

March 2023

How much aid actually reaches the countries with the greatest poverty?

Facts and principles of ODA allocation

Report

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Acronyms

CPA	country-programmable aid
CRS	Creditor Reporting System (OECD DAC)
DAC	Development Assistance Committee (OECD)
DFI	development finance institution
DI	Development Initiatives
DRM	domestic resource mobilisation
GDP	gross domestic product
GNI	gross national income
GPG	global public goods
GPI	Global Public Investment
IMF	International Monetary Fund
LDC	least developed country
LIC	low-income country
LMIC	lower middle-income country
MDB	multilateral development bank
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
SDG	Sustainable Development Goal
TOSSD	Total Official Support for Sustainable Development
UMIC	upper middle-income country

Executive summary

Global challenges are driving aid away from targeted development investments in the countries with greatest poverty

Even before the Covid-19 pandemic and the Ukraine war, there were clear concerns about the zero-sum implications of competition for official development assistance (ODA). These concerns included the use of ODA to finance global public goods (GPGs), the rise of emergency humanitarian assistance as a growing proportion of ODA in the face of growing humanitarian needs and increasing use of ODA to leverage private finance with no targeted development focus.¹

As a result of the pandemic and the effects of the Ukraine war, increased demands for ODA became evident in stronger calls for: (a) investments in GPGs, and (b) investments that also serve national self-interest. The rise of transnational development challenges such as global health, climate change and security means that GPGs are competing with traditional development priorities: there are calls for investment in both global initiatives and in countries other than those with the lowest incomes, as wealthier countries are considered better able to drive regional and global progress in areas such as political and environmental security. The result is reduced ODA to countries experiencing the greatest poverty. In other words, the additional needs generated by these external events mean there is less funding left to spend on traditional priorities in the countries needing it the most.

The comparative role of ODA in meeting growing global needs

ODA is a limited resource that needs to be focused and used wisely where it is most needed to maximise its comparative advantage. If shared equally between every person worldwide experiencing extreme poverty, the US\$189 billion in gross ODA provided in 2021 equates to US\$0.75 per person per day. Balancing growing, competing demands – as well as other motivations and uses of ODA – while maintaining a focus on eradicating poverty or promoting economic growth, is the fundamental challenge facing policymakers.

There is a diverse set of public and private sources of finance that, if used appropriately, can contribute to development and a more equitable recovery. Development Initiatives has long tracked the diverse set of global public and private finance available for poverty reduction.² The Organisation for Economic Co-operation and Development (OECD's) initiative, Total Official Support for Sustainable Development (TOSSD), published its first data collection in March 2021.³ This initiative seeks to bring transparency to all official resources and private finance mobilised by official interventions in support of sustainable development, taking into account both cross-border flows and support to international public goods.

Objectives for investing different financial resources, as well as how they impact people in greatest poverty, vary considerably ([Annex 1](#)). These underlying objectives drive quite different patterns of distribution between and within countries in the Global South. For instance, commercial foreign direct investment, concentrated in larger emerging economies to support economically productive sectors, contrasts with remittance income concentrated in countries with large diaspora populations. Differences in objectives, motivations and advantages means that finance sources are not substitutable. It is thus more important than ever to move beyond the question of just scaling up total financing and focus instead on the quality of investments, backed up by political will to drive the right choices. We need to focus on the types and sources of financing being used, the areas where they are being invested and the people who are benefiting.⁴

The financing needed to meet the Sustainable Development Goals remains substantial, and further out of reach following global crises that resulted in both increased needs and reduced national capacities to address them. One of the most recent and comprehensive estimates⁵ suggest that, by 2025, financing worth US\$3.7 trillion will be needed in emerging markets and developing economies other than China, rising to US\$5.9 trillion in 2030. Much of this will be met by increases in domestic resource mobilisation and private finance, although ODA has comparative advantage among international sources of finance when it comes to reaching the people living in greatest poverty.

ODA is unique among official and other international development resources, playing a central role in making and catalysing investments for people living in poverty and increasing their resilience to shocks. A significantly larger proportion of ODA flows has been directed to high-poverty countries, compared with other external sources of finance. At the same time, to respond to multiple priorities, ODA has been dispersed more widely than foreign direct investment or remittances, for example, which are more concentrated in a limited group of countries with healthier economies or large diaspora.⁶

ODA remains critical for the people and places with greatest poverty

ODA, and grant financing in particular, has a comparative advantage in places where other sources of finance are hard to raise. In practice, this means the countries with greatest poverty. We use countries classed by the OECD's Development Assistance Committee (DAC) as either least developed (LDCs) or low-income countries (LICs) to proxy this.⁷ Out of 46 LDCs, 40 are now at moderate or greater risk of debt distress, making loan financing problematic.

In many countries where poverty is deepest and domestic resources lowest, ODA supports investments in key sectors for poverty reduction such as agriculture, education and health. Similarly, ODA has a critical role to play as a key international public resource directed towards climate adaptation in countries especially vulnerable to the impacts of climate change.

ODA is particularly relevant for sectors that have low economic returns, such as health or education, and where the private sector lacks incentives to operate. Unlike in the private sector, a key driver for ODA is social rather than economic return. A potential exception is impact investing, whereby private investors accept lower economic returns if their

investment also achieves social returns. However, such investors still generally require sufficient economic return to preserve their capital, and largely focus on high-income-country markets.⁸ Additionally, there is still much to learn about how the private sector can support those living in the greatest poverty as well as the most vulnerable in social sectors.

Furthermore, the necessity of focusing ODA on the countries of greatest poverty, such as LDCs, will only increase. Currently, governments are discussing important reform efforts of the multilateral development bank (MDB) system that will allow greater leverage of MDB balance sheets to unlock hundreds of billions of additional development finance. However, this additional finance is likely to be directed towards middle-income countries (currently, only 16% of disbursements from MDBs are to LDCs) and will be largely in the form of loans. Given that the majority of LDCs are currently at 'moderate' or higher risk of debt distress,⁹ there are question marks over the extent to which they can significantly scale up even concessional borrowing.

It is therefore more important than ever to increase knowledge about the role and impact of other types of finance and how they can be combined, sequenced and layered in different contexts for maximum usefulness. We need also to limit perverse incentives, such as using and inflating volumes of ODA when other types of non-concessional public finance may be more appropriate.

We need a coherent allocation framework that prioritises the people living in greatest poverty

This paper proposes the foundations of a decision-making framework that informs allocations of development assistance that disproportionately prioritise the people living in greatest poverty. ODA will retain a central role into the future, and there is now a critical opportunity to define the criteria that identify how it can be used most effectively. In this paper we argue for a more coherent vision of ODA that targets poverty directly. Donors and governments need to know where their scarce concessional international public finance can make the most difference in the absence of other sources of investment. The international community needs to be more considerate about how ODA is spent to address immediate crises and to drive sustained pathways out of poverty. We propose a focus on ODA allocations that prioritise the people living in greatest poverty. Investments must identify who will benefit, where and over what timeframe, as well as demonstrating that they disproportionately benefit those living in poverty. This report focuses on the fundamental role of ODA, reminding us that these considerations are more important than ever before at a time when ODA is being appropriated by multiple and competing interests.

Introduction

Complex challenges threaten the global economy, and the countries with greatest poverty are particularly affected. Pandemic recovery efforts, rising food insecurity, debt, inflation and the Ukraine crisis are key challenges for the world. While international public investment has a key role to play, it is not enough. Funding needs and gaps persist at the global level and donors are faced with critical trade-offs between Global Public Goods (GPGs) – such as tackling climate change and pandemics – and investing directly in countries themselves.

Attention has recently turned to other ways of raising financing; notably reforms of the way multilateral development banks (MDBs) operate that could significantly scale up their lending. While MDBs reform – in particular, capital adequacy reform – has the potential to unlock hundreds of billions of additional development finance, this additional financing will nearly all be in the form of loans and is far more likely to benefit middle-income countries. Similarly, private finance is needed, but questions remain on the data, transparency, impact and measurement of impact investments and the role of key players such as development finance institutions. Furthermore, the way in which global mechanisms support national and international needs and priorities is beginning to involve – through Global Public Investment (GPI), for example – but in the interim ODA remains critical to the reduction of poverty.

ODA plays a critical role, particularly in the countries with greatest poverty like least-developed countries (LDCs) where domestic resources are scarce and access to international markets is difficult. However, its scale is still small. As donors face choices of where to strategically invest their money, it is important that they are aware of the different trade-offs and the different routes towards poverty reduction.

This report unpacks critical trends in ODA to understand what is left to be invested in countries with the greatest poverty. Given ODA's comparative advantage in the poorest places, this report suggests ways to strengthen the core value of aid in targeting poverty reduction and proposes a set of principles for ODA allocation that put poverty at its core. Drawing on qualitative and quantitative primary and secondary evidence, this report provides a comprehensive analysis of ODA uses over the last decade, reflecting on the impact that the rise of global challenges such as global health, climate and security have on the role and purpose of ODA. Additional needs generated by these external events mean there is less funding left for ODA to spend on traditional priorities in countries needing it the most. In this report, we support the call for a coherent aid allocation framework that prioritises the people living in greatest poverty.

[Chapter 1](#) of this report summarises the scale of financing needed to meet the Sustainable Development Goals, highlighting the critical value of ODA in the context of other resources by focusing on places where poverty is greatest. Looking at what we call 'non-transfer aid' in [Chapter 2](#), we then unpack the ODA numbers to explore what is left to be invested in countries with greatest poverty. This allows us to present a more nuanced picture of what gets spent, where and how in [Chapter 3](#), focusing on how ODA has targeted poverty. We end this report by proposing a set of principles for ODA allocation that prioritise the people living in greatest poverty ([Chapter 4](#)).

Chapter 1. ODA remains critical in addressing wider international financing needs

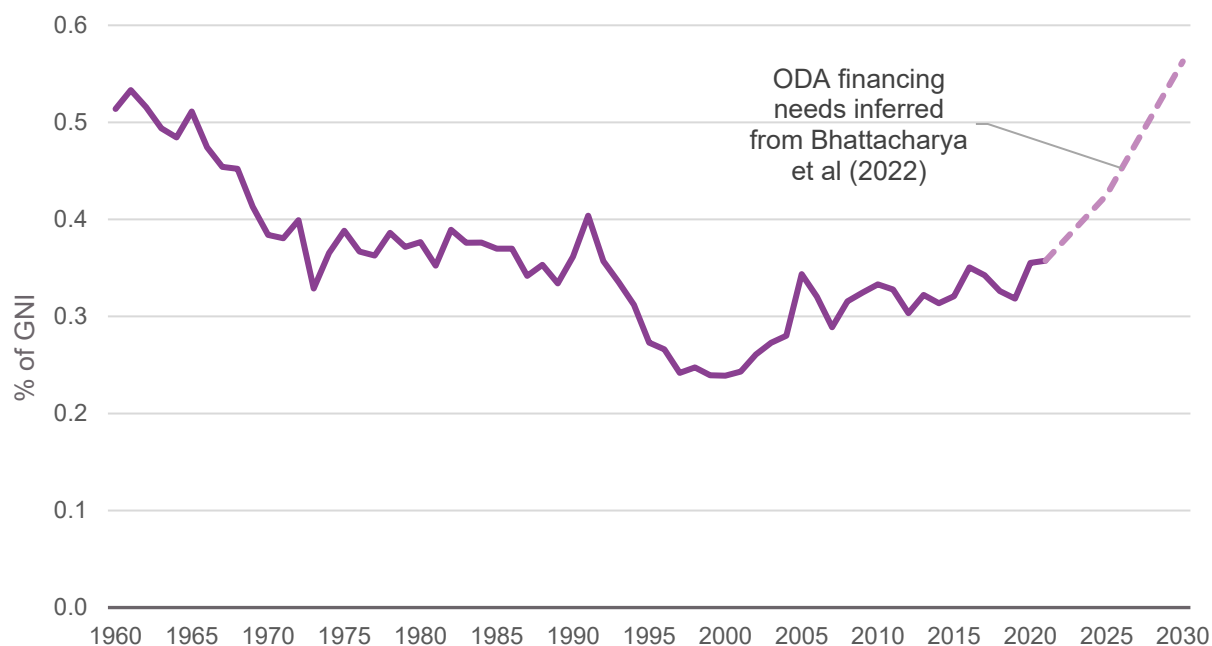
To meet the SDGs, we need a significant and unprecedented increase in finance

Estimates of total finance needed to meet the Sustainable Development Goals (SDGs) generally amount to trillions of dollars. One of the most recent and comprehensive estimates (by Bhattacharya and colleagues at the London School of Economics)¹⁰ builds on a range of previous studies and finds that, by 2025, financing worth US\$3.7 trillion will be needed in emerging markets and developing economies other than China, rising to US\$5.9 trillion in 2030. These estimates are highly uncertain,¹¹ and a lack of financing is not necessarily the only constraint.¹² Nevertheless, these figures are illustrative and demonstrate the order of magnitude of new development finance needed.

Most of the required finance is likely to come from increases in domestic resource mobilisation and private sector investment. The Bhattacharya report estimates that, in 2025, domestic resources would need to account for just under two-thirds of the total finance, and that private sector finance would need to account for around one-fifth. This would leave around 15% to be covered by additional external public finance, including non-concessional flows from multilateral development banks (MDBs). While this is a comparatively small share of the total, it would still amount to around US\$557 billion (nearly US\$200 billion more than was spent in 2021). Of this amount, around half (US\$272 billion) would come from official development assistance (ODA).

