress in untying aid (see below), development partners’ alignment to partner country priorities and country-owned results frameworks and country public financial management systems has declined. Indeed, a broader perspective on all public and private sector financing to developing countries reveals a proliferation of official finance providers and implementing entities and the continued fragmentation of development activities, adding to the complexity of the architecture and increased transaction costs for developing countries (box III.C.4).

Figure III.C.12
Gross bilateral ODA disbursements by channel
(Percentage of total)

Source: OECD Creditor Reporting System database.
Progress in untying aid has been uneven. Untying aid helps to strengthen country ownership and can lead to the strengthening of local economies by allowing for local procurement. Over the past two decades, the share of untied ODA has increased from an average of 47 per cent from 1999 to 2001 to 89 per cent in 2022.\(^{74}\) In 2018, the DAC broadened the country coverage of the 2001 DAC Recommendation to Untie ODA to include other low-income countries and IDA-only countries, in addition to already-covered LDCs and heavily indebted poor countries.\(^{75}\) However, several challenges to further progress on untying aid persist. Many countries and key ODA sectors, such as technical cooperation and food aid, remain excluded. Moreover, “informally tied aid” remains an issue amid high barriers to entry for developing country suppliers. More than half of the value of contracts awarded in countries included in the DAC Recommendation continue to go to suppliers in DAC provider countries. While developing countries were awarded 44 per cent of the total number of contracts, these contracts represented only 13 per cent of the total value of the contracts.\(^{76}\) Development partners must take urgent action to identify and remove barriers that hinder local producers, including in LDCs, so that they can reap a “double dividend” in addressing poverty and inequalities while building up local economies. In this regard, the DAC is currently reviewing the Recommendation to explore whether it could encourage greater procurement by and from local organizations and businesses in developing partner countries as policy levers to advance their sustainable development and ownership and, if so, how.
Endnotes


3 https://devinit.org/blog/target-country-programmable-aid-instead-oda/

4 LDC graduation can be triggered if any two of the three criteria are met (income per capita, human assets, and vulnerability), or solely the income-only criterion, which requires a GNI per capita of at least twice the normal graduation threshold.


6 See https://www.oecd.org/dac/transition-finance-toolkit/

7 See https://www.oecd.org/dac/transition-finance-toolkit/


10 OECD, “Official development assistance for gender equality and women’s empowerment: 2023 snapshot” (2023)


13 See previous discussions on official development assistance modernization in the FSDR 2021 and FSDR 2023.


22 https://reliefweb.int/report/world/g7-foreign-ministers-statement-strengthening-anticipatory-action-humanitarian


27 For list of countries, please see https://ida.worldbank.org/en/about/borrowing-countries/idb-graduates


30 http://www.dfidatabase.pku.edu.cn/

31 https://www.convergence.finance/news-and-events/news/4HzPSM7h7ZTwJMOkvsg713/view


33 See FSDR 2023 and 2021.

34 See FSDR 2021.


39 International Expert Meeting on the Measurement of South-South cooperation | UNCTAD


42 Monaco was recently included in this category, Lithuania and Estonia became members of the DAC in November 2022 and July 2023, respectively, and have therefore been excluded.

43 OECD Development Co-operation Profiles, 2021.
2024 FINANCING FOR SUSTAINABLE DEVELOPMENT REPORT

44 https://eng.yidaiyilu.gov.cn/p/312205.html
46 State Of South-South Cooperation :Report Of The Secretary-General, A/78/290
47 For A More Comprehensive List Of Examples, See State Of South-South Cooperation :Report Of The Secretary-General, A/78/290
49 OECD, Climate Finance Provided and Mobilised by Developed Countries in 2013-2021
50 OECD, Climate Finance Provided and Mobilised by Developed Countries in 2013-2021
51 https://unfccc.int/documents/631600
52 Estimates show that in 2019–2020, the total disbursements of the 62 multilateral climate funds were between $3–4 billion. https://ferdi.fr/dl/df-z4LdsA8Y7stAvmESarbZtjGQ/ferdi-wp320-climate-funds-time-to-clean-up.pdf
53 https://www.wri.org/research/future-funds-exploring-architecture-multilateral-climate-finance
55 https://www.unep.org/resources/adaptation-gap-report-2023
56 https://www.unep.org/resources/adaptation-gap-report-2023
57 Adaptation Benefit Mechanism (ABM) | African Development Bank Group - Making a Difference (afdb.org)
58 High Level MDB Statement, UN 5G Climate Action Summit, 2019.
60 See Box “A history of discussions on financing loss and damage” in FSDR 2023.
68 https://www.unep.org/resources/state-finance-nature-2023
70 https://www.wri.org/update/5-barriers-hinder-green-financing
71 https://www.unepfi.org/themes/ecosystems/new-database-for-nature-related-projects/