



Financing for Sustainable Development Report 2021

Inter-agency Task Force on Financing for Development



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The online annex of the Task Force (<http://developmentfinance.un.org>) provides additional data and analysis on progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the Sustainable Development Goals.

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International
development cooperation



Chapter III.C



International development cooperation

1. Key messages and recommendations

International development cooperation is a crucial component of the COVID-19 response, especially in supporting efforts of the poorest and most vulnerable countries to respond to the pandemic and the resulting economic crisis. Development cooperation provides a vital countercyclical flow in times of crisis and can help fight poverty and prevent inequality from worsening within and between countries. At the same time, there is also fiscal pressure on donor budgets due to the pandemic. While some major donors increased their development cooperation budgets, others succumbed to domestic fiscal pressure and cut official development assistance (ODA).

- ODA providers should scale up and meet their commitments of 0.7 per cent of ODA per gross national income (GNI). Grant finance rather than loans should be prioritized for vulnerable countries, such as least developed countries (LDCs) and small island developing States (SIDS), while the decline in ODA to health should be reversed;
- As an immediate priority, ODA providers should meet the financing gap of the Access to COVID-19 Tools Accelerator (ACT-accelerator) and rally behind the efficient and equitable distribution of vaccines for all countries.

Multilateral development banks (MDBs) are playing an important role in supporting developing countries.

There has been particularly strong support for LDCs, which has been achieved by front-loading concessional resources. The non-concessional lending windows of MDBs provide an important avenue for middle-income countries to access long-term finance at below-market rates. Such long-term finance is critical to rebuilding better and stimulating growth and development. However, financial capacity constraints are limiting MDB support for middle-income countries. Bolstering MDB financial capacity is critical for providing predictable countercyclical support at highly concessional terms needed in times of crisis.

- Donors should: provide MDBs with additional funding to the existing concessional pool or advance scheduled replenishments—in particular, the successful twentieth replenishment of the International Development Association (IDA) will be critical to sustaining a high level of positive net flows to IDA eligible countries; and also replenish the capital of MDBs as needed;
- Official lenders should extend maturities of their lending and explore options to provide ultra-long-term (e.g., 50 years) financing to developing countries for investment in long-term growth and development. They should also consider offering more fixed-interest lending so countries can take advantage of ultra-low global interest rates.

Innovative public finance instruments are already in use or are being considered for the COVID-19 response.

For example, advanced market commitments (AMCs) are successfully supporting the equitable distribution of COVID-19 vaccines. Innovative finance, including blended finance, can be useful complements to traditional aid but are not panaceas.

- Blended finance can play a role in areas that provide positive financial returns to repay the private partners, but that also support public goals. Partners should be careful not to divert grant finance from social needs for blending, based on country priorities;
- Bilateral and/or MDB official resources could be pooled into a blended finance fund;
- Donors should examine using below market rate non-concessional loans for blending, including equity-like components, to allow the public partner to share in possible financial returns.

COVID-19 underscores the importance of incorporating risk analysis cohesively for more effective development cooperation. Despite having contingencies in place, there was a lack of coordination among partners in their responses,

and many were not prepared to respond to multiple crises, while being affected by the COVID-19 crisis.

- *Development cooperation actors should develop strategies and contingencies for better international crisis coordination and risk reduction. Country-owned integrated national financing frameworks (INFFs) can provide a basis to translate country priorities into concrete asks for development partners;*
- *All sources of international development cooperation should be firmly aligned with the Addis Ababa Action Agenda, 2030 Agenda for Sustainable Development, Paris Agreement and Sendai Framework, with a strong focus on supporting countries' efforts to reduce risk and build resilience.*

Political will is needed to scale up both climate finance and ODA to address the confluence of crises. The COVID-19 crisis has likely derailed the achievement of the \$100 billion climate finance target in 2020. The pandemic has also highlighted the escalation of climate-related risks and the importance of better risk reduction and management. It has also brought to the fore the importance of financing global public goods.

- *Developed countries should scale up climate finance flows, with \$100 billion per year as a floor;*
- *All providers should increase adaptation finance to equal mitigation finance, as well as prioritize grant finance for LDCs and SIDS;*
- *More work is needed to understand how to best capture financing global public goods in the sustainable development finance landscape.*

This chapter starts by outlining the international development cooperation response to COVID-19. It lays out trends in ODA and lending by multilateral providers, as well as in South-South cooperation, followed by an examination of the quality, effectiveness and impact of development cooperation. It then provides a deeper analysis on the international financial support for health and concludes with a discussion on climate finance and disaster risk reduction finance. The chapter also builds on the work of the discussion groups on external finance, remittances, jobs and inclusive growth, and recovering better for sustainability, established after the initial High-Level Event on Financing for Development in the Era of COVID-19 and Beyond (see chapter II).

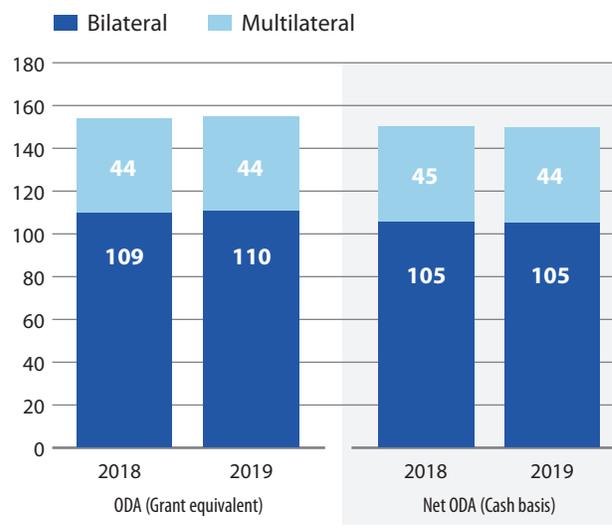
2. International development cooperation and COVID-19

2.1 Official development assistance

Prior to the outbreak of the COVID-19 pandemic, ODA increased in 2019 according to the new “grant-equivalent” methodology but declined as measured by the previous “cash-flow basis” methodology. ODA increased by 0.7 per cent in 2019, to \$155 billion in real terms, as calculated by the grant-equivalent measure (box III.C.1), while falling slightly as a share of donor country gross national income (GNI), from 0.31 to 0.30 per cent on average.¹ However, on a cash flow basis, 2019 net ODA declined by 0.5 per cent to \$149 billion (figure III.C.1)—the difference likely due to higher-than-market discount rates used in the grant-equivalent methodology.² Debt relief by the new measure is also \$43 million higher, based on new rules for debt relief (box III.C.1). At a time when the COVID-19

pandemic is underlining the importance of being able to reliably track ODA to ensure that support is reaching those most in need, it is important that both cash flow and grant equivalent methodologies continue to be reported to ensure transparency and comparability of ODA volumes. Issues over the modernization of ODA (box III.C.1) should be resolved in a transparent and inclusive manner to uphold the integrity and credibility of ODA statistics, which is central to the development finance landscape.

Figure III.C.1
Official development assistance, 2018–2019
(Billions of United States dollars, 2018 constant prices)



Source: OECD Creditor Reporting System database.

The impact of the COVID-19 crisis on ODA outcomes for 2020 is uncertain. The Organization for Economic Cooperation and Development (OECD) outlined three possible scenarios for 2020 ODA trends.³ First, both ODA volumes and share of GNI may have increased. Indeed, some major donors, such as Germany and France, increased their aid budgets⁴ despite domestic fiscal pressures. Second, donors may have maintained the same ODA levels as 2019, where ODA as a share of GNI would likely improve due to the fall in GNI in donor countries. This may be the case for the United States of America, the largest donor, given that their international affairs budget was largely unchanged.⁵ Third, donors may have succumbed to domestic fiscal pressure, which could result in an estimated decline of \$11 billion to \$14 billion in net ODA. In this case, the share of ODA to GNI would decline if the fall in ODA is more than the decline in GNI, and vice versa. For example, the United Kingdom of Great Britain and Northern Ireland cut its 2020 aid budget but will still meet its commitment to the 0.7 per cent target. However, the United Kingdom announced that it would target ODA of 0.5 per cent of GNI in 2021.⁶ Real-time ODA data published to the International Aid Transparency Initiative (IATI) Standard,⁷ a rough proxy for ODA, indicates that bilateral disbursements for January–November 2020 declined slightly over the comparable period in 2019.⁸ However, IATI data does not account for debt relief nor does it comprehensively capture ODA disbursements from all donors. Thus, there is still uncertainty on the likely outcome.