The anticipated ODA spend would be equal to around 0.43% of gross national income (GNI) of countries in the Development Assistance Committee (DAC) in 2025, according to forecasts of the International Monetary Fund. This a greater share than has been spent since 1968. The same recent study by Bhattacharya and colleagues¹³ anticipates that financing needs will grow faster than DAC-country GNI, meaning that, by 2030, the same breakdown would imply that DAC countries would need an ODA/GNI ratio of 0.56%, higher than has ever been achieved (see Figure 1 below). This breakdown is only illustrative, but highlights that official finance, including ODA, will continue to play a major role in meeting the SDGs. In addition, in this breakdown Bhattacharya and colleagues anticipate that private finance could double by 2025 ([Figure 2](#)). If this large increase does not materialise, the role for official finance will be even larger.

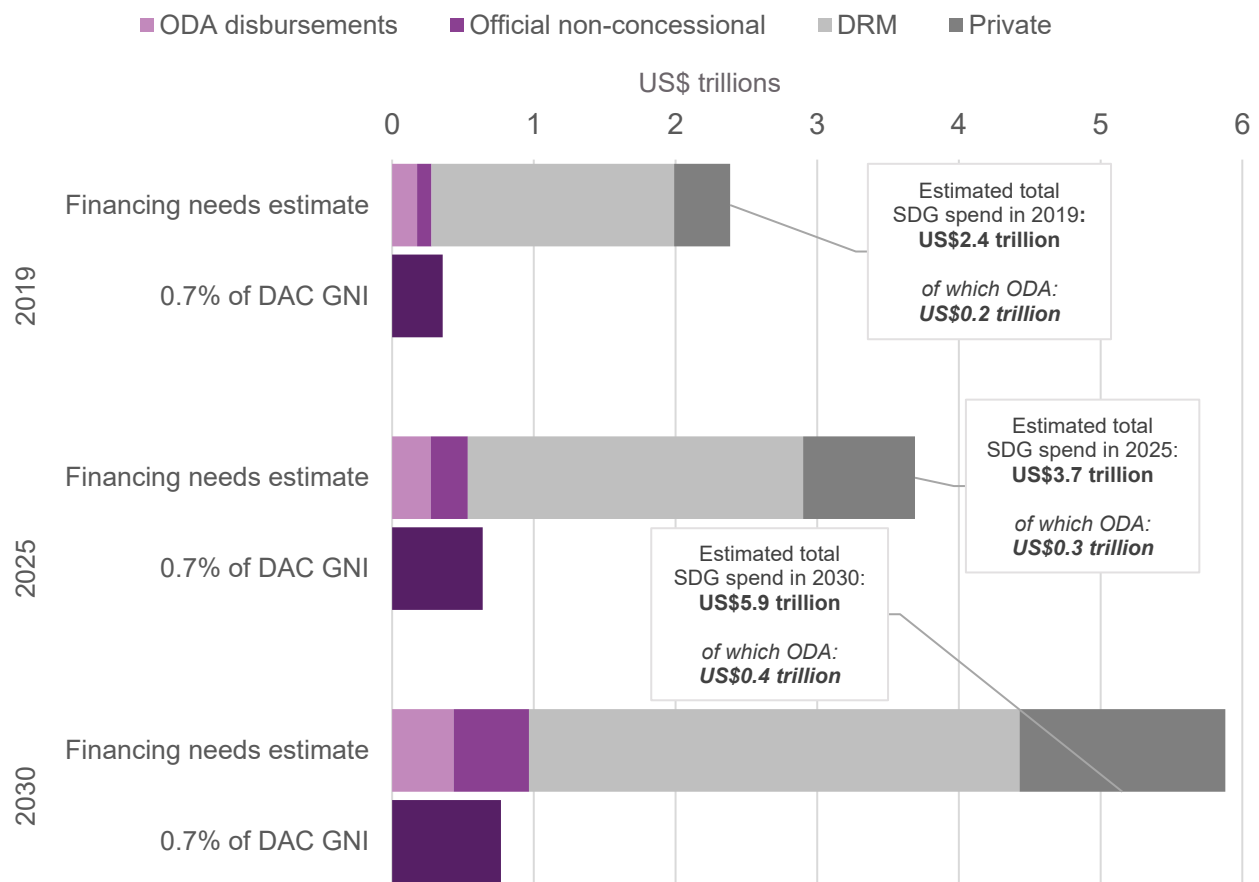
Figure 1: Historic ODA/GNI ratios (gross disbursements) and projected need to meet the SDGs, 1960–2029



Source: Development Initiatives based on Bhattacharya et al. (2022) and OECD CRS.

Notes: ODA = official development assistance; GNI = gross national income; DAC = Development Assistance Committee (OECD). ODA from DAC members in gross disbursements, constant 2020 US\$.

Figure 2: Estimated finance needs to meet the SDGs: 2019, 2025 and 2030



Source: Development Initiatives based on Bhattacharya et al. (2022) and International Monetary Fund World Economic Outlook forecasts.

Notes: SDG = Sustainable Development Goal; ODA = official development assistance; DAC = Development Assistance Committee (OECD); DFI = development finance institution. 'Estimated finance needs' refers to 'needs for emerging market developing economies other than China'. The figure for 2019 is Bhattacharya et al.'s (2022) estimate of what was spent that year relating to the SDGs. The breakdown in subsequent years is Bhattacharya et al.'s suggested breakdown of how total investment could be met, but if finance from one category ends up being lower, others would need to be higher to compensate. 'Official non-concessional' includes export credits and 'other official flows' from both multilaterals and DAC countries (which are mainly non-concessional loans but include some equity investment from DFIs also). All figures here refer to gross disbursements.¹⁴

Why is ODA so critical, especially in places of greatest poverty?

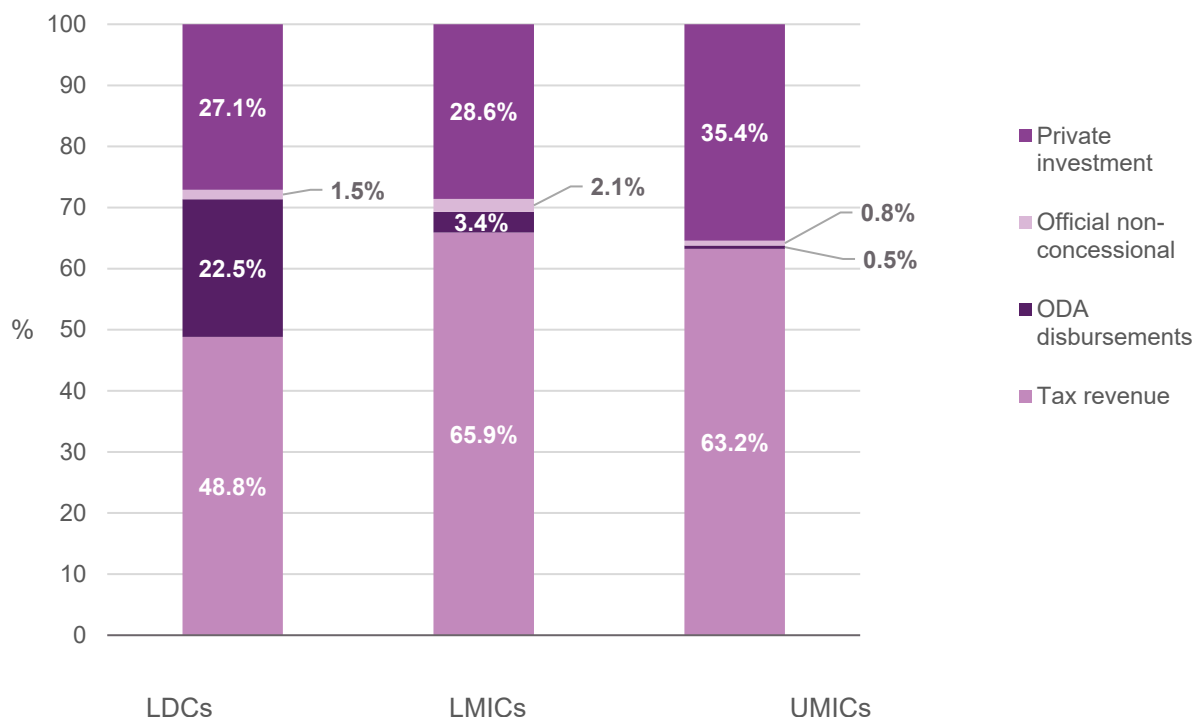
Simply examining the share of ODA in the breakdown of estimated financing needs understates its importance, as some countries will be more dependent than others on increases in ODA. In most places, domestic resource mobilisation and private sector investment might be expected to fill the majority of the investment gap. However, a large

part of the required additional finance will be needed in places where raising additional tax revenue, or attracting private finance, is difficult.¹⁵ An alternative estimate of total SDG financing needs¹⁶ is broken down by country and suggests that around 25% of total finance needs will be in countries that are currently least developed countries (LDCs) and/or low-income countries. In absolute terms, this amounts to *additional* financing needs in LDCs of at least US\$230 billion in 2025.

These LDCs rely disproportionately on ODA. ODA was the largest source of external finance in 2020: ODA disbursements to LDCs from DAC countries and multilaterals were US\$66 billion, compared to private flows worth \$61 billion (foreign direct investment, portfolio investment and other types of debt).

Even compared to tax revenue, ODA has an outsized importance. In 2018 (the latest year for which data is available for all variables), ODA accounted for around 23% of total finance in LDCs, including tax revenue and private investment (see Figure 3 below), compared to only 6% for lower middle-income countries, and 1% for upper middle-income countries. However, this still understates the importance of ODA for achieving the SDGs in these countries, because neither tax revenue nor private finance will be spent *entirely* on achieving the SDGs. For example, research by the International Monetary Fund found that in Sub-Saharan Africa (home to the majority of LDCs) only a quarter of cross-border private investment was spent in SDG-related sectors.¹⁷ In addition, the World Bank estimates that around 8% of total LDC government expenditure was on the military.¹⁸ When adjusting for these figures, ODA accounts for 30% of SDG-related finance in LDCs as a rough approximation.

Figure 3: Breakdown of financing sources, 2018



Source: Development Initiatives (DI) based on World Bank data, OECD CRS, and DI's internal international resource flows dataset compiled from UN, World Bank and OECD sources.

Notes: LDC = least developed country; LMIC = lower middle-income country; UMIC = upper middle-income country; ODA = official development assistance; CRS = Creditor Reporting System (OECD DAC). LDCs include some countries that are middle-income according to World Bank income classifications, and therefore there is some overlap between bars. 2018 was the latest year with full data.

Therefore, unless the financing mix changes, ODA to LDCs would need to double to meet estimated finance needs (see Table 1 below). And changing the financing mix will be difficult: one study found limited potential for LDCs to increase their tax revenue.¹⁹ These figures are highly approximate and subject to numerous caveats.²⁰ Nevertheless, they demonstrate that ODA will continue to be essential in LDCs.

Table 1: Share of SDG financing gap by country income group

Country grouping	Share of financing gap (%)	Estimated financing gap (US\$ billion)
LDCs and/or LICs	25	>US\$230 billion
LMICs	52	>US\$480 billion
UMICs	23	>US\$212 billion

Source: Development Initiatives based on Kharas and MacArthur (2019).²¹

Notes: SDG = Sustainable Development Goal; LDC = least developed country; LIC = low-income country; LMIC = lower middle-income country; UMIC = upper middle-income country.

Furthermore, these studies find that the sectors most likely to be important for SDGs are those that are less appealing for private investors, as they are less likely to earn a return. External public finance for these sectors is currently dominated by grants – 57% of total disbursements in 2021 (and 70% in health) – and such financing is almost exclusively funded from ODA. According to Bhattacharya and colleagues,²² human capital investments (health and education) account for more than half of additional investment needs. We label these sectors as ‘pro-poor’ sectors, given that investments in these sectors disproportionately benefit those living in extreme poverty, and will revisit them later in this report ([Chapter 3](#)). One recent study estimates that around four-fifths of LDCs cannot currently meet expenditure needs in health, education or social protection given current revenue, suggesting an important role for outside finance.²³

Despite the uncertainty of these estimates, they demonstrate that the relevance and importance of aid is as great as ever. ODA is unique in being able to target poverty directly. But more ODA needs to be mobilised, better targeted to the people and countries of greatest poverty, and better focused on the right mechanisms, channels, sectors and modalities that build human capital and strengthen institutions. The next chapter looks at global ODA trends and starts to unpack some numbers behind the ODA totals to explain how much is left there to be invested in the countries with greatest poverty.

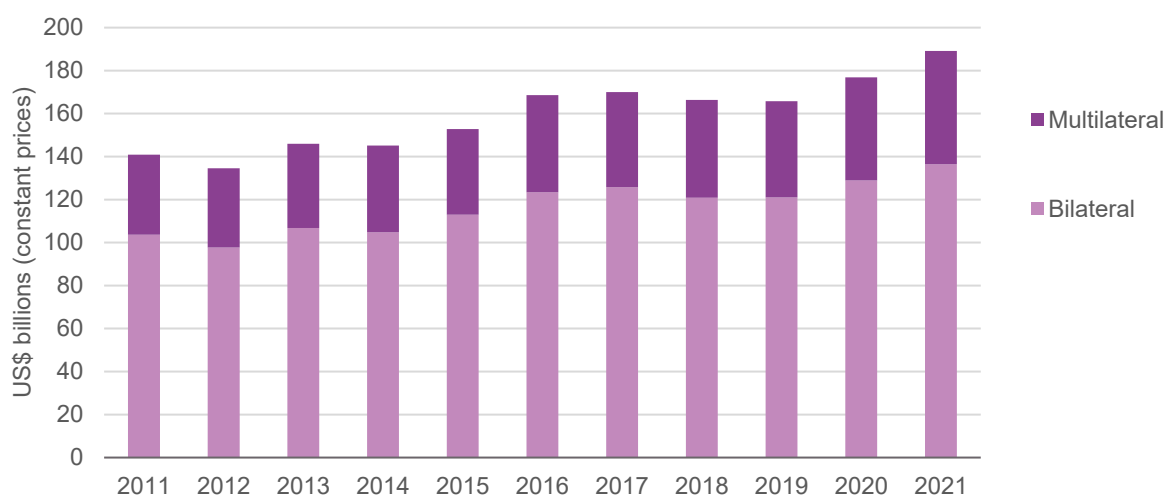
Chapter 2. Unpacking ODA numbers – behind the recent headlines

ODA from DAC countries has increased, but not fast enough to keep pace with new needs

Total gross official development assistance (ODA) from countries in the Development Assistance Committee (DAC) increased from US\$141 billion in 2011 to US\$189 billion in 2021, an increase of 34%. This represents slower progress than in the previous decade: gross ODA grew by 61% between 2001 and 2011. However, the 2000s was the decade in which growth in ODA was the highest: it followed a steady decline in ODA disbursements in the 1990s, and was spurred in part by the agreement of the [Millennium Development Goals](#).

Around US\$33 billion of this increase came from additional bilateral ODA, with the remaining US\$15 billion coming from an increase in multilateral ODA (see Figure 4 below). However, this positive headline story – a 34% growth in gross ODA over the last decade – is complicated by numerous factors. This chapter delves beneath these headline numbers and finds that this increase has been wholly in response to specific circumstances that have all increased need since 2011.²⁴ When these are taken into account, aid left over for priorities that focus specifically on poverty reduction and economic growth has declined over the last decade.

Figure 4: Gross ODA from DAC countries, constant 2020 US\$ billion, 2011–2021



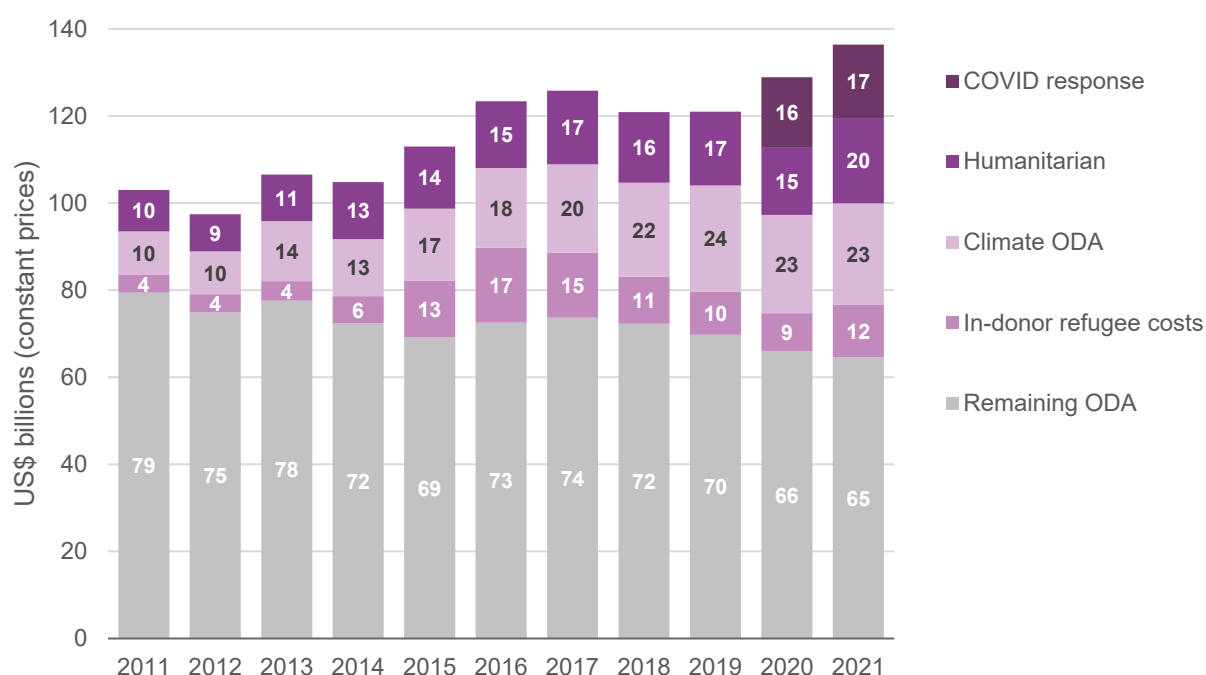
Source: Development Initiatives based on OECD CRS.

Notes: ODA = official development assistance; DAC = Development Assistance Committee (OECD).

Recent growth in DAC bilateral ODA has been driven by special circumstances which will continue into the future

Bilateral gross ODA from DAC countries grew to a new peak of US\$136 billion in 2021, an increase of 32% over the last decade. However, this has been driven by particular circumstances that have generated new, additional needs, and the increase in ODA has not been sufficient to meet these needs while maintaining expenditure on existing priorities. When we exclude spending on Covid-related activities, in-donor refugee costs, humanitarian assistance and climate-marked ODA, the remaining bilateral ODA from DAC countries has declined by 7% since 2019 (before the Covid-19 pandemic) and by 19% since 2011 (see Figure 5 below).

Figure 5: Composition of gross bilateral DAC ODA, 2011–2021



Source: Development Initiatives based on OECD-DAC.

Notes: DAC = Development Assistance Committee (OECD); ODA = official development assistance. Overlaps between Covid response, humanitarian assistance and climate-marked ODA (principal and significant) have been treated as follows: anything with a Covid keyword is shown under the Covid response category; anything that is humanitarian and not also Covid is shown under the humanitarian category. Climate-marked ODA is shown in its category only if it is not Covid-related or humanitarian assistance. The Covid ODA shown is based on the ODA activities returned as 'Covid' in the CRS 'Keyword' field, rather than the DAC1 field 'Total ODA for Covid-19 activities', which differs slightly.

Humanitarian needs

Humanitarian spending from ODA has grown by around 120% over the last decade, as humanitarian emergencies have increased in severity in recent years. It is essential that countries respond to these emergencies. But given that humanitarian need has increased faster than total available development spending, there has been a reduction in ODA spent in other sectors relative to the beginning of the decade. Consequently, humanitarian spending accounted for 15% of bilateral aid in 2021, compared to 9% in 2011. Despite this increase, humanitarian assistance has not kept pace with need. The funding coverage of humanitarian appeals has steadily declined over the last decade, and although this changed in 2022 given the large response to Ukraine, the trend has nevertheless been for humanitarian need to outpace financing. Humanitarian finance is essential, but it is still displacing other types of development finance. For more information, see Development Initiatives' [Global Humanitarian Assistance report 2022](#).²⁵

Climate finance

Over the last decade, another notable shift in the composition of aid has been the growth of bilateral aid spent on climate finance. This category of spending is controversial. While there are overlaps with recognised aid spending that targets economic growth and poverty reduction, wealthy countries committed to providing climate finance that was ‘new and additional’ [UN], and there is a question as to whether climate finance should therefore count as ODA. This argument is strongest for mitigation: many have questioned whether mitigation finance should be ODA-eligible given that it is not primarily intended to benefit lower-income countries, but the planet as a whole.²⁶ (For more on the benefits and risks of targeting mitigation and development simultaneously, see [DI’s latest discussion paper](#).²⁷) But even for adaptation, similar arguments have been made. Even if there is considerable overlap with development finance, there are nevertheless costs specific to adaptation (such as seawall defences, for example) that have arisen since the 0.7% target was agreed. Some have argued that including adaptation in ODA is ethically inappropriate given the different motivations behind the two.²⁸ However, it is difficult to separate them in practice, given the similarity between many adaptation and development goals²⁹ and the fact that both require highly concessional funds.

Nevertheless, bilateral aid marked as having a climate objective has grown substantially over the last decade. In 2011, it accounted for 10% of bilateral ODA, but by 2021 this had risen to 21%. Bilateral ODA with a mitigation focus increased from 8% to 12% over the same period (more than doubling in absolute terms). There is significant uncertainty about these figures, given issues around reporting, and some projects potentially having been re-labelled so that countries can count projects towards the UN Framework Convention on Climate Change US\$100 billion goal. However, although question marks remain over the exact extent to which aid is now being spent on climate goals, there has clearly been an increase in climate spending in the last decade.

In-donor refugee costs

In-donor refugee costs have counted as ODA since 1988, but for most of this time they have represented a very small part of the total. However, this category accounts for a large proportion of the increase in bilateral aid since 2011. In-donor refugee costs rose from 4.0% to 8.9% of bilateral ODA between 2011 and 2021. This is explored in more detail further on.

Covid-19 response

In 2020 and 2021, donors increased aid in response to the Covid pandemic, spending an estimated US\$16 billion in bilateral aid in 2020 and US\$17 billion in 2021.³⁰ While this response was welcome, it was not enough to stop the reversal in development outcomes in these years: the number of people living in extreme poverty increased by around 50 million between 2019 and 2021.³¹ In addition, the 2021 increase in bilateral aid was driven in part by the controversial inclusion of donations of excess vaccine doses. When Covid spending is removed, bilateral aid spent on health declines between 2011 and 2021 by 12% (from US\$14.0 billion to US\$11.7 billion).

Less bilateral ODA remains for longer-term goals

This highlights that the new, additional needs for which ODA was employed increased faster than bilateral ODA volumes. A large share of these needs was responding to urgent events as they unfolded, rather than on programmatic priorities that have greater potential to foster long-term development. To be clear, responding to humanitarian emergencies has always been a priority of ODA. But the fact that the additional needs generated by such events has outpaced total aid spending has meant that there is less left for more strategic, long-term priorities. The original purpose of ODA – which formed the basis of the 0.7% target – related to increasing the ability of low- and middle-income countries to invest in their economic development. While responding to pandemics and providing for refugees are important in their own right, they do not contribute to this goal.³²

While climate finance *is* necessary for countries to make sustainable investments, the data suggests that it is currently coming at the expense of other necessary investments. This is especially problematic when ODA is being used to fund investments that could have attracted other types of finance. For example, it is estimated that US\$300 billion in investments is required to generate sufficient clean energy in Middle Eastern and African countries (most of which are ODA-eligible)³³ every year. ODA cannot fund these needs while also tackling poverty. Given that many such projects are likely to generate financial returns, there could be other types of finance better suited to addressing this challenge.

Multilateral disbursements have followed a similar trend

The picture is similar when multilateral disbursements are included. While these increased from US\$43 billion to US\$69 billion between 2011 and 2021 (an increase of around 60%), this was largely in response to the above factors. When Covid, humanitarian assistance and climate-marked ODA are removed, the increase is reduced to US\$10 billion (from US\$39.0 billion to US\$48.7 billion). While this is insufficient to fill the gap left by the reduction in bilateral disbursements, it suggests that more of the increase in multilateral disbursements was towards ‘traditional’ development priorities. However, this understates the increase in disbursements with a climate focus, given that most multilaterals do not use the Rio marker to indicate such projects. When this is accounted for, the trend looks similar to the bilateral trend.

For example, around US\$0.5 billion of the increase in multilateral disbursements was from climate-specific funds. Furthermore, between 2012–2013 and 2019–2020, the International Development Association increased its share of commitments focused on climate change from 14% to 32%. The weighted-average share of climate-related concessional disbursements from multilateral organisations that report climate finance to the Organisation for Economic Co-operation and Development (OECD), increased from around 24% in 2012–2013 to 36% in 2019–2020.³⁴ If these shares are assumed to be similar to those in 2011 and 2021 respectively, then around US\$8 billion of the increase in disbursements from multilaterals would be climate related. This is only indicative given data constraints. But it highlights that multilateral ODA disbursements have followed broadly the same trend as bilateral ODA, and, if accurate, implies that disbursements from DAC and multilaterals for long-term, development-specific priorities fell by around US\$14 billion between 2011 and 2021.

The share of ODA spent within donor countries remains high

Another important factor in understanding the headline increases in ODA is that a large share of aid does not actually reach partner countries. We describe this as ‘non-transfer’ ODA and argue that this is a critical part of ODA that needs to be considered to better understand what gets spent in countries. Non-transfer ODA refers to six categories: in-donor refugee costs, debt relief, administrative costs not elsewhere classified, imputed student costs, in-donor scholarships and promotion of development awareness. The inclusion of some of these costs in ODA is controversial. For example, civil society organisations have long criticised the inclusion of in-donor refugee costs.³⁵ While these may represent useful expenditure (for example, administrative costs may include expenditure on project evaluation or skilled staff), this does not necessarily mean they should count as ODA, and they nevertheless do not increase resources available for low- or middle-income countries.