Box III.C.1

Official development assistance modernization

In 2012, the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) began a process to modernize the way official development assistance (ODA) is measured and reported. The process aimed to amend reporting rules for ODA loans, debt relief, and in-donor refugee costs; in private sector instruments (PSIs); and in peace and security activities. All these changes, other than the treatment of PSIs, have now been agreed. ^aAs a result, the 2018 and 2019 ODA figures include a mix of grant-equivalent data (for grants and sovereign loans) and cash-flow data (for PSIs).^b

Under the grant-equivalent methodology, only the grant (or “gift”) portion of a loan is reported as ODA, which is calculated using a system of differentiated discount rates that reflect the risk of lending to different country groupings (6 per cent for upper-middle-income countries; 7 per cent for lower-middle-income countries; and 9 per cent for LDCs and other low-income countries).^a In addition, to incentivize lending on highly concessional terms to LDCs and other low-income countries, the rules also include thresholds for the grant element that can be reported as ODA (45 per cent for LDCs and other low-income countries; 15 per cent for lower-middle-income countries; and 10 per cent for upper-middle-income countries).^c

PSIs are currently captured under the old cash flow methodology, where, in the case of loans, the full face value is counted as ODA if the grant element is at least 25 per cent, calculated using a discount rate of 10 per cent, with repayments subtracted when they are paid out. Equity investments must comply with the ODA definition (i.e., the primary purpose should be to support the economic development and welfare of developing countries). PSIs are recorded either (i) at the point of transfer of funds to a PSI vehicle, such as Development Finance Institutions and other PSI vehicles, which are counted at face value (institutional approach); or (ii) at the transaction/project level, between the PSI vehicle and private sector institution, where ODA-eligible loans and equities made to a private sector entity receiving the funding are counted on a cash-flow basis (instrument approach).^a

In July 2020, the DAC agreed to count rescheduled or forgiven debt towards ODA,^d despite their acknowledgement in 2014 that the grant-equivalent system “would value upfront the risk of default on ODA loans, [thus] the eventual forgiveness of these loans would no longer be reportable as a new aid effort.”^e While the change is meant to incentivize the forgiveness and rescheduling of debt in developing countries amid the COVID-19 crisis, it may risk double counting ODA. The method includes a ceiling to avoid a loan and subsequent debt relief generating greater ODA than a standard grant, but more work is needed to better understand the impact of the methodological changes on ODA.

Some concerns over the changes have been raised, spanning from the technical (such as the risk of double counting and overestimation), to the political (such as the creation of incentives for donors to favour loans rather than grants).^f While similar concerns were also levelled on the previous cash-based methodology,^g the COVID-19 crisis and the possibility of greater debt relief has brought these issues into sharper focus.

Source: UN DESA.

^a OECD, “Modernisation of the DAC Statistical System,” 2021.

^b OECD, “Aid by DAC Members Increases in 2019 with More Aid to the Poorest Countries,” April 16, 2020.

^c OECD DAC, “DAC High Level Meeting, Final Communique,” December 16, 2014.

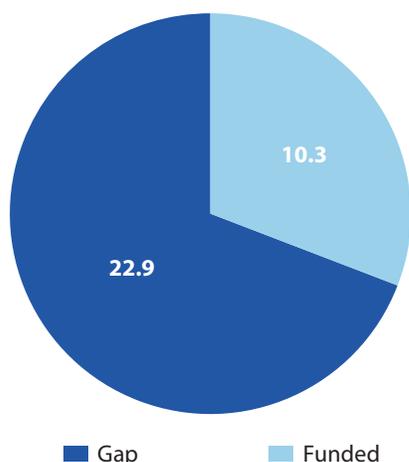
^d OECD, “Donors Agree on Aid Treatment of Debt Relief - OECD,” July 30, 2020.

^e OECD DAC, “Background Paper: The Treatment of Loan Concessionalities in DAC Statistics, DAC High Level Meeting, 15-16 December 2014, OECD Conference Centre, Paris,” 2014.

^f J. Brian Atwood, Richard Manning, and Hedwig Riegler, “Don’t Undermine the Basic Architecture of OECD/DAC Statistics: A Letter of Warning,” *Future Development*, Brookings, December 21, 2018; Simon Scott, “A Note on Current Problems with ODA as a Statistical Measure,” *Future Development*, Brookings, September 26, 2019; Simon Scott, “The Ongoing Debate on the Reform of the Definition of Official Development Assistance,” *Future Development*, Brookings, November 18, 2019; Anthony F. Pipa, “Statistics vs Political Relevance: Getting Official Development Assistance Right,” *Future Development*, Brookings, November 18, 2019. “Joint CSO Letter on Accounting Rules for Debt Relief as ODA,” May 14, 2020; Euan Ritchie, “New DAC Rules on Debt Relief – A Poor Measure of Donor Effort,” *Center for Global Development Working Paper*, no. 553 (October 2020); Euan Ritchie, “Mismeasuring ODA - How Risky Actually Are Aid Loans?,” *CGD Notes*, Center for Global Development, November 5, 2020; Andrew Rogerson and Euan Ritchie, “ODA in Turmoil: Why Aid Definitions and Targets Will Come Under Pressure in the Pandemic Age, and What Might Be Done About It,” *Center for Global Development Policy Paper*, no. 198 (December 2020).

^g Stéphanie Colin, “A Matter of High Interest - Assessing How Loans Are Reported as Development Aid” (Eurodad, 2014).

Figure III.C.2
ACT-accelerator funding gap as of February 2021
(Billions of United States dollars)



Source: WHO, “G7 Leaders Commit US\$4.3 Billion to Finance Global Equitable Access to Tests, Treatments and Vaccines in 2021,” February 19, 2021.

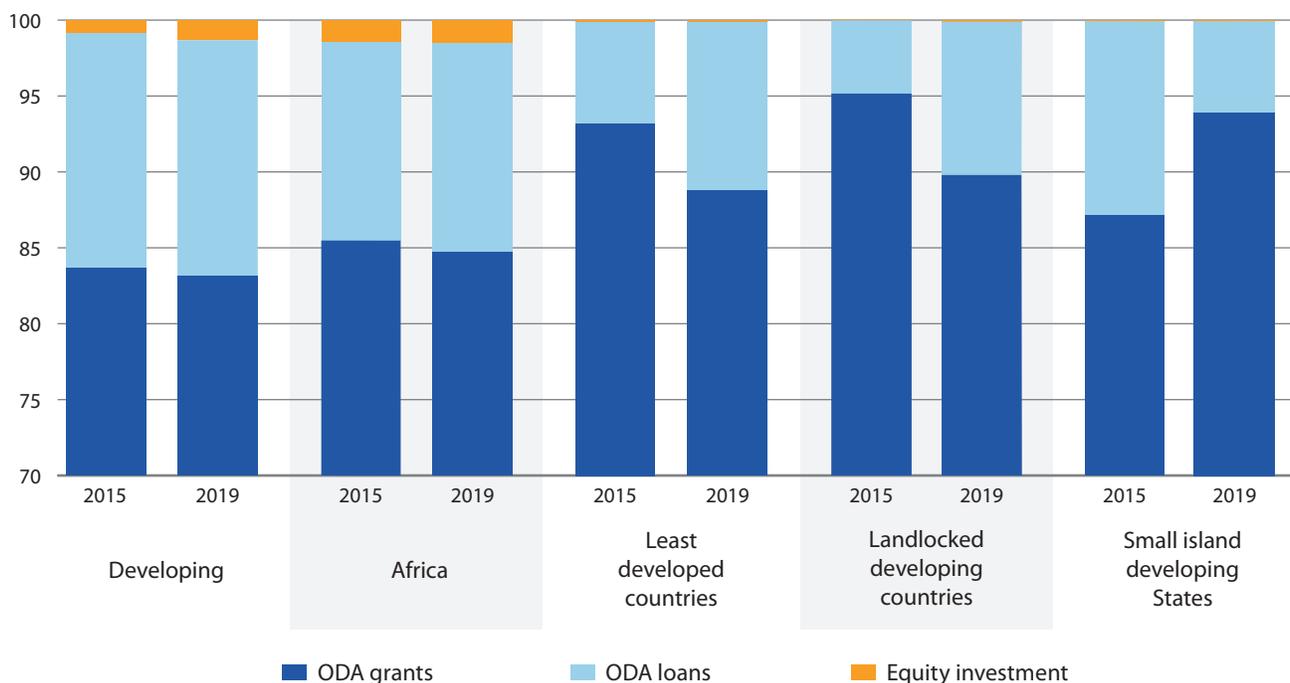
The Inter-agency Task Force on Financing for Development (Task Force) strongly reiterates its calls on Development Assistance Committee (DAC) members to scale up ODA in line with their 0.7 per cent of GNI commitments. Although endorsed in the 1970s, the 0.7 per cent of GNI commitment has never been met, except by only a few DAC members.⁹

Reaffirmed in the Addis Agenda and Agenda 2030, only five donors have consistently met the target since 2015. This trend undermines both the ambitions expressed in the Addis Agenda and the achievability of the SDGs, which have been severely impeded by the COVID-19 crisis.