Box 1: Country-programmable aid and transfer aid

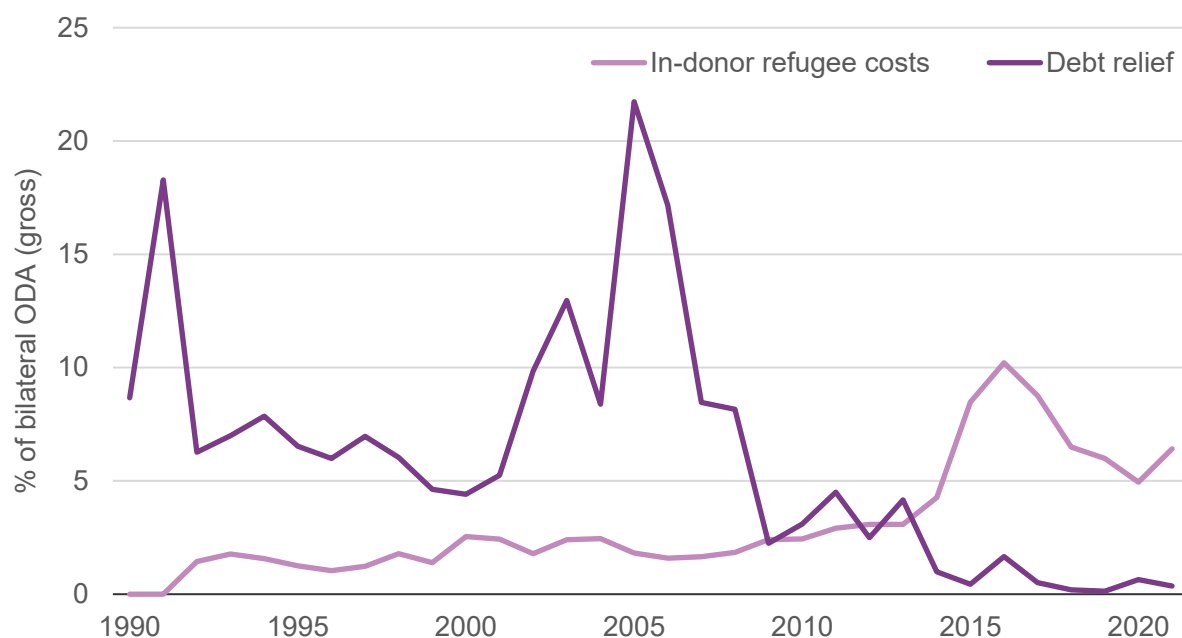
Transfer aid is similar in nature to ‘country-programmable aid’ (CPA); a concept developed by the OECD in 2011 to track aid that is (or could be) subject to multi-year planning, and a better measure of what partner countries actually receive. CPA is a valuable concept and given its focus on aid that can be planned for, is arguably a more appropriate measure for which to set targets.³⁶ However, there are important differences between CPA and transfer aid, which make the former less appropriate for our purposes. Because of its focus on programmable aid, CPA excludes humanitarian assistance, which is an important (and growing) part of transfer aid. In addition, CPA does not include aid that cannot be allocated by country. While such aid is often non-transfer, it also includes core funding for NGOs, and contributions to pooled funds that are ultimately spent in partner countries and therefore included in transfer aid. Both concepts have their uses, but for the purposes of tracking what countries actually receive, our focus in this report is on transfer ODA.

These non-transfer components have always represented a substantial share of ODA. They have accounted for 14% of total ODA on average since 2011, and 15% on average since 1990. In fact, aside from a few spikes owing to various causes (explored below), the share of non-transfer ODA has remained close to this average. Conversely, this means that ODA that actually reaches partner countries (including indirectly via core multilateral ODA) has averaged 86% of the total. In 2021, total ODA was US\$189 billion in gross disbursement terms, but a maximum of US\$163 billion reached low- and middle-income countries (including aid directed through multilaterals).

However, the composition of such non-transfer aid has changed significantly over time. Historically, by far the largest component of non-transfer aid has been debt relief, accounting for 8% of total ODA on average during the 1990s and 2000s, Debt relief reached its peak in 2005 when it accounted for 21.7% of total ODA.

This was heavily concentrated in G7 countries: France, Germany, Italy, Japan and the United Kingdom each spent over 30% of total ODA on debt relief in 2005. As the largest economies in the DAC over the last few decades,³⁷ these countries have a large bearing on overall ODA trends (see Figure 6 below). Spending on non-transfer ODA in each G7 country is detailed further in [Annex 3](#).

Figure 6: In-donor refugee costs and debt relief from DAC countries as a share of total ODA, 1990–2021



Source: Development Initiatives based on OECD DAC Table 1.

Notes: ODA = official development assistance; DAC = Development Assistance Committee (OECD).

Since 2013, debt relief has accounted for less than 1% of non-transfer ODA on average. It has been replaced as the largest non-transfer category by in-donor refugee costs, as conflict in the Middle East has led to large numbers of people seeking asylum in DAC countries. Germany was at the heart of this change. It increased expenditure on in-donor refugee costs 45-fold between 2014 and 2016, from US\$163 million to US\$7.3 billion. In 2016, this was 25% of Germany’s total ODA (although Germany also increased transfer aid by 32% over the same period). Germany was the country spending the most on in-donor refugee costs from 2015 until 2021 when the US tripled its spending on in-donor refugee costs. The UK also dramatically increased its spending on in-donor refugee costs between 2019 and 2021, in part due to a sharp increase in accommodation costs.³⁸

The recent increase in ODA spent on in-donor refugee costs is partly explained by an increase in people seeking asylum in DAC countries: applications for asylum in DAC countries tripled between 2006 and 2021. However, this does not account for the full increase. The amount spent on in-donor refugee costs increased nearly six-fold in constant prices. While the number of asylum applications is not a perfect measure of need, using this as a proxy suggests that per capita in-donor refugee costs have doubled over this period: from around US\$5,500 spent on in-donor refugee costs per asylum application received by the DAC in 2006, to US\$11,100 in 2021. This is partly explained by countries choosing to count more ODA in this category when the issue became more prominent. For example, before 2009 the UK did not count any in-donor refugee costs

despite incurring eligible costs, but by 2021 this category accounted for 9% of the UK's total ODA.

Non-transfer ODA is set to increase sharply in 2022 and beyond

From 2022 onwards, the percentage of ODA spent on non-transfer categories is set to increase dramatically. Following Russia's invasion of Ukraine, a large number of Ukrainians have sought refuge in Europe, and so it is likely that in-donor refugee costs will rise to unprecedented levels among DAC countries, especially those in Europe. Recent estimates³⁹ suggest that total in-donor refugee costs will be above US\$35 billion in both 2022 and 2023, nearly three times the level in 2021. It will therefore become even more important to go beyond the headline ODA figures to understand how much ODA is reaching partner countries.

Lack of 'intentionality' in non-transfer ODA

Aside from being spent in donor countries, one aspect that unites most non-transfer aid is that it is reactive and difficult to anticipate or prepare for in advance. With the exception of administrative costs, this means that non-transfer aid is less likely to be subject to multi-year programming. For example, although in-donor refugee costs will increase substantially in 2022 and beyond, this is not as a result of an intentional policy on the part of donors, but in response to events unfolding in Ukraine. Similarly, imputed student costs depend on how many students arrive, which is at least partly beyond the control of donors. This is less so for scholarships and promotion of development awareness, but these categories are small in magnitude.

Therefore, as with spending in response to pandemics and humanitarian situations, these types of spending are worthwhile, but fundamentally different from ODA that gets transferred to recipient countries and can be used for longer-term development. To the extent that they are counted under the same input targets as programmable aid, they reduce the extent to which ODA is intentionally directed towards the goals of either donors or recipients and increase the extent to which it is just a contingency fund, reacting to events.

Chapter 3. Allocation in practice: what is spent, where and how?

Bilateral ODA has a comparative advantage in places most in need

The challenges that official development assistance (ODA) is being called on to address are increasing faster than overall ODA volumes. It is likely that these trends will continue, as both climate-related humanitarian emergencies and risks of future pandemics also increase.⁴⁰ Historic trends in ODA suggest that it is unlikely to increase fast enough to meet these needs.⁴¹ It is therefore becoming more important that remaining ODA is well targeted towards poverty reduction.

ODA – and grant financing in particular – has a comparative advantage in those places where other sources of finance are hard to raise. In practice, this means poorer countries and especially least developed countries (LDCs) with the large majority now experiencing problems with loan financing due to a moderate risk of debt distress or worse.⁴² In addition, some sectors that are particularly important for poverty reduction (health, education and other social services for example) are sectors in which generating a financial return is comparatively difficult. ODA is thus particularly important in these sectors.

Focusing on LDCs is a good proxy for focusing on poverty reduction. While some middle-income countries such as Nigeria and India have high absolute numbers of people living in extreme poverty, LDCs as a group have specific characteristics that make ODA especially valuable.⁴³ LDCs are far less likely to receive other types of international finance (such as foreign direct investment or remittances) and are generally far less able to mobilise domestic resources. In 2019, domestic resources were only US\$150 per person on average in LDCs – just a third of the level in LMICs – making it harder for them to finance key sectors such as health and education. Consequently, poverty is increasingly concentrated in this group of countries. These characteristics are reflected in the commitment of Development Assistance Committee (DAC) countries to spend at least 0.15% of gross national income (GNI) on aid to LDCs,⁴⁴ a target which has rarely been met.

The necessity of focusing on LDCs will only increase, especially given the significant crossover between LDCs and fragile and conflict-affected states. Governments are currently discussing important reforms of the multilateral development bank (MDB) system that will allow greater leverage of MDB balance sheets to unlock hundreds of billions of additional development finance. However, this additional finance is likely to be

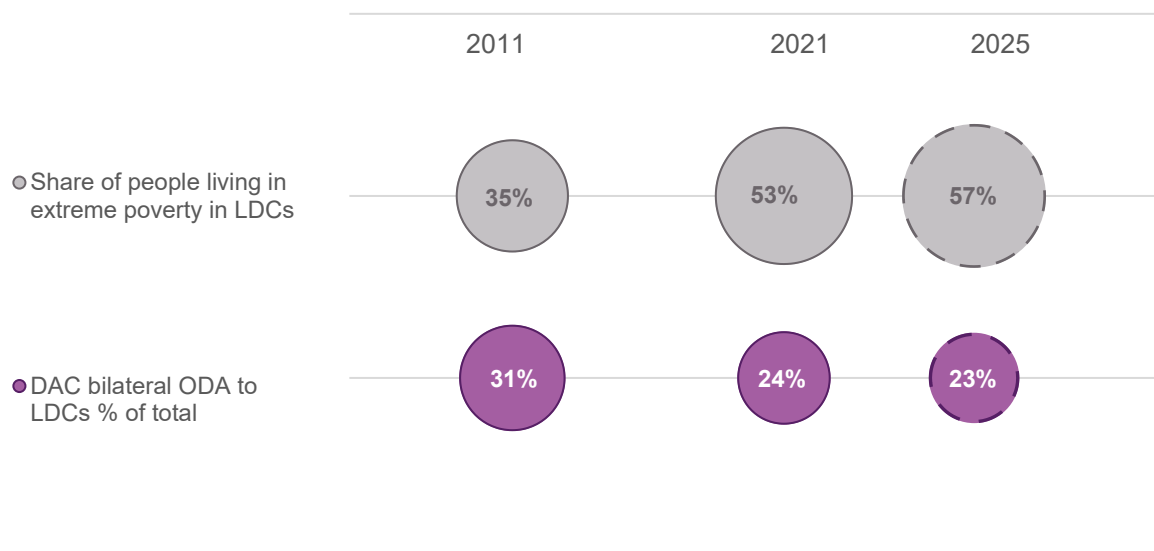
directed towards middle-income countries: currently, only 16% of disbursements from MDBs are to LDCs. Further, the additional finance raised will largely be in the form of loans. Given that most LDCs are currently at 'moderate' or higher risk of debt distress,⁴⁵ there are question marks over the extent to which they can significantly scale up even concessional borrowing.

While the reform efforts may not directly benefit LDCs, they nevertheless present an opportunity. ODA's comparative advantage in LDCs is likely to increase. LDCs are the group most in need of grant (and highly concessional) financing and have the fewest alternative financing options. The greater volume of finance unlocked by reform efforts could open space to pivot ODA towards LDCs.

LDCs are experiencing a greater share of poverty, but a lower share of bilateral aid

While the share of the world's people living in extreme poverty in LDCs has risen from 35% in 2011 to 53% in 2021 and is estimated to increase to nearly 60% by 2025, bilateral ODA has moved in the other direction. The share of bilateral aid given to LDCs has fallen from 31% to 24% over the same period. Figure 7 shows what happens if these trends are extrapolated to 2025. In absolute terms, bilateral aid stagnated, remaining at US\$33 billion in both 2011 and 2021. This is despite international agreements to increase ODA spending in LDCs: DAC countries have committed to spending 0.15–0.2% of their GNI on aid to LDCs.⁴⁶ Between 2011 and 2021, DAC countries got further away from this goal, with aid spent in LDCs falling from 0.10% to 0.09% of DAC GNI.⁴⁷ This figure includes 'imputed multilateral spend' – the share of core multilateral contributions that supports disbursements in LDCs from multilateral organisations.

Figure 7: People living in extreme poverty in LDCs, and ODA to LDCs, 2011, 2021 and 2025



Source: Development Initiatives based on OECD DAC and World Bank PovcalNet data.

Notes: LDC = least developed country; ODA = official development assistance; DAC = Development Assistance Committee (OECD). Continuation of trend scenarios (average annual change) for ODA to LDCs % total over both last three years and last ten years lead to 23% in 2025 DAC bilateral ODA to LDCs % of total. This was based on following the trajectory of ODA to LDCs as a percentage of total bilateral ODA (including non-country allocable). Applying three-year and ten-year average annual growth both resulted in the 23% value. Considering ODA to LDCs as a share of country-allocable ODA from DAC donors, the trend is relatively stable, with ODA to LDCs remaining at around 40% over the last decade. The range is from 37% to 45% but there is no downward trend, and the 2010 value of 41% is close to the 2021 value of 40%.