ODA providers should also urgently meet the financing demand for the ACT-Accelerator. The ACT-Accelerator, budgeted at \$38.1 billion, aims to end the COVID-19 pandemic by rapidly developing and deploying diagnostics, therapeutics and vaccines. A key principle of the ACT-Accelerator is the need for equitable distribution of COVID-19 tools, particularly to support the neediest countries (see also section 4). The ACT-Accelerator is being funded by Governments (70 per cent), multilaterals (19 per cent) and philanthropists (12 per cent).¹⁰ As of February 2021, there was a large funding gap of \$22.9 billion (figure III.C.2). Vaccine nationalism, where countries seek to vaccinate their populations first before others by pre-ordering more vaccines than they need, raises the risk of prolonging the pandemic¹¹ and exacerbating the situation for many developing countries, particularly LDCs. As of January 2021, developed countries held 60 per cent of the COVID-19 vaccines purchased. Of the 38 countries administering COVID-19 vaccines, only 9 were developing countries.¹² While the majority of the adult population in advanced economies will be vaccinated by mid-2022, for middle-income countries, this may be late 2022 or early 2023 and for the poorer countries, by 2024, if at all.¹³

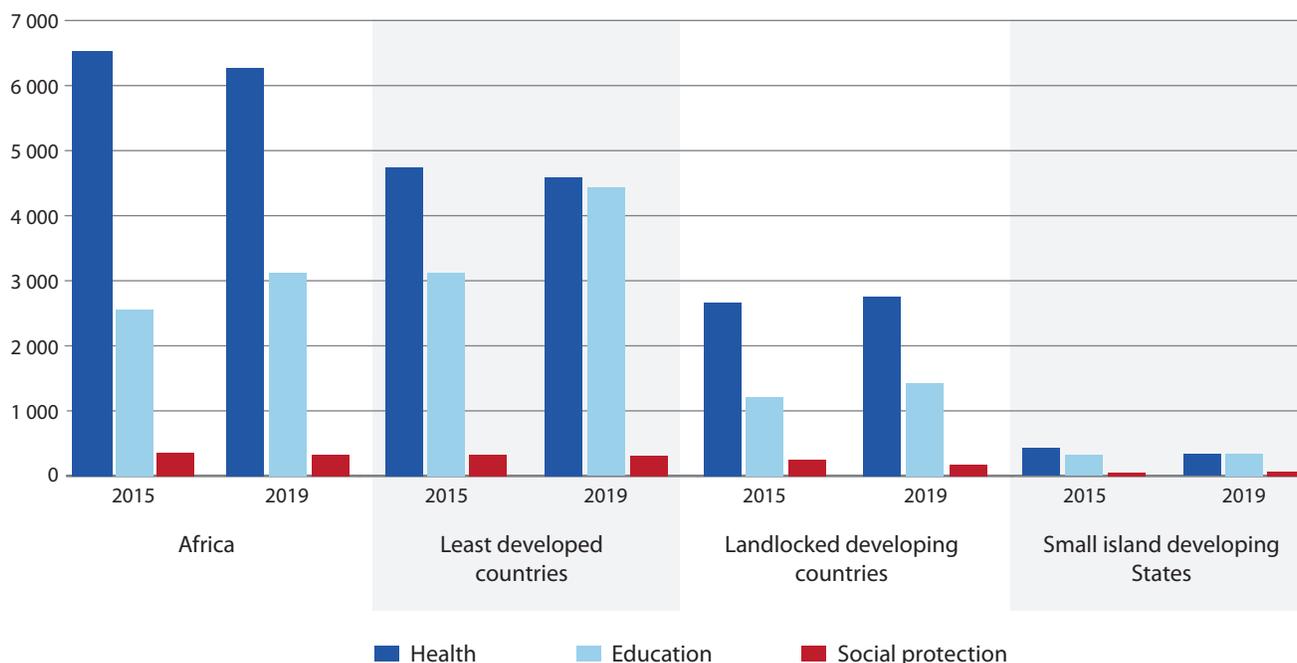
More grants than loans are needed for vulnerable countries, such as LDCs. An April 2020 OECD survey highlighted that donors were generally targeting their COVID-19 support for low-income and vulnerable countries, including countries in conflict and post-conflict situations.¹⁴

Figure III.C.3
Gross bilateral ODA disbursements by instrument by country groups on a cash basis, 2015 and 2019
(Percentage of total)



Source: OECD Creditor Reporting System database.

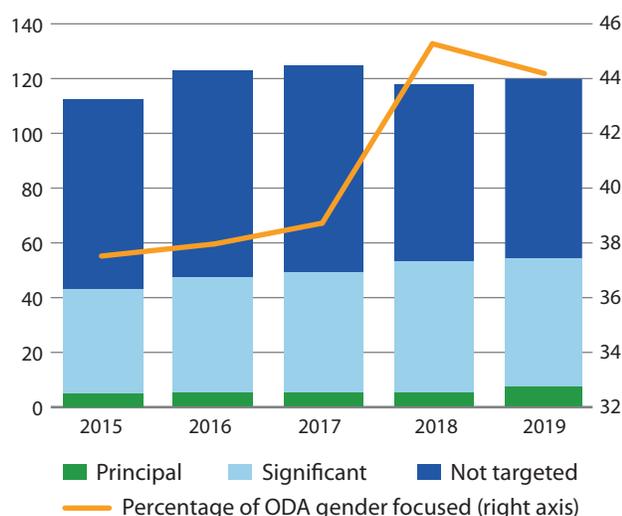
Figure III.C.4

Gross bilateral ODA disbursements for selected sectors by country groups on a cash basis, 2015 and 2019*(Billions of United States dollars, 2018 constant prices)*

Source: OECD Creditor Reporting System database.

Note: Health includes population policies/programmes and reproductive health.

Figure III.C.5

ODA to gender equality and women's empowerment, 2015-2018*(Billions of United States dollars, 2018 constant prices)*

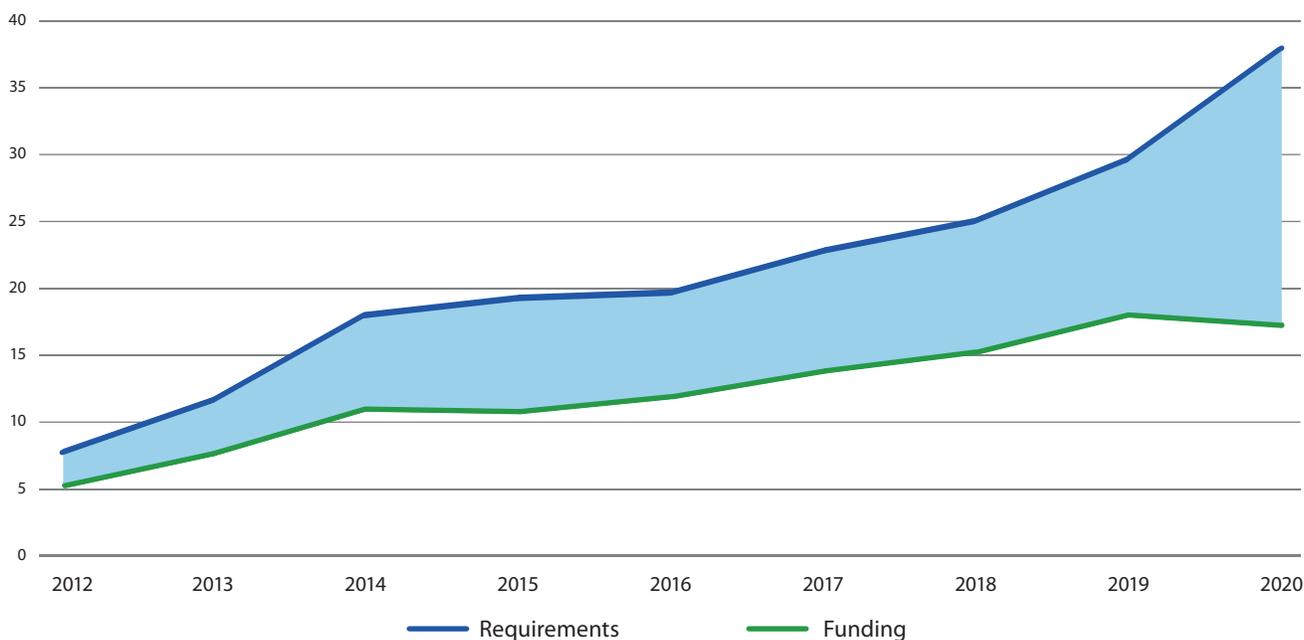
Source: OECD Creditor Reporting System database.

This is reflected by higher aid commitments reported for the poorest countries for the January–November period.¹⁵ The Task Force welcomes the focus on the most vulnerable countries but also highlights that these countries need more grants as they have limited fiscal capacity to respond to the COVID-19 crisis (see chapter III.A) and are facing growing risks of debt distress (see chapter III.E). The pre-crisis trend of declining concessionality for LDCs (figure III.C.3) should be reversed.

ODA for the health and social sectors will help vulnerable countries strengthen their systems as a core strategy for building resilience to shocks. COVID-19 has exposed the weaknesses of health and social protection systems across the globe, especially for LDCs and SIDS. Since 2015, ODA to the health sector for developing countries has declined (figure III.C.4), with its share of total ODA falling to 12 per cent. There has also been less attention to strengthening national health systems (see also section 4). ODA to social protection systems has also been less prioritized, accounting for less than 1 per cent of ODA, and has declined for most vulnerable country groups (figure III.C.4), while ODA for education has increased.¹⁶ In response to COVID-19, many ODA providers had indicated that they redirected their planned 2020 efforts towards the health and socio-economic sectors.¹⁷

Bilateral donors should further integrate gender equality throughout their ODA and in their COVID response. Prior to COVID-19, bilateral allocable ODA for gender equality and women's empowerment had steadily increased (figure III.C.5). However, considering the deep social

Figure III.C.6

Global humanitarian response plan funding gap, 2012–2020*(Billions of United States dollars, 2018 constant prices)*

Source: OCHA, “Global Humanitarian Overview 2021,” December 2020.

and economic impact of the COVID-19 crisis on women and girls, they should be at the core of recovery and longer-term development efforts.¹⁸

2.2 Humanitarian finance

Humanitarian needs have risen significantly due to COVID-19, but funding has not kept pace. COVID-19 has accelerated an increase in extreme poverty, hunger and gender-based violence. The pandemic’s impact on essential health services may also reverse gains made in HIV, tuberculosis and malaria.¹⁹ At the same time, new conflicts emerged in areas that were previously considered stable, and countries continued to face extreme climatic events.²⁰ Thus, the global humanitarian response plan funding requirements for 2020 increased steeply. However, funding fell compared to 2019, resulting in a large financing gap (figure III.C.6). Pressure on humanitarian aid is expected to continue to mount due to continuing conflicts, growth of climate-related disasters and insufficient investment in disaster risk reduction.

Lessons from COVID-19 should be used to improve the efficiency and effectiveness of humanitarian finance.²¹ International aid responses to COVID-19 were able to build on progress made previously in increasing the use of cash assistance, localization and flexibility in funding—key target areas of the Grand Bargain made between donor countries and aid organizations.²² However, there were reports of delays in channelling funds where they were most needed,²³ highlighting shortcomings in the traditional humanitarian operating model.²⁴ As DAC members account for 80 per cent of development support for countries in conflict and post-conflict situations, while 89 per cent of humanitarian action is channelled through the multilateral system, greater coordination,

collaboration and complementarity is needed within and between the two systems.²⁵ This requires joint, risk-informed analysis that builds resilience, as well as coordination structures that support rapid responses when unforeseen shocks occur.²⁶ The Grand Bargain could be adapted to address lessons and challenges in the wake of COVID-19, particularly in risk management, where there has been less discussion in the past. This could include determining which risks are a priority across the system, how constituent groups could work together to share rather than simply transfer these risks (often to local actors), and agreement on what level of residual risk is acceptable to different groups.²⁷ Integrated national financing frameworks may be used to guide a risk-informed approach to financing at the country level, including with a view to enhancing coherence, collaboration and complementarity between development and humanitarian activities, which is a cross-cutting commitment under the Grand Bargain.

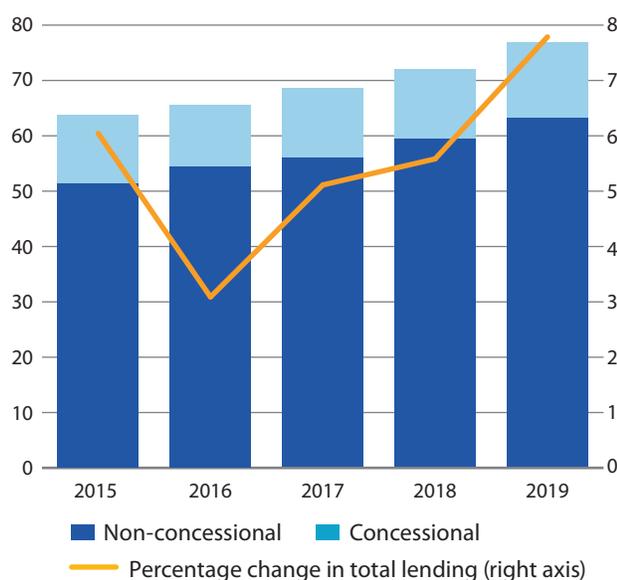
2.3 Multilateral development banks response to COVID-19 and future implications

Multilateral development banks (MDBs) collectively announced over \$200 billion of support to developing countries (table III.C.1). Before COVID-19, MDB lending had grown by 6.9 per cent in 2019 to \$77 billion (figure III.C.7). This is expected to rise even further in 2020. The World Bank Group made available \$160 billion in financing, including \$50 billion from the International Development Association, its concessional window, for support towards the health, economic and social sectors, with a focus on countries with limited capacity to respond to the crisis, such as LDCs and SIDS.²⁸ Regionally, the African Development Bank (AfDB) is deploying \$10 billion,²⁹ the Asian Development Bank (ADB) more than \$20 billion,³⁰ and Inter-American Development Bank (IADB) \$21.6 billion

Figure III.C.7

Lending by multilateral development banks, 2015–2019

(Billions of United States dollars, current)



Source: World Bank, International Debt Statistics.

(figure III.C.7).³¹ The International Monetary Fund (IMF) also significantly increased emergency lending to low-income countries of about SDR9.3 billion in 2020, compared to SDR0.9 billion per annum previously (see chapter III.F).

As they did during the 2008 world financial and economic crisis, MDBs are playing an important countercyclical role, with particularly strong support for LDCs. Overall, the MDB immediate response to the crisis has been unprecedented in scale and speed, outpacing the response from bilateral development partners.³² The World Bank's IDA commitments for the 2020 fiscal year are estimated to have grown by about 40 per cent compared to the previous period, which is larger than its response to the global financial crisis (26 per cent increase in the 2009 fiscal year) (table III.C.2).³³ Resources allocated for the 2021 fiscal year are also higher than the usual one third of the envelope for the first year of the IDA cycle. In addition, the AfDB concessional window, the African

Development Fund (AfDF), which many LDCs in Africa benefit from, is expected to reach its \$3.0 billion target in 2020, which is a stronger response than in 2009 (table III.C.2). The overall response of the ADB to the COVID-19 crisis is higher than its response to the global financial crisis (table III.C.2), owing to significant lending headroom gained from the merger of its concessional and non-concessional windows in 2017. Many Pacific SIDS benefit from the concessional window.

Financial capacity constraints are, however, limiting MDB countercyclical support for middle-income countries.

International Bank for Reconstruction and Development (IBRD) loan commitments for middle-income countries are estimated to have increased by a lower magnitude in 2020 (36 per cent), compared to its response during the global financial crisis (145 per cent increase in 2009) (table III.C.2). Despite its 2018 capital increase (with \$7.5 billion in paid-in capital over 5 years), the IBRD sustainable annual lending level, including the utilisation of a \$10 billion crisis response buffer, is \$35 billion for its 2021 fiscal year, constraining its response. Similarly, AfDB lending through its non-concessional window is hampered by financial constraints and expected to fall compared to 2019. The situation is similar for IADB, whose 2020 response is lower than its response to the global financial crisis (table III.C.2), due to insufficient financial capacity.³⁴

Donor injections are needed to shore up MDB medium-term concessional capacity.

There are clear indications that the current financial capacity of multilateral organizations will be insufficient to respond to the needs and demands of developing countries in the medium to long term. Due to front-loading of resources in the 2021 fiscal year, the IDA lending capacity for the 2022 and 2023 fiscal years is reduced. IDA has the option to issue more bonds to raise more resources, but without additional partners contributions it may have to offer less concessional terms, which may impact debt sustainability issues of IDA-eligible countries³⁵ (7 countries are currently in debt distress and 28 countries at high risk of debt distress (see chapter III.E)). Similarly, AfDF resources are expected to fall to about \$2.4 billion per year for 2021 and 2022, but unlike IDA, AfDF cannot issue bonds to raise additional resources. Grant resources for ADB are also expected to remain flat for the 2021–2024 period³⁶ against higher demand for COVID-19 recovery support. Thus, donors may need to provide additional funding to the existing concessional pool or advance scheduled replenishments.

Table III.C.1
COVID-19 response packages announced by multilateral development banks

World Bank ^a	African Development Bank ^b	Asian Development Bank ^c	Inter-American Development Bank ^d
\$160 billion, of which \$50–\$55 billion each from IBRD and IDA resources; includes \$12 billion for vaccines	\$10 billion, of which \$5.5 billion for sovereign operations, \$3.1 billion under the concessional African Development Fund and \$1.35 billion to private sector operations	\$20 billion, of which \$14.9 billion in loans, grants and technical assistance and \$9.9 billion in quick-disbursing budget support; \$20.3 million in additional technical assistance; and \$9 billion vaccine initiative	\$21.6 billion, of which \$12.6 billion dedicated to public sector projects and \$9 billion for the private sector

Source: UN DESA.

Note: IBRD stands for International Bank for Reconstruction and Development, the World Bank's non-concessional window.

^a World Bank.

^b African Development Bank, "African Development Bank Group Unveils \$10 Billion Response Facility to Curb COVID-19," African Development Bank – Building today, a better Africa tomorrow, April 29, 2020.

^c Asian Development Bank, "\$9 Billion ADB Facility to Help Members Access and Distribute COVID-19 Vaccines," News Release, December 11, 2020.

^d Inter-American Development Bank (IDB), "IDB Group Announces Priority Support Areas for Countries Affected by COVID-19," March 26, 2020.