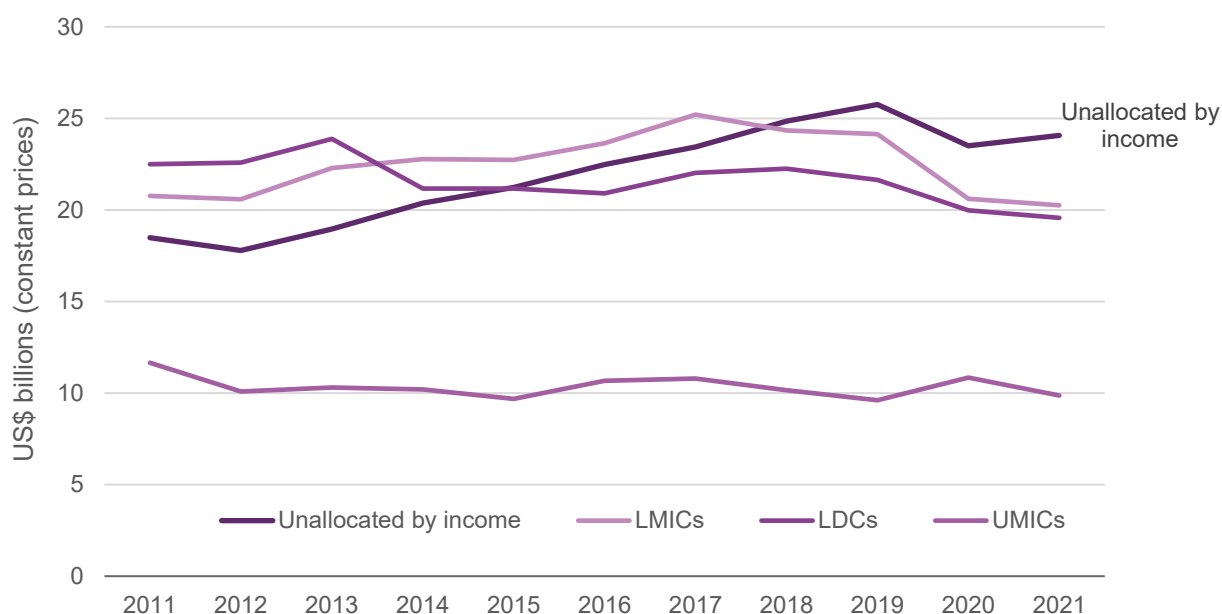
Bilateral ODA to LDCs is heavily influenced by the trends discussed in [Chapter 2](#). In 2011, there were significant debt cancellations for LDCs which led to higher non-transfer ODA for this group. The increase in humanitarian spending in the last decade has been concentrated in LDCs as well. However, when these are taken into account, the trend is similar. When Covid-10, humanitarian assistance and non-transfer aid are excluded, the share of bilateral aid to LDCs fell from 31% to 27% between 2011 and 2021. In absolute terms, this means that aid for longer-term, strategic purposes fell from US\$22.4 billion to US\$19.6 billion between 2011 and 2021, a fall of 13%.⁴⁸

Rising ‘non-country allocable’ distorts the picture

This picture is complicated by the rise over the last decade in aid that cannot be allocated by country. This category was 80% higher in 2021 than in 2011, and now accounts for 33% of bilateral ODA when non-transfer aid is excluded. This category includes aid given as core funding to NGOs, to special-purpose funds or to development finance institutions. As much of this rise comes from contributions to humanitarian organisations and to Gavi,

the Vaccine Alliance for the response to the Covid pandemic, the increase is only 30% when humanitarian, Covid, and non-transfer aid are removed. By this measure, it accounts for US\$24 billion, or 33% of the remaining bilateral ODA (see Figure 8 below).

Figure 8: Bilateral ODA by income group (excluding humanitarian, Covid and non-transfer aid), 2011–2021



Source: Development Initiatives based on OECD CRS.

Notes: ODA = official development assistance; LMIC = lower middle-income country; LDC = least developed country; UMIC = upper middle-income country. Covid ODA is identified using purpose code 12264 and the 'keyword' variable. For convenience, the LDC category includes 'other LICs', and the UMICs category includes a small amount of aid to 'More advanced countries and territories (MADCCTs)'. This is a very small share of the total in each case. ODA unallocated by income is that for which a specific recipient country cannot be identified, for example, because it has been given to a special purpose fund which operates in numerous countries.

Ultimately, some of this aid will be spent in LDCs which could change the picture. It is not clear whether this overstates or understates the decline in bilateral ODA to LDCs. While non-allocable aid has increased, it is possible that the share ultimately spent in LDCs has declined enough to offset this. It is difficult to assess the impact of the rise in non-allocable aid because the quality of reporting on ODA channels of delivery is lacking with information often only reported at an aggregate level or not at all. However, the available evidence suggests that most of this ODA is linked to private-sector spending:

- Around 32% of the increase in non-allocable aid is in the form of loans or equity. This includes capital contributions to development finance institutions such as DEG and Proparco.
- Another 9% is from capital contributions to British International Investment and NORFUND (the UK and Norway have counted such contributions as grants in the Creditor Reporting System data).

- Another 10% of the increase was accounted for by contributions to International Bank for Reconstruction and Development trust funds, the Development Bank of Latin America and the International Finance Corporation. Given their mandates, the focus of these organisations on LDCs is limited.

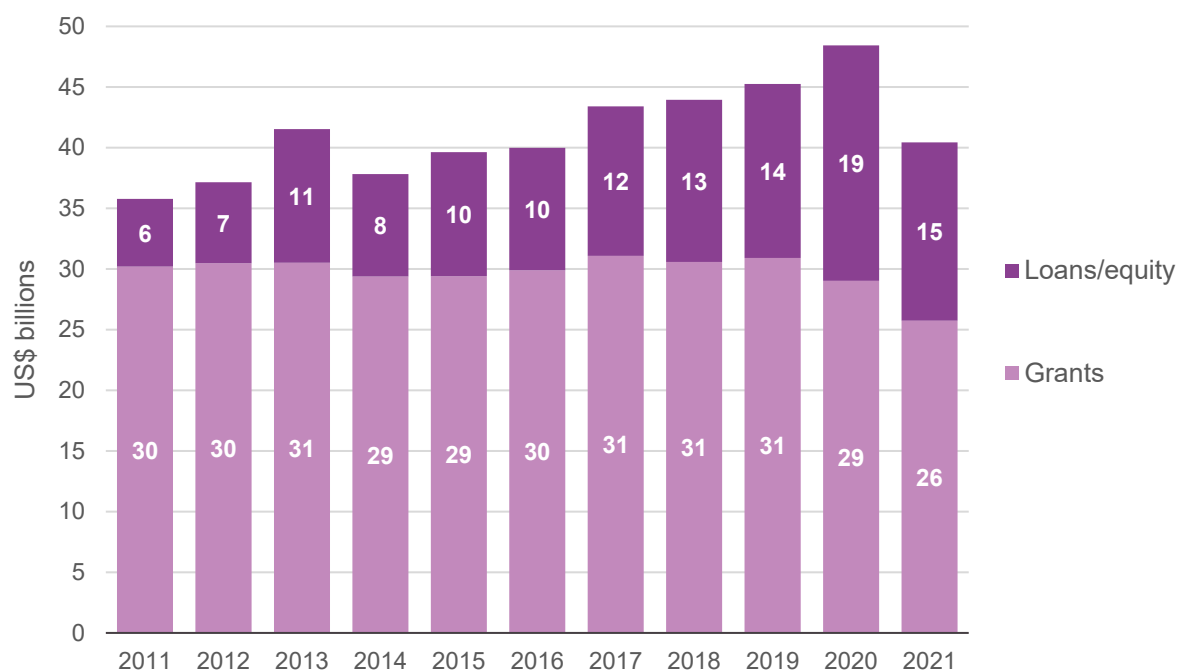
This analysis is highly incomplete and further research is necessary to provide a greater understanding of which countries ultimately benefit from non-allocable aid and how. Nevertheless, the data available here does indicate that over half of such aid is linked to spending that very likely benefits middle-income countries.

Multilateral disbursements offset the decline in aid to LDCs, at the expense of concessionality

The decline in bilateral aid to LDCs (both relative and in absolute terms) has been offset by an increase in the share of ODA disbursements from multilateral donors to LDCs. Whereas the share of bilateral ODA to LDCs declined by 4%, the share of multilateral ODA disbursements to this group increased by 7%, from 35% to 42%. This resulted in an absolute increase in ODA disbursements to LDCs of US\$5 billion between 2011 and 2021 (when humanitarian, Covid and non-transfer aid are removed).

Although the change in multilateral ODA disbursements counteracted the bilateral shift away from spending ODA in LDCs, this has come at a cost. Bilateral aid is far more likely to be in the form of grant financing: between 2011 and 2021, 83% of bilateral aid was in the form of grants, whereas the corresponding figure for multilaterals was 55%. The increase in the relative importance of multilaterals for ODA disbursements to LDCs has decreased the average concessionality of these disbursements. The share of grants in total ODA disbursements to LDCs fell from 84% to 64% between 2011 and 2021. Grant financing for LDCs from DAC countries and multilaterals fell over this period, from US\$30 billion to US\$26 billion (see Figure 9 below).

Figure 9: ODA disbursements from DAC and multilaterals to LDCs by instrument (excluding humanitarian, Covid and non-transfer), 2011–2021



Source: Development Initiatives based on OECD CRS.

Notes: ODA = official development assistance; DAC = Development Assistance Committee (OECD); LDC = least developed country; LIC = low-income country; UMIC = upper middle-income country. Covid aid is identified using purpose code 12264 and the 'keyword' variable. For convenience, the LDC category includes 'other LICs'. This is a very small share of the total.

This shift away from grants is not solely a result of a higher share of ODA disbursements originating from multilaterals. The share of grants in total bilateral ODA to LDCs fell from 97% to 87% between 2011 and 2021, and from 96% to 82% when non-transfer, Covid and humanitarian assistance are removed. However, multilaterals remain much less likely to provide aid in the form of grants: in 2021, only 47% of multilateral aid to LDCs (excluding Covid and humanitarian) was in the form of grants.

The shift away from grant financing is not unique to LDCs (all groups have seen a decline in grant financing over the last decade) and concessional loans can be important tools for development. At the same time, even highly concessional lending can add to debt burdens in the countries of greatest poverty and may be less appropriate than grant financing, especially given that the majority of LDCs are at risk of debt distress as noted above. Countries that were in debt distress in 2023 recorded a decline in their share of grant financing in development aid from DAC countries and multilaterals from 86% to 76% between 2011 and 2021. For countries that were at high risk of debt distress, the decline was from 83% to 66%.

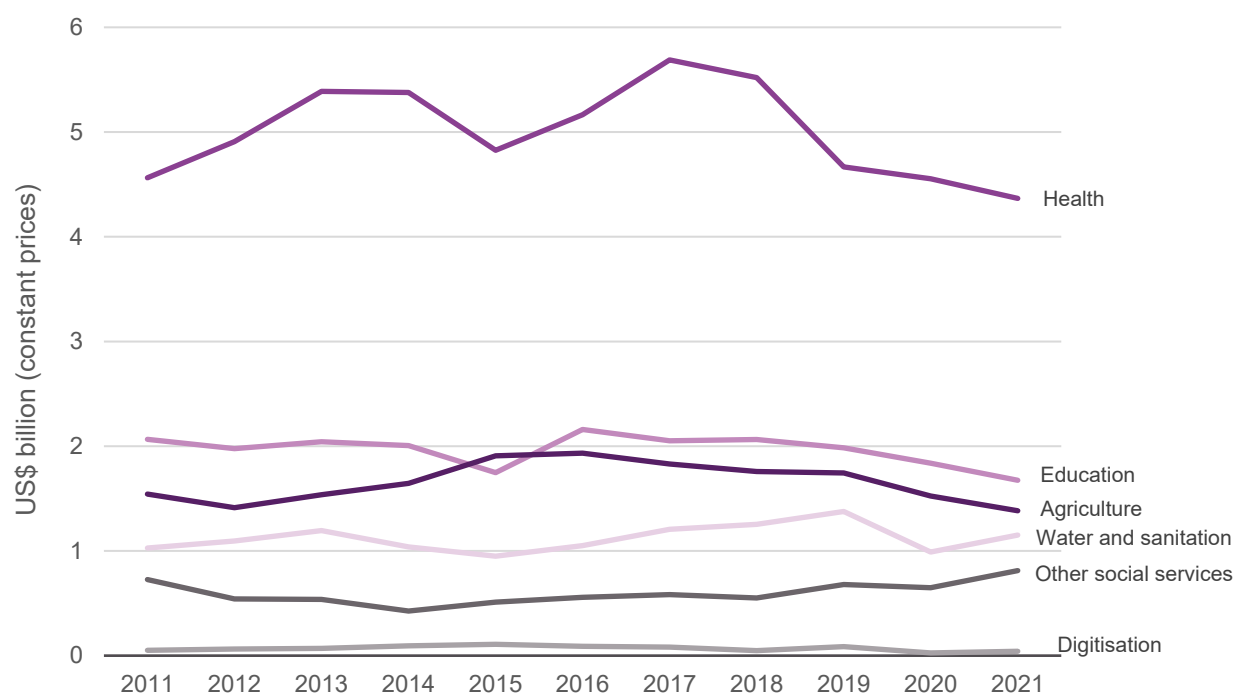
Bilateral aid to pro-poor sectors in LDCs has stagnated

In addition, the sectoral focus of bilateral aid to LDCs shows a lack of progress in sectors likely to benefit the poor disproportionately. Previous Development Initiatives research has identified five sectors that disproportionately benefit those living in extreme poverty: health, education, agriculture, water and sanitation, and other social services.⁴⁹ The latter includes funding for social assistance programmes, which some have argued should account for a much larger share of ODA.⁵⁰

Despite rising throughout the first part of the 2010s, bilateral aid to these sectors (excluding non-transfer and Covid aid) was slightly lower in 2021 than in 2011 (US\$9.4 billion compared to US\$10.0 billion). This stands in stark contrast to previous years: bilateral aid to pro-poor sectors in LDCs nearly doubled between 2006 and 2011. Since then, apart from a surge in 2017, it has declined on average.