Table.III.C.2
Comparison of multilateral development banks lending for COVID-19 crisis and the global financial crisis

MDBs		Global financial crisis			COVID-19 crisis		
		2008	2009	2010	2019	2020 (e)	2021 (f)
World Bank ^{a,c}	IBRD	16.0	39.2	51.8	23.2	27.9	35.0
	IDA	13.3	16.7	17.1	21.9	30.4	35.0
African Development Bank ^{a,d}	Non-concessional	3.3	10.5	4.7	7.1	5.0	5.5
	Concessional	3.1	4.5	2.6	1.7	3.0	2.4
Asian Development Bank ^b	Non-concessional	10.0	13.1	10.9	17.2	25.2	23.4
	Concessional	2.1	2.6	2.6	4.5	5.8	
Inter-American Development Bank ^a		13.2	18.2	14.2	14.3	15.5	14.0

Source: Chris Humphrey and Annalisa Prizzon, “Scaling up Multilateral Bank Finance for the Covid-19 Recovery,” Insight, ODI, November 18, 2020.
Note: Figures adjusted for inflation with 2019 as base year; (e) = estimate; (f) = forecast.
a Loan commitments.
b 2008–2010 (loan approvals), 2019–2020 (loan commitments).
c Figures are for the World Bank’s fiscal year (July–June), which is not directly comparable to the other MDBs in the table.
d AfDB numbers for 2020 reflect projected lending, rather than the \$7 billion target.

Access to MDB lending can help middle-income countries’ COVID-19 response and recovery efforts.

While some middle-income countries can access private debt markets, others have difficulty accessing affordable financing (see chapter I). The non-concessional lending windows of MDBs provide an important avenue for middle-income countries to access finance at below-market rates. In the medium term, donors could replenish the capital of MDBs, which could represent a small share of annual donor aid budgets but generate 5–7 times more lending capacity than providing those funds directly to developing countries.³⁷ MDBs could also incorporate countercyclical buffers into their capital management, similar to the shocks buffer built into the IBRD financing framework. There is also scope for other methods of balance sheet optimization, although gains may be marginal and have trade-offs.³⁸ For example, MDBs could use securitization to transfer risk, such as done by AfDB, but this would only cover private sector loans³⁹ and would be less effective than increasing share capital.

Extending maturities and providing fixed interest rates can provide developing countries with long-term financing for post-COVID-19 recovery investments for sustainable development.

Raising the maturity for loans, as well as offering fixed interest rates to take advantage of prevailing low interest rates, can help provide long-term financing for investments. Currently, concessional loans are typically offered a term of 40 years, while non-concessional loans are offered up to a maximum weighted average maturity of 20 years; both terms could be raised to 50 years, for example. Long-term financing with fixed low interest rates can be particularly suitable for productive investments that will have a positive impact on growth in the long run and can help developing countries overcome limited fiscal space to make investments for equitable and sustainable growth. However, such extensions of loan maturities consume more risk capital, requiring capital injection into MDBs. In the absence of capital increase, MDBs would need to cut financing volume.

MDBs are expanding their efforts to address debt vulnerabilities.

For well over a decade, IDA has been providing grants to countries based on the risks of future debt distress. IDA grant allocation framework, which

has been adopted by some other MDBs, provides increasing levels of concessionality in response to greater debt distress risks, ensuring that financing is provided in a way that does not undermine debt sustainability. In the absence of a unified approach by all creditor groups, the increasing concessionality of MDBs alone is unable to fully stem the tide of rising debt risks. In their 2020 fiscal year, the World Bank launched the Sustainable Development Finance Policy, which provides incentives and a focused policy dialogue to strengthen debt transparency, fiscal sustainability and debt management, an important step towards supporting debt sustainability. MDBs are also providing fresh financing for COVID-19 to ensure net positive flows for IDA countries that complement the DSSI while still protecting their own ratings (see chapter III.E).

2.4 Innovative public finance instruments

Various public finance instruments are already in use or are being considered for the COVID-19 response. These range from blended finance, innovative bonds, pooled funds and solidarity taxes to innovative debt instruments (see chapter III.E). Many innovative international public finance mechanisms, such as advanced market commitments, have been used most frequently in the health sector (see section 4.2). As discussed in the *Financing for Sustainable Development Report 2020 (FSDR 2020)*, all such public finance instruments have advantages and disadvantages. For example, pooled funds for a specific focus can better link funding and outcomes but are criticized for fragmentation. Solidarity taxes have had some measure of success, such as the airline levy for funding UNITAID, although a financial transaction tax for development has not materialized.

Blended Finance

Blended finance is most relevant for investments in projects with high sustainable development impact, which are not attracting private investment but still have a solid business rationale and potential cash flows to repay the private partner. The objective is to unlock investment that the private sector would not have done on its

own in support of national development priorities, and to do this with minimum concessionality or subsidy (i.e., just enough to make a project attractive to commercial investors). The Addis Agenda sets several guiding principles for blended finance: (i) appropriate use (i.e., financial and developmental additionality); (ii) sharing risks and rewards fairly; (iii) alignment with sustainable development; (iv) clear accountability mechanisms; (v) transparency; (vi) participation, particularly of local communities, in decisions affecting their communities; (vii) effective management, accounting, budgeting for contingent liabilities, and debt sustainability; and (viii) alignment with national priorities, promotion of country ownership and other relevant principles of effective development cooperation. Different groups of actors have defined principles for blending for their own activities, which are in line with the Addis Agenda principles, including the 2017 OECD/DAC Blended Finance Principles for Unlocking Commercial Finance for the SDGs, and the 2017 DFI Working Group Enhanced Blended Concessional Finance Principles.

Blended finance has grown since the adoption of the Addis Agenda, but its developmental impact is largely unknown, due to weak monitoring and poor transparency. Middle-income countries attract most blended finance deals. In 2019, 87 per cent of private finance mobilized by official development finance interventions were for middle-income countries (figure III.C.8). While there has been considerable focus on blended finance for LDCs and some signs of growth (figure III.C.8), only 9 per cent of private finance mobilized in 2019 went to LDCs (box III.C.2).⁴⁰ The Task Force has previously highlighted that for blended finance to be applicable to LDCs, there first needs to be a switch from a search for bankability to a search for impact. As noted in the *FSDR 2020*, this includes: (i) developing a country blending strategy linked to country needs, such as through an INFF; (ii) focussing on development impact; (iii) measuring

the cost of blending versus other financing structures; (iv) accounting for complementary investment; (v) providing capacity development; and (vi) ensuring transparency and impact reporting, participation, and monitoring throughout the life of a project. Efforts to enhance governance are underway, including by the DFI Working Group on Blended Concessional Finance for Private Sector Projects.⁴¹ In 2019, the International Finance Corporation also started to publish the level of subsidy embedded in blended concessional finance-supported transactions, both at the portfolio and the transaction level, along with the rationale for its usage, expected development impact, source and amount of concessional financing.

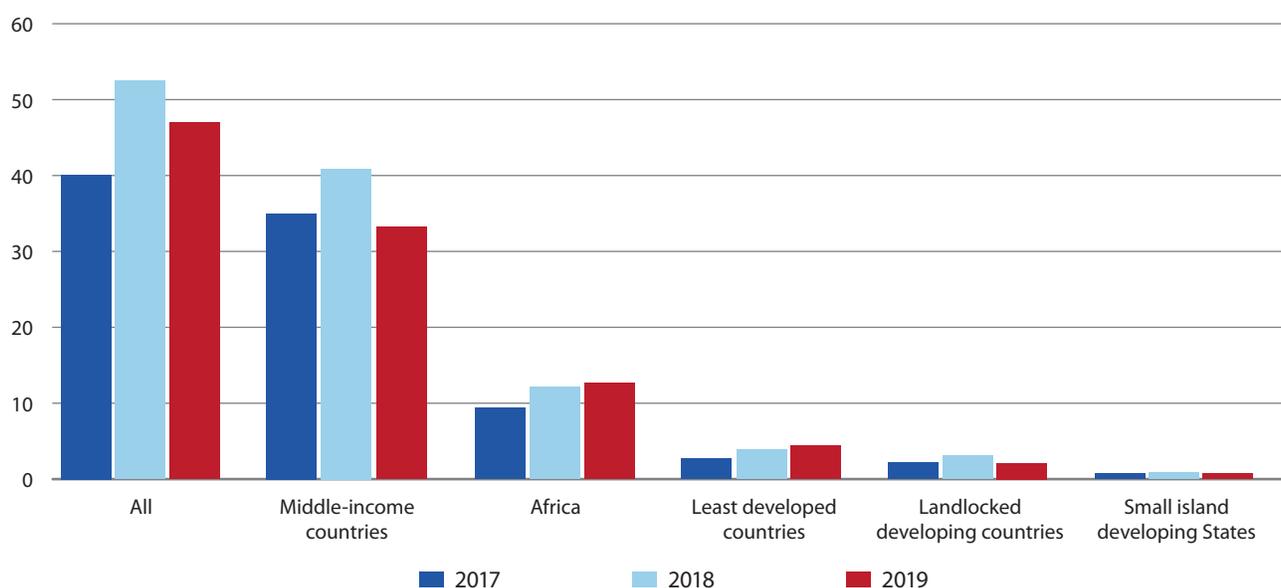
The COVID-19 crisis most likely dampened blended finance activities in 2020. MDBs are major providers of blended finance, accounting for 75 per cent of amounts mobilized in 2017–2018, the remaining being mobilized by bilateral providers.⁴² In 2019, private finance mobilized by official development interventions is likely to have declined by about 10 per cent, due mostly to a decline in middle-income countries (figure III.C.8).

Blended finance can be an option to support post-COVID-19 recovery efforts, in the context of an integrated national financing framework. Scaling up blended finance may be more challenging in the COVID-19 era as blended finance deals generally favour low-risk, less-costly projects,⁴³ which may prove difficult to find due to heightened financial risks from the crisis. Reorienting blended finance to focus on impact within the context of an INFF can help better position it as an option to support recovery efforts. As noted in box III.C.2, blended finance deals could include equity upside for the public partner, to achieve the Addis Agenda call to “share risks and rewards fairly.” Public partners could assume stronger equity roles in blended finance structures to benefit from potential business/asset value increases. Other options would be to pool bilateral and/or MDB official resources in a blended finance fund, which

Figure III.C.8

Amounts mobilized from the private sector by official development finance interventions, 2017–2019

(Billions of United States dollars, current)



Source: OECD.

Note: 2019 figures are preliminary.

Box III.C.2

Blended finance in least developed countries

Most of the blended finance transactions recorded in least developed countries (LDCs) have used concessional funds to mobilize public finance at commercial terms. To date, these transactions have mobilized only limited private finance, highlighting the challenges of attracting private finance to LDCs, given high perceived risks, even with subsidies. There have been five main types of blended finance transactions in LDCs:

- i **Country and regional investment funds.** These localized funds target equity investment in small and medium-sized enterprises (SMEs) or small-scale infrastructure projects (e.g., mini grids). Little to no private finance is mobilized at the fund level, with development finance institutions (DFIs) and foundations providing capital on commercial or concessional terms and donors providing additional risk coverage (e.g., first loss tranche). At the enterprise/project level, investment from these funds helps facilitate other private sector investments. The first fund is usually at a low scale (< \$25 million), with other, larger funds raised once there is proof of concept.
- ii **Country and global risk facilities.** These facilities mobilize additional capital by providing risk coverage (e.g., against currency risk) to private and public investors. Mobilization of private finance takes place when the instrument is used in a multilateral or private financial transaction. Global facilities frequently set up country-level subsidiaries (e.g., TCX Facility in Myanmar), although smaller countries are unlikely to offer sufficient scale.
- iii **Liquidity facilities.** These facilities seek to fill a financing gap for SMEs. By providing a loan to a bank or non-bank financial institution in an LDC, which on-lends it to its clients, a DFI can use the operational footprint of the intermediary to reach a large number of enterprises. These facilities are often thematically focused (e.g., energy companies), include enhancements that share the risk between the intermediary and the DFI or another donor, and provide technical assistance to the intermediary.
- iv **Single project transactions.** These transactions seek to realize a single project where blending takes place at the level of the special purpose vehicle, usually for infrastructure projects (e.g., for water and sanitation). Debt capital attracted is in most cases from public development banks and grant money from donors to bridge the viability gap or donor-funded investment tranches (e.g., subordinated loans). Donor-funded technical assistance features prominently in structuring the transaction. Given the complexity of these transactions, they become options for larger projects.
- v **Single corporate transactions.** These transactions mobilize an investment in one company, and are usually originated by one or more DFIs, sometimes alongside a local private financial institution. Companies involved are usually substantially larger than SMEs given the transaction costs involved relative to the financing need.

The low degree of private finance mobilized to date underscores two points. First, leverage ratios for blended finance in LDCs are likely to be much lower than in other blended finance deals. Indeed, this is not only acceptable—for example, for investments with a greater sustainable development impact in these countries—it is also necessary for risk management purposes. Second, blended finance providers might need to refocus blended finance deals. This might mean focusing on sectors that usually attract private finance but are not yet fully commercially financeable in LDCs—such as information and communications technology or energy, where there are future cash flows to repay the private investor, rather than sectors such as water and sanitation, which are often funded by public finance, even in developed countries. Such deals could include equity upside for the public partner, to achieve the Addis Ababa Action Agenda call to “share risks and rewards fairly” (also see chapter III.G).

The Organization for Economic Cooperation and Development and the United Nations Capital Development Fund put forth an action agenda for blended finance in LDCs that includes using blended finance to develop sustainable domestic markets, targeting those hardest to reach; promoting transparency; and supporting sustainable and resilient economies.^a

Source: UN DESA.

^a OECD and UNCDF, *Blended Finance in the Least Developed Countries: Supporting a Resilient COVID-19 Recovery* (Paris: OECD Publishing, 2020).

could take on more risk (see chapter II); one such proposal is the so-called COVID-19 Stretch Fund. Alternatively, this could be done by building on an existing fund, such as the Global Innovation Fund.⁴⁴ However, given the high demands, ODA should be allocated to first meet the needs of the most vulnerable countries through grant finance or scalable blended concessional finance vehicles.

Development cooperation partners should prioritize the use of non-concessional loans to mobilize private finance, using ODA only when necessary. Instruments to leverage private finance can involve the blending of three types of financing: (i) concessional

resources (e.g., ODA); (ii) non-concessional official resources (e.g., from public development banks); and (iii) commercial finance from private financiers. It would be preferable to use non-concessional resources from development banks to mobilize private finance, rather than concessional resources. Non-concessional loans that include equity-like components are particularly well suited for projects where there is a possible financial upside, such as investments in digital technologies (see chapter III.G). Concessional resources should be used only when duly justified and to the minimum necessary to attract the private sector and provided in line with national sustainable development priorities⁴⁵—for instance, to effectively address market failures.

The blended finance community should build on enhanced collaboration practices. Since the crisis, more actors have been pursuing collaborative initiatives to mitigate risks to help incentivize greater investment in sustainable development.⁴⁶ For example, in response to COVID-19, the DFI Alliance, made up of DFIs from 16 OECD countries, has been working together through risk sharing, guarantee agreements, capital arrangements, as well as sharing due diligence processes and pipelines.⁴⁷ The DFI Working Group on Blended Concessional Finance for Private Sector Projects also provides an example of a platform for sharing experiences and best practices among DFIs. In addition, the Multilateral Investment Guarantee Agency is working to expand collaboration among partners to increase the use of political risk insurance to de-risk and catalyse private investment into emerging markets, piloting an approach using a set of principles to inform a new and systematic form of collaboration. Building on these collaborations can help to lower risks and transaction costs, as well as expedite deal flows.⁴⁸

The network of public development banks (PDBs) can also support blended finance when appropriate. There are about 450 PDBs across the globe, at sub-national, national, sub-regional, regional and multilateral levels, sometimes operating simultaneously at these levels (see chapter II).⁴⁹ About 236 PDBs operate in 75 middle-income countries (figure III.C.9), with assets ranging from \$2 million to \$2 trillion. However, to date, these networks have only been remotely engaged in blended finance. For example, in Brazil, despite an extensive multi-layered system of national/subnational development banks and DFIs, blended finance is still nascent.⁵⁰ MDBs and international DFIs should aim to leverage the local knowledge and expertise of national and subregional development banks for blended finance, including through providing liquidity or risk

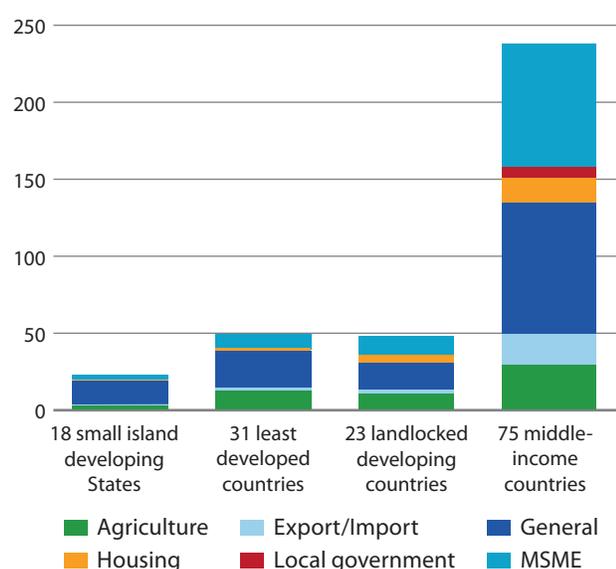
sharing, while simultaneously sharing global expertise with national and subnational banks, thus helping these banks build capacity where appropriate. Together, in addition to their own efforts, PDBs can help mobilize and provide finance for sustainable development sectors, such as low-carbon investments (see section 5).