Largely, this was driven by bilateral aid to the health sector, which is by far the largest pro-poor sector (see Figure 10 below). This type of aid grew consistently between 2006 and 2013 (from US\$2.4 billion to US\$5.4 billion) but has declined on average ever since (despite peaking in 2017). Bilateral aid to the agricultural sector in LDCs followed a similar pattern and aid to education was relatively flat between 2010 and 2019, declining slightly thereafter. Bilateral aid to 'other social services' in LDCs bucked the trend, and has increased consistently since 2014, but remains small (only US\$0.8 billion in 2021).

Figure 10: Bilateral ODA to pro-poor sectors in LDCs (excluding Covid and non-transfer aid), 2010–2021



Source: Development Initiatives based on OECD CRS.

Notes: ODA = official development assistance; LDC = least developed country; CRS = Creditor Reporting System (OECD DAC). Spending on Covid has been identified in the CRS using both the purpose code 12264 and the 'keyword' variable. Estimates using this method do not match DAC1. See Annex 2 on methodology for more information.

In contrast, multilateral ODA disbursements to pro-poor sectors in LDCs increased consistently between 2006 and 2019, from around US\$3.8 billion to US\$11.3 billion. Again, this was largely driven by the health sector and partly due to the establishment of major vertical health funds such as the Global Fund and Gavi, the Vaccine Alliance. However, multilateral ODA to other pro-poor sectors in LDCs also increased consistently over this period.

Since 2019, multilateral ODA disbursements to the health sector have shown a substantial decline when Covid-related disbursements are excluded. However, care should be taken in interpreting this figure, given the way in which Covid-related spending is identified. It is possible that some disbursements marked as such have more general benefits, such as strengthening health systems. While this is also true of bilateral ODA, the decline in bilateral aid to the health sector began in 2017 and so does not entirely explain this trend.

The increase in multilateral ODA disbursements to pro-poor sectors counteracted the decline in bilateral spending, meaning that total ODA disbursements to such sectors were higher in 2021 than in 2011 (US\$17.0 billion, compared to US\$15.8 billion), albeit by only

7.9%. However, as with aid to LDCs as a whole, the reliance of DAC countries on multilaterals to fill the gaps in their bilateral spending comes at the expense of concessionality. Grant financing from DAC countries and multilaterals to pro-poor sectors in LDCs declined by US\$1 billion between 2011 and 2021. While this was partly because the share of grants in bilateral aid to pro-poor sectors in LDCs decreased during this period (from 99% to 92%), it was driven mainly by the increase in the share of disbursements from multilaterals, which are more likely to be loans.

In summary, when the impact of special circumstances is taken into account, the amount of bilateral aid spent in countries most in need has declined over the last decade. The aid spent in those countries is less concessional, and less likely to go to sectors likely to disproportionately benefit the poor. While multilateral organisations have increased their focus on LDCs to counteract this trend, the higher share of loans in their ODA disbursements has meant that grant financing for LDCs has still declined (when humanitarian and Covid aid are excluded).

The fact that bilateral ODA is moving in the wrong direction – away from the countries with greatest poverty, away from pro-poor sectors and away from grants where they are needed most – suggests that we need a re-think. When the reactive elements of ODA are removed, how do donors decide to allocate what is left, and how could this be improved? In [Chapter 4](#), we consider current aid allocation models and suggest moving towards those that prioritise the poorest to a greater degree. Aid is partly political. But it is useful to start with an idea of how aid should be spent if poverty eradication was the sole focus. Other initiatives, such as MDB reform, the potential for greater uses of special drawing rights, and greater private sector mobilisation, provide the opportunity to be more targeted in how ODA is used, and to move towards an allocation model that puts people living in poverty first.

Chapter 4. Principles of ODA allocation

This chapter calls for poverty reduction to be a key driver in the allocation of official development assistance (ODA). We see from analysis and evidence presented in previous chapters that this is currently not the case. Pandemic recovery efforts, rising food insecurity, debt, inflation and the Ukraine crisis are all key challenges for the world and international public investment plays a key role in all of them. While spending money on combating Covid or helping Ukrainian refugees is undoubtedly good, ODA is charged with addressing ever more issues, such as climate mitigation and rising in-donor refugee costs. Unless ODA increases accordingly, traditional development priorities will lose out. There is a trade-off if we count expenditure in more areas towards ODA targets. For example, the estimated need for climate mitigation finance is hundreds of billions of dollars (estimated at US\$300 billion annually in Middle-Eastern and African countries, most of which are ODA-eligible). ODA is not currently enough to meet this need and to tackle poverty.

In this chapter we present a set of critical foundations and principles that can be developed into a simple decision-making framework to drive more ODA investments towards tackling poverty directly.

Existing allocation models do not prioritise people living in greatest poverty

A review of donor allocation criteria, supported by a series of interviews undertaken for this research, confirms that there are surprisingly few donor models that systematically allocate aid portfolios across purposes or geographies. As such, they are often unable to inform or legitimise allocations among competing objectives. Bilateral donors rarely have specific frameworks or criteria that explicitly focus on ensuring that their policies disproportionately benefit people living in greatest poverty, although some present a broad, diverse set of criteria including weightings to certain categories such as gender, or performance indicators that might indirectly benefit them, though not disproportionately. Multilateral agencies more commonly use formulas to determine their allocations. GDP-based eligibility thresholds are common primary starting points, together with formulas dependent on specific agency mandates. Performance-based allocations also remain central to many allocation decisions (see [Annex 2](#) for details of the methodology used in this analysis).

Donors face trade-offs that might conflict with a development cooperation policy that targets the people in greatest poverty. The allocation of ODA is the outcome of complex processes, politics, transactions and negotiations between donor and recipient, as well as among donors. Our research found that donors are ultimately faced with difficult decisions and have to balance multiple agendas and purposes such as:

- The need to demonstrate short-term returns for immediate and direct impact versus long-term development need.
- The focus on ring-fencing aid for specific micro-scale standalone interventions compared to more macro-scale disbursements (budget support) to support systemic change.
- Performance-related allocations based on policy and institutional performance rather than allocations based on need.
- Tying ODA allocations to donors' political, security, historical and economic motives, which diverts focus away from pure humanitarian and development considerations. This results in less autonomy for partner countries and leads to uncoordinated aid practices.

We need a coherent allocation framework that prioritises the people living in greatest poverty

Existing models do not lay out a clear allocation framework that prioritises the people living in greatest poverty. The absence of a clear purpose for ODA means that it risks becoming increasingly subject to the domestic whims of narrowly defined and incoherent short-term donor priorities. With growing demands for ODA, and inconsistencies in how aid is currently allocated, there is a clear need for robust logic that defines how ODA is allocated, for whom and with what outcomes.

An explicit re-focus on poverty within a wider body of development finance would be transformative. While this might look like the traditional purpose of ODA, current allocations show that poverty reduction is not always at the centre of decision-making. Framing the allocation criteria to prioritise the needs of those living in greatest poverty is a radical agenda.

All ODA investments must be able to demonstrate who benefits and ensure that the people living in greatest poverty are targeted at least equally, if not disproportionately more. Development Initiatives has long advocated for accountable choices over the allocation of aid to answer three questions:⁵¹

- **Who will benefit, and are they living in poverty?** Taking into account the scarce nature of aid and its comparative advantage in poverty reduction, all ODA investments must identify: (a) who specifically they are benefiting, and (b) whether they are targeting the places where people are living in poverty, such as least developed countries (LDCs).
- **What is the evidence on the probability of impact?** Assessing the probability that resources are going to deliver an impact for poverty reduction needs to take into account the comparative advantage of ODA in reaching people living in poverty. ODA investments need to consider: (a) what alternatives exist that could deliver the same return on investment, and (b) why the proposed investment is a better choice. Investment in global public goods (GPGs) is critical, and while the challenges in measuring the probability of impact on those in poverty must be acknowledged, global investments also need to be compared with other options and investments that

will remain unfunded if aid is to deliver as much poverty reduction as possible for every dollar. ODA investments need to consider what works for the people living in greatest poverty, particularly in those areas shown to have disproportional benefits for them.

- **When will the benefits be felt?** The timeframe for returns on aid investments is critical for individuals whose life choices are limited. To measure the benefits of one intervention against another, ODA investments should consider the transformational benefits for people living in poverty in both the short and long term. For instance, the benefits of building a road to people living in greatest poverty may take years to have an impact, whereas the effect of a cash transfer programme can be immediate. Another important consideration is balancing in-country investments with GPGs, as the latter may require longer timeframes.

Against this backdrop, in this report we propose components of an allocation framework that prioritises the people living in greatest poverty. Decisions on allocation of ODA should:

- Target the people and places with greatest poverty
- Focus on sectors and investments that disproportionately benefit people living in the greatest poverty.

Targeting the people and places with the greatest poverty

ODA investments should go to countries that need it most. There is a general consensus that the needs of lower-income countries should not be measured only in terms of income, because that masks major underlying development challenges.⁵² The international community has long considered and developed alternative measures that go beyond income, such as the United Nations Development Programme (UNDP) Human Development Index (HDI) of 1997,⁵³ and the Multidimensional Poverty Index (MPI), developed by the Oxford Poverty and Human Development Initiative (OPHI) and the UNDP in 2010. Sustainable Development Goal Target 17.19 calls on countries “to develop measurements of progress on sustainable development that complement GDP [gross domestic product]”, and Target 1.2 calls for nationally developed measures of multidimensional poverty.⁵⁴ However, many donors (particularly multilateral organisations) still use GDP-per-capita metrics as a starting point for allocation decisions, with only a few bilateral donors interviewed for this research saying they developed their own multidimensional measurements.

Countries’ income groupings are much less relevant because many and diverse countries now sit within the same category. This system does not adequately reflect the needs of an agenda that seeks to support the people living in greatest poverty. Furthermore, poverty and vulnerability to environmental and political risks in many countries are a subnational phenomenon (with more diversity within than between income groups, which aggregate country measures cannot capture). There are further limitations to using a country’s GDP per capita. For example, it is not helpful in choosing between types of aid, such as investing in country needs or GPGs.

Targeting the poorest and most vulnerable people is important because these people do not meet the preconditions for benefiting from untargeted development cooperation projects. Lack of human, social, economic and physical assets on the one hand, and exclusion on the other, prevent them from participating in many types of development cooperation projects.⁵⁵

Poverty-targeting practices have been successful in achieving the allocation of more investments to the poorest countries and to the people living in greatest poverty. Previous Development Initiatives research⁵⁶ found that donors with a stronger mandate for reducing poverty target their resources more effectively. When assessing 63 donor agencies accounting for 90% of ODA disbursements, those with a legally grounded mandate for allocating resources with reference to poverty reduction allocated almost twice as many of their resources to countries with higher poverty rates than those agencies for which poverty reduction was not an explicit goal. At the programming level, targeting has also proven effective in those living in greatest poverty who lack the assets to benefit from broader economic growth and development projects. Targeting indigenous people proved effective in securing their land rights,⁵⁷ targeted rural roads projects have improved connections between the poorest villages,⁵⁸ and targeted agriculture projects in areas such as research and development or infrastructure have increased integration between those living in greatest poverty in agricultural production,⁵⁹ to mention a few examples.

Focus on sectors and investments that disproportionately benefit people living in the greatest poverty

Significant public investment in human-capital sectors and agriculture is critical to poverty reduction. The level of importance ascribed to different sectors in terms of getting people out of poverty has changed over time. However, after conducting an extensive literature review identifying evidence of sectors that disproportionately benefit people living in greatest poverty, we conclude that investments should support the strengthening of the social sectors (health, education and social protection) and agriculture.⁶⁰ Within these sectors, evidence shows that investment in some areas, such as primary education or basic health care, have had demonstrable impacts on the people living in greatest poverty.

Investing ODA in human-capital sectors and agriculture strengthens the resilience of people living in poverty and has long been recognised as critical for ‘pro-poor’ development. However, there are two relatively ‘recent’ challenges that disproportionately affect the resilience of the people living in greatest poverty: climate change and lack of access to digitalisation. Climate change adaptation demands serious attention because it threatens the health, food security, access to water and incomes of people depending heavily on agriculture. The ‘digital divide’ in lower-income countries has manifested as a discrepancy in the use of digital technologies (due to lack of availability of basic infrastructure, access and affordability), the benefits obtained from digital technologies, and the level of citizens’ digital skills.⁶¹ It has never been more important to invest in these sectors – while considering the intersections with gender – to enable equitable recovery from the pandemic and to develop resilience to future shocks.⁶²

ODA targeted to these sectors has a comparative advantage in reaching the people living in greatest poverty and does not crowd out other effective forms of finance. Domestic

public finance is the major development source for the social sectors, but the revenue bases and tax-collection capacity of lower-income countries, particularly LDCs, is very limited. Private sector financing for health and education is gaining some attention. However, the amounts of finance are still small due to the lack of incentives and inherent risk of operating in these sectors. There is also still much to learn about the role of the private sector in supporting the poorest and most vulnerable people and the extent to which investments specifically target this group.

While agriculture and rural development rely heavily on private funding, the public sector has a key role to play. This consists of providing both investment and policy support to tackle persistent market failures such as the under-provision of public goods and negative externalities (such as adaptation to climate change). The public sector should also address the lack of protection for the poorest and most vulnerable people through, for instance, social protection. Similarly, digitalisation is mostly financed by government entities and the private sector. However, public investment and ODA in particular fills an important gap where the private sector lacks incentives to intervene, such as in countering the digital divide. ODA is thus a critical public international resource that can help governments achieve sectoral development objectives that feed into wider national objectives, such as poverty reduction and sustainable development.

On the demand side, governments in lower-income countries also expect ODA investments to help narrow the gaps in finance in sectors and areas with perceived lower returns on investment. Governments of low-income countries do not consider the social sectors to be generating enough revenue to service loans (domestic and international). Consequently, there is a preference for funding through ODA-like flows such as grants and highly concessional loans, in addition to domestic resources.⁶³ Furthermore, given the pressure on public budgets due to the Covid-19 pandemic response, ODA-like flows have the potential to be flexible and adaptable to the pressing and short-term needs of governments – particularly in tackling urgent investment in the sectors that disproportionately benefit people living in poverty.

Many of these sectors remain central to an equitable pandemic-recovery agenda that strengthens the resilience of the people living in greatest poverty. Differential needs between regions, countries and at subnational levels necessitate flexibility to respond to context. Therefore, a rigid prescription of an exclusive set of sectors is unhelpful. Likewise, donors have different sectors and geographies of expertise, which require considerations of labour division and how overall collective effort responds to need. However, certain approaches in sectors identified here represent areas where evidence of direct poverty impact is already strong and should constitute significant proportions of aid portfolios. Furthermore, every approach must be intersected by gendered inequities, age and other identities of marginalisation.

Within these sectors, there are specific areas that disproportionately benefit people living in greatest poverty.

- The pandemic has exemplified the importance of public investment in human capital sectors: primary education, basic health care and social protection.

- More than other economic sectors, growth in agriculture benefits people living in greatest poverty. To reach these people, agricultural investment should prioritise the assetless.
- Disasters related to climate change can set people and societies back for decades. The people living in greatest poverty must be equipped with the right tools to adapt to the consequences of climate change.
- The digital divide exacerbates inequality between 'haves' and 'have-nots'. The opportunities of digitalisation must be accessible to everyone.

An appropriate balance is needed within donor portfolios individually and collectively, between investments in the core areas that benefit the people living in greatest poverty, and in wider sectors that are highly relevant in particular contexts. While this paper does not go as far as to propose minimum quantitative proportions of ODA budgets, this merits further investigation.

Conclusion

Official development assistance (ODA) is facing unparalleled pressures from growing, competing demands, including humanitarian and crisis response, in-country programming, investment in global public goods such as tackling climate change, institutional strengthening and leveraging of other finance sources.

Trade-offs do exist: genuine 'win-wins' are rare and the optimisation of aid allocation is different for each priority. Addressing climate mitigation, for example, generally involves a focus different from that of targeting poverty.

Unpacking ODA spending and worrying about ODA rules still matters: it is not enough to look at global trends in ODA. We need to assess development aid in detail to understand what ODA is made of and what is being spent where and thus judge its effectiveness. Furthermore, ODA rules do matter as they raise additionality questions critical to understanding how much money remains to invest in the countries most in need.

ODA is a rare international public good. It must be demand-driven to focus on what it does best and where it is most needed to maximise its comparative advantage. By targeting the people living in greatest poverty who are increasingly concentrated in certain places and communities, ODA can work to ensure that everyone benefits from these wider investments and processes. Furthermore, ODA investments should be targeted to sectors: (a) where considerable evidence already exists that they disproportionately benefit people living in greatest poverty and are the most effective types of interventions for these sectors, and (b) where ODA has a comparative advantage over other forms of finance and does not crowd out the growth of other sources of investment.

The aggregate global picture does not tell the full story. While there is a critical need to debate the role of ODA in the context of recent global challenges, we need to unpack ODA spending at the country level to understand how it works in practice. At the same time, it is crucial to embed the perspectives of countries receiving aid in future ODA discourses and narratives.

Annex 1. Comparative advantages of different resources for ending poverty

Type of flow	Resource	Objective	Channels to impact the poorest people
Official	ODA (DAC providers)	Welfare and development Poverty reduction Mutual interest	Numerous, including: improved service provision; strengthened public sector; support to economic sectors; humanitarian response to crises
	Other providers of development cooperation	Development and poverty reduction Mutual interest	Numerous, including: improved service provision; economic development
	Other official flows	Economic development Mutual interest	Finance for private sector development; indirect job creation
	Other official debt	Economic development Strategic interests	Indirect job creation
	Peacekeeping	Peace and security	Enhanced security
	Military and security	Peace and security	Enhanced security; indirect job creation, economic development
Commercial	Foreign direct investment	Return on investment	Job creation; payment of taxes; multiplier effects within local economy
	Portfolio equity	Return on investment	Indirect economic development; job creation
	Commercial debt	Commercial returns	Finance for private sector development; indirect job creation

Private

Private
development
assistance

Poverty reduction
Humanitarian
Solidarity

Numerous, including: improved access to
basic services; humanitarian response to
crises

Remittances

Support for family and
friends
Small-scale private
investment

Increased household income for
recipients;
investments in human capital and
enterprise;
safety net in times of crisis

Source: Development Initiatives, 2015. Investments to end poverty. Available at:
<https://devinit.org/resources/investments-to-end-poverty-2015/>

Annex 2. Methodology

This report includes a mixture of primary and secondary research using quantitative and qualitative data sources and information. Most quantitative data used in this report is from the Organisation for Economic Co-operation and Development (OECD) Creditor Reporting System (CRS) or OECD Development Assistance Committee (DAC) Table 1. Unless otherwise stated, the following points apply to data in this report.

- All figures are in US\$, constant 2020 prices.
- All figures for official development assistance (ODA) are gross disbursements. Whereas the OECD reports headline ODA figures in grant-equivalent terms, this data extends back to only 2015, and is subject to numerous controversies around how it is measured.
- We primarily focus on members of the DAC, given the shared rules for measuring aid agreed by this group and the complete data coverage (compared to non-DAC countries for example, for which data is incomplete).

For the qualitative part of this research, we selected a number of bilateral and multilateral organisations based on several criteria, including largest donors and availability of ODA-allocation documentation. Available literature, including donors' strategy documents, eligibility policies, funding models and criteria and DAC peer reviews, was reviewed from 27 bilateral and multilateral donor agencies to provide an understanding of what these agencies consider when allocating resources.

The final list of organisations includes:

- Bilateral donors: Ireland, Denmark, Finland, Germany, Sweden, France, Norway, USA, UK, Japan and Canada
- Multilateral organisations: African Development Bank (AfDB), Agence Française de Développement (AFD), UK Development Finance Institution (CDC), Development Cooperation Fund (DFC), European Bank for Reconstruction and Development (EBRD), EU, Dutch entrepreneurial development bank (FMO), Gavi the Vaccine Alliance (GAVI), Green Climate Fund (GCF), Global Fund, Global Partnership for Education (GPE), United Nations Development Assistance Framework (UNDAF), United Nations Development Programme (UNDP), United Nations Children's Fund (UNICEF), World Food Programme (WFP) and World Bank.

Key informant interviews were conducted with several of these organisations at different stages of this research in order to: (a) explore the research questions, (b) triangulate information and fill in the gaps of the scoping work, and (c) test the framing and working of the framework presented in this report. Further, hypotheses and findings from this research were discussed and tested with several of DI's networks and presented publicly on different occasions.

Annex 3. Spending on non-transfer ODA by G7 countries

Non-transfer aid is official development assistance (ODA) that does not reach partner countries. Examples are ODA spent on administration costs and on in-donor refugee costs. While most countries recorded significantly increased in-donor refugee costs in the mid-2010s for example, there are also major differences in the non-transfer categories on which donors spend ODA. This annex examines recent trends in G7 countries, which together accounted for 78% of ODA in 2021.

Canada

Canada's expenditure on non-transfer ODA was 16% between 2011 and 2021, slightly higher than the G7 average of 14%. Around half of this expenditure was on in-donor refugee costs, which, as with most countries, was the largest non-transfer category. The second-largest category was administrative costs: Canada consistently spent the second-highest share of ODA on this category, behind the US. Over the last decade, it accounted for 5% of total ODA. Canada had the smallest variation in share spent on non-transfer ODA over the last decade, varying between 13% and 18% but showing no consistent trend. By contrast, Canada's transfer ODA consistently fell as a share of gross national income (GNI) in the first years of the last decade (until 2014) but then rose back to around its 2011 level (from 0.27% of GNI in 2011 to 0.28% in 2021).

France

France spent 15% of total ODA on non-transfer categories between 2011 and 2021, which was roughly equal to the average among G7 countries (but higher than the Development Assistance Committee (DAC) average of 14%). While a significant share of this was accounted for by in-donor refugee costs (5% of ODA), unlike most DAC countries, France's largest non-transfer category over this period was imputed student costs (5.6%). Among the G7 countries, France spent the most on this category between 2011 and 2021, although the share of ODA spent on this category has declined steadily since 2013. Similarly, France spent a considerable amount of ODA on debt relief early in the decade, averaging 9% between 2011 and 2013, but this declined to zero in 2021. Consequently, France's spending on non-transfer ODA fell from 23% of ODA in 2011 to 15% in 2021. France recorded an increase in transfer ODA of 59% over the same period.

Germany

Germany spent the second-largest amount on non-transfer ODA among the G7 between 2011 and 2021, at 21%. Over half of this spending was on in-donor refugee costs, which

reached 25% of ODA in 2016. Following the German Chancellor's 'Wir Schaffen Das' speech at the time, Germany became a key destination for refugees arriving in Europe. Therefore, while in 2016 Germany accounted for 42% of total in-donor refugee costs among DAC countries, it also accounted for 45% of total asylum applications in the same countries. Since then, the share of ODA spent on this category has declined. However, Germany also spends considerably more than most countries on imputed student costs (totalling 5% of ODA between 2011 and 2021, more than any other G7 country but France). Despite the growth in Germany's non-transfer ODA, it also sharply increased its transfer ODA, which more than doubled over the last decade (from US\$12.9 billion to US\$28.1 billion, or from 0.37% to 0.69% of GNI). Even between 2014 and 2016, when its non-transfer ODA tripled, Germany simultaneously increased its expenditure on transfer ODA.

Italy

Among the G7, Italy has spent the largest share of ODA on non-transfer categories over the last decade, at 23%. Most of this was from in-donor refugee costs, which peaked at 32% of ODA in 2016, and accounted for 18% of ODA between 2011 and 2021. Given its location on the Mediterranean, Italy was one of the main arrival points for refugees attempting to reach Europe. France, Germany and the US are the only countries to have received more asylum applications since 2014, but given that they have much larger ODA programmes, Italy's expenditure led to a greater share of in-donor refugee costs in ODA. However, Italy consistently increased its expenditure on transfer ODA throughout the decade, which rose from US\$2.9 billion to US\$5 billion between 2011 and 2021, or from 0.15% to 0.25% of GNI.

Japan

Japan had the second-lowest share of non-transfer ODA over the last decade among G7 countries, at 7.5%, and the lowest share each year since 2015. Trends in Japan's non-transfer ODA are notably different from other G7 or DAC countries. It has recorded essentially no in-donor refugee costs (only US\$7 million in total since the category was introduced in 1988, and only US\$4 million in 2011–2021). However, Japan is a country that primarily provides ODA in the form of loans, and it occasionally records ODA on relief of such loans, although this counts only towards gross ODA. Debt relief therefore accounted for 34% of Japan's non-transfer ODA between 2011 and 2021, or 2.5% of total ODA. The largest category of non-transfer ODA for Japan is administrative costs (3.8% of ODA between 2011 and 2021), but this is nevertheless below the average for both the DAC and G7.

United Kingdom

Between 2011 and 2021, the UK had the lowest share of non-transfer ODA among the G7, at 7.4%. However, it has also seen the largest growth in non-transfer ODA over this period, from US\$679 million to US\$2.4 billion. Therefore, by 2021 its share of ODA spent on non-transfer categories was above the G7 average (at 16%, compared to 15%). Two categories account for around 90% of the UK's non-transfer ODA, administrative costs and in-donor refugee costs, and each increased significantly between 2011 and 2021. Over this time, in-donor refugee costs grew from 0.2% to 9% of total ODA, with a sharp increase in 2020 and 2021 owing largely to [the cost of providing emergency](#)

[accommodation to asylum-seekers during the Covid pandemic](#). Administrative costs also approximately doubled over the period, from 3.2% to 6.1%. The UK was the only G7 country to record a decline in transfer ODA between 2011 and 2021, of 2%.

United States

The US spent 12% of its total ODA on non-transfer categories between 2011 and 2021, which was below the G7 average of 15%. However, the share of ODA spent on non-transfer was much higher at the end of the decade than at the beginning: between 2011 and 2021 the share increased from 13% to 17%. Most of this increase happened in 2021, when the US tripled its expenditure on in-donor refugee costs (from US\$1.5 billion to US\$4.6 billion), which meant that it spent the largest share of ODA on in-donor refugee costs among the G7 in that year. The US saw the smallest increase in transfer ODA over this period (other than the UK which recorded a decline). However, as with non-transfer ODA, this increase all came in 2021; transfer ODA in 2020 was slightly lower than in 2011. Therefore, the increases in transfer and non-transfer ODA coincided.