2.5 South-South cooperation

COVID-19 response efforts included a wide range of South-South cooperation activities. Regional mechanisms were activated, including by the Association of Southeast Asian Nations (ASEAN), South Asian Association for Regional Cooperation (SAARC) and African Union (AU). ASEAN members cooperated in the implementation of conjoined measures to combat COVID-19, including information-sharing and coordination, as well as leveraging technologies and digital trade to support micro, small and medium-sized enterprises,⁵¹ while SAARC proposed the creation of a COVID-19 emergency fund with voluntary contributions from members. The AU developed the Africa Joint Continental Strategy for COVID-19, which also saw the establishment of the AU COVID-19 Response Fund and Africa Medical Supplies Platform.⁵² The Arab Coordination Group, made up of Arab DFIs, collaborated on a joint COVID-19 response focussed on emergency humanitarian and medical relief and assistance.⁵³ South-led development funds, such as the China South-South Cooperation Assistance Fund, India-Brazil-South Africa Facility for Poverty and Hunger Alleviation (IBSA) and India-United Nations Development Partnership Fund, were also active in combating COVID-19. South-South trust funds managed by the United Nations Office for South-South Cooperation fast-tracked finance totalling almost \$12 million to 30 countries, including over \$10 million through the India-UN Development Partnership Fund, for the purchase of ventilators and personal protective equipment, as well as resources to mitigate the socioeconomic impact, particularly in LDCs and SIDS.⁵⁴ The China South-South Cooperation Assistance Fund included support for refugees to cope with COVID-19,⁵⁵ IBSA activities included support for online training of health workers and dissemination of educational materials on COVID-19 to vulnerable communities.⁵⁶ At the bilateral level, countries donated medical supplies and vaccinations, sent medical personnel, provided finance and shared their experiences, among other activities, to support COVID-19 efforts.

South-led regional and subregional development banks are also playing an important role. In the Latin America and the Caribbean region, the Central American Bank for Economic Integration allocated \$1.96 billion for emergency aid, regional purchases and supplies of medicines and medical equipment. The Andean Development Bank announced emergency credit lines of up to \$2.5 billion. The Caribbean Development Bank and the Southern Common Market (MERCOSUR) scaled up finances and opened credit lines. MERCOSUR established a Structural Convergence Fund of \$16 million to boost research, education, and biotechnology related to fighting the virus. Similarly, the Asian Infrastructure Investment Bank made available \$5 billion to \$10 billion under its COVID-19 Crisis Recovery Facility.⁵⁷ The Islamic Development Bank also provided \$1.86 billion to its members to fight COVID-19,⁵⁸ and set up a Strategic Preparedness and Response Facility of \$730 million to mitigate the negative health and socioeconomic impact of the COVID-19 pandemic for Islamic countries.

Figure III.C.9
Public development banks by country group and mandate
(Number of PDBs)



Source: UN DESA calculations from Agence Française de Développement PDBs database.

Note: MSME stands for micro, small and medium-sized enterprises.

3. Quality, impact and effectiveness of development cooperation in a COVID-19 world

COVID-19 underlines the necessity to deliver development cooperation better. Evidence collected on the lessons from the COVID-19 response highlighted a lack of coordination of priorities, responses and synergies among partners.⁵⁹ Resources were allocated without a clear overview of priority needs and channels for support, or of other actors' responses. Lack of a coherent and integrated real-time global monitoring and reporting system for COVID-19 relief efforts also added to coordination issues. In addition, responses largely failed to consider gender issues, despite the gendered impacts of the crisis and the high investments in raising awareness and commitments to gender equality and women's empowerment. Even though partners had a combination of risk registers, business continuity plans, crisis response plans, contingency budgets and rapid funding instruments in place, their systems were not prepared to face several crises affecting developing countries, as well as being affected by the COVID-19 crisis.

The crisis has highlighted the importance of incorporating multi-hazard risk analysis into national development planning. As noted in chapter II, to achieve the Sustainable Development Goals (SDGs), countries need to embed risk analysis in their national planning processes and mainstream risk considerations in all development and financing policies (e.g., in the context of an INFF). National development cooperation policies (NDCPs) and related tools can translate this risk mainstreaming into concrete asks for development cooperation partners, who should base their support on needs identified via risk-informed processes at the country-level, including national disaster risk reduction strategies. All forms of development cooperation should support efforts at the country-level to reduce all types of risk and avoid the creation of new risks, such as in health (see section 4), climate change and disaster risk reduction (see section 5). This requires support for strengthened risk governance at the country level. Development cooperation providers should also strengthen their current systems to handle multiple crises in diverse country contexts and enhance gender policy safeguards.

National development cooperation policies can facilitate behaviour changes among the different actors and stakeholders for more effective development cooperation. Before COVID-19, development partners' alignment to partner country priorities and country-owned results frameworks were declining⁶⁰—this has been compounded by the pandemic. The Development Cooperation Forum (DCF) Survey exercise has found that NDCPs bring together several tools to strengthen country capacities to mobilize and manage development cooperation effectively, including country results frameworks (CRFs), development cooperation information systems (DCIS) and national development cooperation forums (NDCFs). Collectively, these tools can facilitate behaviour changes so that development partners better support national priorities, including through predictable spending plans, and the use of national systems to deliver, monitor and evaluate development cooperation. These tools can help Governments establish a risk-informed approach to development

cooperation, build multi-stakeholder partnerships, and improve monitoring and reporting.⁶¹ They can also help partners and Governments invest in strengthening capacities at national and local levels.

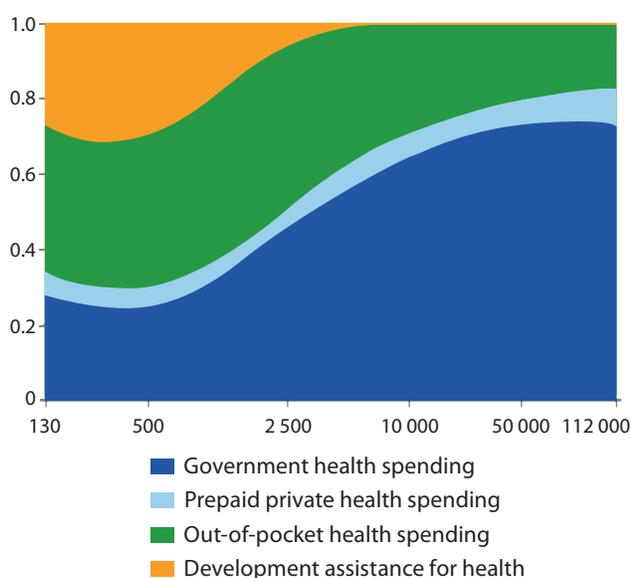
Countries are making progress in strengthening their development cooperation systems. According to the 2020 DCF Survey results, 36 of 55 responding countries reported they had NDCPs or an equivalent in place, with 16 of these working towards an INFF. There were also eight additional countries reporting that their NDCP was in the process of being finalized, of which three were also developing INFFs.⁶² More than half of respondents also had country results frameworks and development cooperation information systems in place, although countries needed support to operationalize and strengthen their results frameworks and improve the quality of data. Countries are also gradually engaging multi-stakeholders through their NDCFs, although more work is needed to include non-state actors. The Global Partnership for Effective Development Cooperation monitoring exercise found that while most country governments consult civil society (77 per cent) and the private sector (73 per cent) in the creation of their national development strategies, few countries (17 per cent) engage them systematically and transparently in participatory processes.⁶³

The international response to COVID-19 benefited from existing national-level structures and partnerships. Travel bans, remote working and staff reassignments affected in-country operations, but development partners were able to rely on existing mechanisms, such as the United Nations country teams or humanitarian response platforms, which became national partnership platforms or command centres. There was greater localization as development ministries and agencies reduced red tape, raised their risk tolerance and improved digitalization of their systems. Partners and Governments have also been flexible in adapting and continuing programmes—reallocating funds only if certain criteria were met, for instance. Moving forward, strengthening country capacity and systems could further enhance development cooperation and locally led crisis responses.⁶⁴

4. International financial support for health: lessons and implications of COVID-19

Development assistance is an important source of health spending for the poorest countries. ODA is an important source of health finance for the poorest countries, where domestic public resources are not able to adequately meet the sector's need. Many of the poorest countries also rely disproportionately on out-of-pocket spending for health due to insufficient government health spending (figure III.C.10; see also chapter II.A), raising inequities in access to health coverage. As countries' incomes grow, countries progressively lose access to concessional finance, which enhances the risk of financing gaps in critical sectors, such as health or education, if government spending does not increase sufficiently to compensate.⁶⁵ Nevertheless, people still cover a significant share of health spending through out-of-pocket costs.⁶⁶

Figure III.C.10
Share of health spending by source and GDP per person, 2017
 (Modeled proportion of total health spending)



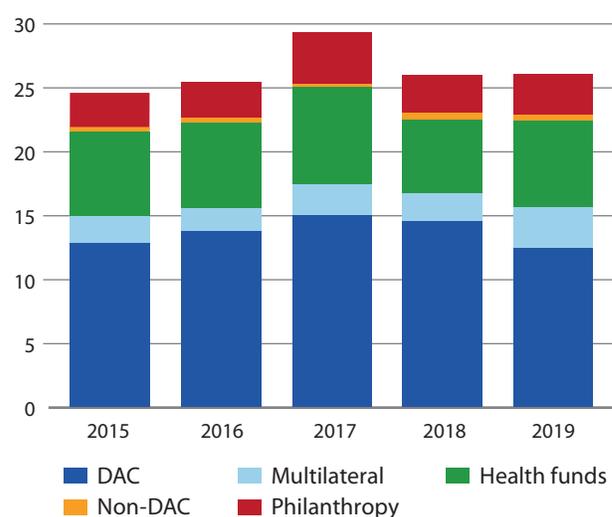
Source: Institute for Health Metrics and Evaluation, "Financing Global Health 2019: Tracking Health Spending in a Time of Crisis," 2020.