Notes

¹ The latter resulted in an expansion of instruments, to catalyse private investments largely in countries other than low-income countries and in sectors promoting economic infrastructure, which generate higher returns than human capital investments but have less evidence on how they impact poverty. See more in: Development Initiatives, 2019. How blended finance reaches the poorest people. Available at:

www.devinit.org/resources/blended-finance-poorest-people/; Eurodad, 2017. Mixed messages: the rhetoric and reality of using blended finance to leave no one behind. Available at: www.eurodad.org/blended-finance-briefing; ODI, 2019. Blended finance in the poorest countries: the need for a better approach. Available at:

<https://odi.org/en/publications/blended-finance-in-the-poorest-countries-the-need-for-a-better-approach/>

² Development Initiatives, 2013. Investments to end poverty. www.devinit.org/resources/investments-to-end-poverty/; Development Initiatives, 2015. Investments to end poverty 2015. Available at:

<https://devinit.org/resources/investments-to-end-poverty-2015/>; Development Initiatives, 2018. Investments to end poverty 2018. Available at: <https://devinit.org/resources/investments-end-poverty-2018/>

³ Total Official Support for Sustainable Development (TOSSD), 2020. International Task Force. Available at: www.tossd.org/task-force/

⁴ Development Initiatives, 2019. Investments to end poverty 2018. Chapter 3: Mobilising all resources to leave no one behind. Available at: www.devinit.org/resources/investments-end-poverty-2018/mobilising-all-resources-leave-no-one-behind/

⁵ Bhattacharya, A. et al., 2022. Financing a big investment push in emerging markets and developing countries for sustainable, resilient and inclusive recovery and growth, LSE. Available at: www.lse.ac.uk/granthaminstitute/publication/financing-a-big-investment-push-in-emerging-markets-and-developing-economies/

⁶ Development Initiatives, 2018. Investments to end poverty 2018. Available at: <https://devinit.org/resources/investments-end-poverty-2018/>

⁷ The DAC list of ODA recipients. Available at: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/dac-list.htm>

⁸ Hand et al., 2022. GIINSight: sizing the impact investing market 2022. Global Impact Investing Network. Available at: <https://theqiin.org/research/publication/impact-investing-market-size-2022/>

⁹ International Monetary Fund, February 2023. List of LIC DSAs for PRGT-eligible countries. Available at: www.imf.org/external/pubs/ft/dsa/dsalist.pdf

¹⁰ Bhattacharya, A. et al., 2022. Financing a big investment push in emerging markets and developing countries for sustainable, resilient and inclusive recovery and growth, LSE. Available at: www.lse.ac.uk/granthaminstitute/publication/financing-a-big-investment-push-in-emerging-markets-and-developing-economies/

¹¹ Development Initiatives, 2023. Scenarios for a 1% GNI external public finance target. Available at: <https://devinit.org/resources/one-percent-gni-external-public-finance-target-scenarios/>

¹² To achieve the Sustainable Development Goals, any additional financing must be invested appropriately, in projects that can generate economic and social returns. Carter argues that the current lack of public infrastructure does not necessarily imply the existence of opportunities to make such investments, explaining why some organisations such as the Green Climate Fund have struggled to spend resources available to them. Carter, 2023. Financing gap? What financing gap?, British International Investment. Available at: www.bii.co.uk/en/news-insight/research/financing-gap-what-financing-gap/

¹³ Bhattacharya, A. et al., 2022. Financing a big investment push in emerging markets and developing countries for sustainable, resilient and inclusive recovery and growth, LSE. Available at: www.lse.ac.uk/granthaminstitute/publication/financing-a-big-investment-push-in-emerging-markets-and-developing-economies/

¹⁴ Bhattacharya et al. estimate total expenditure on SDGs in 2019 in emerging developing economies (excluding China), and then calculate the additional finance need to meet the SDGs by 2025 and 2030 respectively. For 2025, they suggest a breakdown of how the finance gap would be filled by sources of finance (DRM, private, ODA, multilateral non-concessional and bilateral non-concessional) (Bhattacharya, A. et al., 2022. Financing a big investment push in emerging markets and developing countries for sustainable, resilient and inclusive recovery and growth, LSE. Available at: www.lse.ac.uk/granthaminstitute/publication/financing-a-big-investment-push-in-emerging-markets-and-developing-economies/). Using CRS data and figures quoted in the text in Bhattacharya et al., DI calculates estimates for the breakdown of spending on SDGs in 2019 by source of finance (this was not provided in the paper). Then, DI also applies Bhattacharya et al.'s suggested percentage breakdown to the 2030 figures. In addition, DI estimates what DAC GNI will be in 2025 and 2030 using IMF

forecasts from the World Economic Outlook.

¹⁵ Cattaneo et al., 2021. [Financing the transition to sustainable development in Least Developed Countries \(LDCs\): challenges and opportunities](https://www.un.org/ldc5/sites/www.un.org.ldc5/files/dcd202117.en.pdf#page=6), OECD Development Cooperation Directorate. Available at: www.un.org/ldc5/sites/www.un.org.ldc5/files/dcd202117.en.pdf#page=6

¹⁶ Kharas and MacArthur, 2019. Building the SDG economy: needs, spending, and financing for universal achievement of the Sustainable Development Goals, Brookings. Available at: www.brookings.edu/research/building-the-sdg-economy-needs-spending-and-financing-for-universal-achievement-of-the-sustainable-development-goals/

¹⁷ Devine et al., 2021. Private finance for development: wishful thinking or thinking out of the box?, IMF Departmental Papers. Available at: www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2021/05/14/Private-Finance-for-Development-50157

¹⁸ World Bank Data, 'Military expenditure (% of general government expenditure)', ID: MS.MIL.XPND.ZS. Available at: <https://data.worldbank.org/indicator/MS.MIL.XPND.ZS>

¹⁹ See for example Manuel, 2023. Financing social assistance in lower income countries post Covid-19, ODI. Available at: <https://odi.org/en/publications/financing-social-assistance-in-lower-income-countries-post-covid-19-an-exploration-of-realistic-options/>

²⁰ For example, changing the financing mix (raising more tax revenue and attracting greater private investment) could be seen as key goals. For further discussion on caveats, see Development Initiatives, 2023. Scenarios for a 1% GNI external public finance target. Available at: <https://devinit.org/resources/one-percent-gni-external-public-finance-target-scenarios/>

²¹ Kharas and MacArthur, 2019. Building the SDG economy: needs, spending, and financing for universal achievement of the Sustainable Development Goals, Brookings. Available at: www.brookings.edu/research/building-the-sdg-economy-needs-spending-and-financing-for-universal-achievement-of-the-sustainable-development-goals/

²² Bhattacharya, A. et al., 2022. Financing a big investment push in emerging markets and developing countries for sustainable, resilient and inclusive recovery and growth, LSE. Available at: www.lse.ac.uk/granthaminstitute/publication/financing-a-big-investment-push-in-emerging-markets-and-developing-economies/

²³ Manuel, 2023. Financing social assistance in lower income countries post Covid-19, ODI. Available at: <https://odi.org/en/publications/financing-social-assistance-in-lower-income-countries-post-covid-19-an-exploration-of-realistic-options/>

²⁴ For more information on recent trends in ODA disbursements, see the DI factsheet: <https://devinit.org/resources/aid-2021-official-development-assistance-key-facts/?nav=more-about#:~:text=Key%20facts%20about%20ODA%20in%202021&text=Although%20DAC%20donors%20increased%20gross,were%20lower%20than%20in%202020>. This factsheet differed slightly in methodology, in that it examined outflows from multilaterals rather than core contributions to multilaterals from DAC countries.

²⁵ Development Initiatives, 2022. Global Humanitarian Assistance Report 2022. Available at: <https://devinit.org/resources/global-humanitarian-assistance-report-2022/>

²⁶ See for example Kenny, 2021. Don't take cash from the poorest countries to 'help' them deal with climate change, CGD. Available at: www.cgdev.org/blog/dont-take-cash-poorest-countries-help-them-deal-climate-change

²⁷ Development Initiatives, 2023. Scenarios for a 1% GNI external public finance target. Available at: <https://devinit.org/resources/one-percent-gni-external-public-finance-target-scenarios/>

²⁸ Melonio et al., 2022. Official development assistance at the age of consequences, Agence Francaise De Developpement. Available at: [www.afd.fr/en/official-development-assistance-age-of-consequences-melonio-rioux#:~:text=Official%20Development%20Assistance%20\(ODA\)%20was,%E2%80%9D%20and%20the%20%E2%80%9CSouth%E2%80%9D](https://www.afd.fr/en/official-development-assistance-age-of-consequences-melonio-rioux#:~:text=Official%20Development%20Assistance%20(ODA)%20was,%E2%80%9D%20and%20the%20%E2%80%9CSouth%E2%80%9D).

²⁹ See for example Nordhaus et al., 2022. The obvious climate strategy nobody will talk about, Foreign Policy. Available at: <https://foreignpolicy.com/2022/11/06/climate-cop27-emissions-adaptation-development-energy-africa-developing-countries-global-south/>

³⁰ This is using the 'keyword' variable in the Creditor Reporting System, along with purpose code 12264.

³¹ Development Initiatives, 2023. Global regional and national trends in economic poverty (data tool). Available at: <https://devinit.org/resources/global-regional-national-trends-in-economic-poverty/>

³² Kenny, 2023. Blog: Is the DAC still fit for purpose?, Center for Global Development. Available at: www.cgdev.org/blog/dac-still-fit-purpose

³³ DI analysis of data underlying McCollum et al, 2018. Energy investment needs for fulfilling the Paris Agreement and achieving the Sustainable Development Goals. Nature Energy. Available at: <https://www.nature.com/articles/s41560-018-0179-z#Sec20>

³⁴ OECD DAC External Development Finance Statistics, Imputed multilateral shares. Available at: www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm

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- ³⁵ See for example Thwaites, 2022. Is the EU a payer, player, or just full of hot air? AidWatch 2022, CONCORD. Available at: <https://aidwatch.concordeurope.org/>
- ³⁶ Development Initiatives (Euan Ritchie), 2022. Blog: Why we should target country-programmable aid instead of ODA. Available at: <https://devinit.org/blog/target-country-programmable-aid-instead-oda/>
- ³⁷ Korea has since overtaken Canada.
- ³⁸ Development Initiatives (Euan Ritchie), 2023. Blog: Spiralling emergency accommodation costs from the UK's Home Office are diverting aid from the world's poorest. Available at: <https://devinit.org/blog/emergency-accommodation-costs-uk-home-office-diverting-aid/>
- ³⁹ Harcourt et al., 2022, updated 2023. Ukraine ODA Tracker, ONE Campaign. Available at: <https://data.one.org/data-dives/ukraine-oda-tracker/#:~:text=the%20previous%20year,-,Our%20analysis%20shows%20that%20global%20in-donor%20refugee%20costs%20alone,total%20ODA%20spent%20in%202021.>
- ⁴⁰ Joi, 2022. New study suggests risk of extreme pandemics like Covid-19 could increase threefold in coming decades, GAVI. Available at: www.gavi.org/vaccineswork/new-study-suggests-risk-extreme-pandemics-covid-19-could-increase-threefold-coming
- ⁴¹ Ritchie and Kenny, Center for Global Development, 2021. Blog: If we're going to fund climate mitigation from ODA, we need to double it. Available at: www.cgdev.org/blog/if-were-going-fund-climate-mitigation-oda-we-need-double-it
- ⁴² International Monetary Fund, February 2023. List of LIC DSAs for PRGT-Eligible Countries. Available at: www.imf.org/external/pubs/ft/dsa/dsalist.pdf
- ⁴³ See for example Development Initiatives, 2021. Reversing the trends that leave LDCs behind: how ODA can be targeted to the needs of people living in greatest poverty post-pandemic. Available at: <https://devinit.org/resources/reversing-trends-leave-lDCs-behind/>
- ⁴⁴ See for example the United Nations 'Inter-agency task force on financing for development' page on official development assistance, available at: <https://developmentfinance.un.org/official-development-assistance>
- ⁴⁵ International Monetary Fund, February 2023. List of LIC DSAs for PRGT-Eligible Countries. Available at: www.imf.org/external/pubs/ft/dsa/dsalist.pdf
- ⁴⁶ See for example the United Nations 'Inter-agency task force on financing for development' page on official development assistance, available at: <https://developmentfinance.un.org/official-development-assistance>
- ⁴⁷ This figure includes 'imputed multilateral spend' – the share of core multilateral contributions that supports disbursements in LDCs from multilateral organisations.
- ⁴⁸ We do not exclude climate finance from this analysis, given the uncertainties of how the Rio markers are used.
- ⁴⁹ This research also included digitalisation, which we have omitted here given that its value was very small.
- ⁵⁰ Manuel, 2023. Financing social assistance in lower income countries post Covid-19, ODI. Available at: <https://odi.org/en/publications/financing-social-assistance-in-lower-income-countries-post-covid-19-an-exploration-of-realistic-options/>
- ⁵¹ Development Initiatives, 2013. Investments to end poverty 2013. Available at: www.devinit.org/resources/investments-to-end-poverty/
- ⁵² UN, 2017. Economic and Social Council session. Poverty cannot be measured by income alone, participants tell Economic and Social Council as 2017 integration segment opens. Available at: www.un.org/press/en/2017/ecosoc6828.doc.htm; OECD, 2013. Identification and monitoring of potentially under-aided countries. Available at: www.oecd.org/dac/aid-architecture/Identification%20and%20Monitoring%20of%20Potentially%20Under-Aided%20Countries.pdf; Sida, 2018. Poverty Toolbox. Available at: https://publikationer.sida.se/contentassets/90754846017c4afe830dc697331bd338/poverty_toolbox_extern_mar_s-2018.pdf; UNDP, 2015. Multidimensional poverty and its assessment found their place in the 2030 Agenda. Available at: <http://hdr.undp.org/en/content/multidimensional-poverty-and-its-assessment-found-their-place-2030-agenda>
- ⁵³ UNDP. Human Development Index (HDI). Available at: <http://hdr.undp.org/en/content/human-development-index-hdi>
- ⁵⁴ UNSTATS. SDG indicators, metadata repository. Available at: <https://unstats.un.org/sdgs/metadata/>
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Development Initiatives (DI) applies the power of data and evidence to build sustainable solutions.

Our mission is to work closely with partners to ensure data-driven evidence and analysis are used effectively in policy and practice to end poverty, reduce inequality and increase resilience.

While data alone cannot bring about a better world, it is a vital part of achieving it. Data has the power to unlock insight, shine a light on progress and empower people to increase accountability.

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