4.1 Trends and impact of COVID-19

The COVID-19 crisis underscores the need for investment in health systems (figure III.C.11). Bilateral ODA for health has been falling, by 3 per cent between 2017 and 2019, on average (figure III.C.11), with a decline in support for most country groups. Funding for health funds also declined. Although multilateral ODA increased over this period, the total official support for health also fell (figure III.C.12). Within the category of health financing, there has also been a gradual shift away from general health-system strengthening towards more targeted funding, such as for communicable diseases (AIDS, tuberculosis and malaria), vaccination and reproductive/maternal and new-born/child health, which make up about two-thirds of development assistance for health. Health-system strengthening accounted for about 22 per cent of total development assistance for health in 2000, falling to about 12 per cent in 2015 before picking up slightly to 14 per cent in 2019.⁶⁷ A significant portion of these resources were allocated to build systems for specific health focus areas, such as the prevention and treatment of HIV/AIDS, and new-born and child health.

COVID-19 also provides a reminder of the importance of financing global common goods for health. A major lesson of the 2014–2016 Ebola epidemic in West Africa was the importance of investments in global common goods for health, such as pandemic preparedness, including both research and development for neglected diseases (see examples in table III.C.3). In the aftermath of the Ebola crisis, donors increased investments in epidemic and pandemic preparedness and response; but attention and funding tapered off by 2017, demonstrating a cycle of panic and neglect.⁶⁸ These investments can be made (a) at the global and regional levels through supranational entities or institutions (e.g., the global vaccine stockpile by the World Health Organization (WHO)); (b) within the

Figure III.C.11
Funding to the health sector by donor, 2010–2019
 (Billions of United States dollars, 2018 constant prices)



Source: OECD Creditor Reporting System database.

Note: Health sector includes population policies/programmes and reproductive health. Health funds includes the Global Fund for AIDS, Tuberculosis and Malaria (Global Fund) and the Global Alliance for Vaccines and Immunization (Gavi, the Vaccine Alliance).

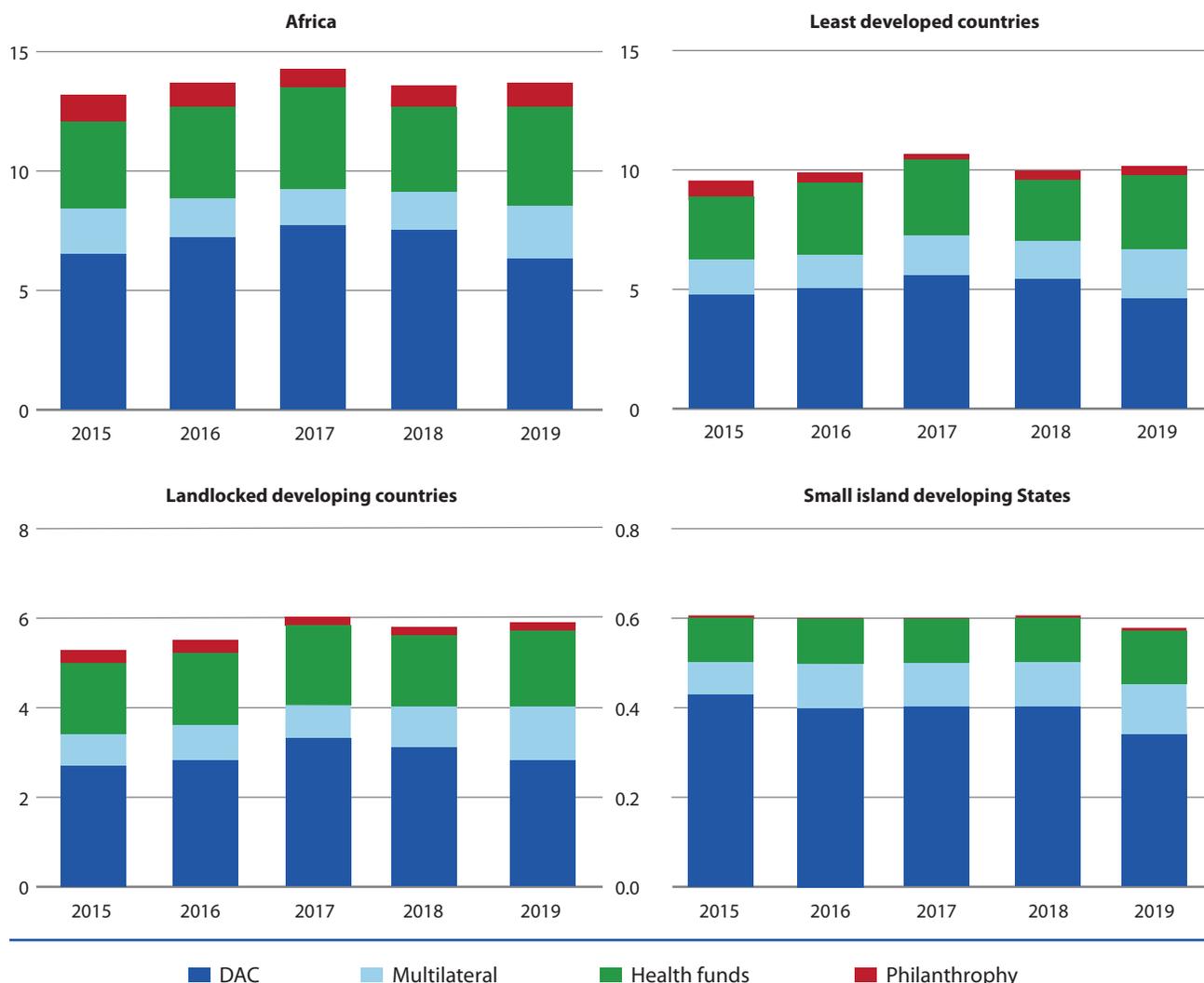
provider's country, such as for product development for neglected diseases; or (c) within developing countries (in-country spending), particularly for LDCs.⁶⁹ Tracking financing for pandemic preparedness could be done through the OECD creditor reporting system by including it as a separate item.⁷⁰

Capturing the financing of global public goods⁷¹ within the sustainable development finance landscape requires further deliberation. The definition and measurement of global public goods have been brought to the fore by COVID-19. The World Health Assembly recognized the "role of extensive immunization against COVID-19 as a global public good for health."⁷² This was done to encourage countries to finance initiatives that provide equitable access to vaccines and to deter vaccine nationalism. While all funding for the ACT-Accelerator helps finance this global public good, only the portion of the financing that supports developing countries directly and predominantly would be captured by ODA. For example, research for COVID-19 vaccines, tests and treatments do not count as ODA, as it contributes to a global challenge and not to fighting a disease that disproportionately affects developing countries.⁷³ There are ongoing discussions on how best to measure financing of global public goods and whether these should be incorporated into broader measurements of development support, although measures have not been agreed by all States Members of the United Nations (box III.C.3).

4.2 Public finance instruments for health

COVID-19 provides the opportunity to revamp, restructure and redesign public finance instruments for health. The health sector has been a source for many innovative financing instruments, developed since the 2000s to fund global health programmes to provide immunizations,

Figure III.C.12
Gross ODA disbursements to the health sector by country group, 2015–2019
(Billions of United States dollars, 2018 constant prices)



Source: OECD Creditor Reporting System database.
 Note: Includes population policies/programmes and reproductive health.

and deliver treatments for communicable diseases. These include pooling public and private resources for a specific health issue, such as the Global Fund for AIDS, Tuberculosis and Malaria (Global Fund) and Gavi, the Vaccine Alliance. Another example is Gavi’s International Finance Facility for Immunisation, which front-loaded resources through vaccine bonds to fund vaccine campaigns.⁷⁴ Gavi and the Global Fund both have been active in COVID-19 response efforts. Some innovative instruments are already being used, while others could also be considered in response efforts.

Advance market commitments (AMCs) are supporting the equitable distribution of COVID-19 vaccines. AMCs, which have primarily been used in the health sector, were designed to incentivize investment in research and development to accelerate product development. Building on what is now more than a decade of experience with AMCs for pneumococcal vaccines, Gavi introduced the COVAX AMC facility, co-convened with

the Coalition for Epidemic Preparedness Innovations and World Health Organization and funded by donors, to ensure equitable distribution of COVID-19 vaccines. The Facility provides guarantees to purchase vaccine candidates before they are licensed; once licensed and prequalified by WHO, AMC funds pay for the purchase of doses for ODA-eligible countries.⁷⁵ Over 260 million doses of COVID-19 vaccines are expected to be distributed to eligible countries by mid-2021.⁷⁶ There is still, however, a \$740 million funding gap for 2021 for the COVAX AMC,⁷⁷ and even if fully implemented, LDCs and other vulnerable countries may still have to wait for years before the majority of their populations get vaccinated.

The pandemic bond delivers funds for the COVID-19 response. The 2014 Ebola crisis in West Africa highlighted the difficulty in rapidly mobilizing funding from the international community to contain a pandemic outbreak. To address this challenge, the Pandemic Emergency Financing

Table III.C.3
Global common goods for health

Category	Activities
Provision of global public goods	<ul style="list-style-type: none"> ▪ Research and development for health tools ▪ Development and harmonization of international health regulations ▪ Knowledge generation and sharing ▪ Intellectual property sharing ▪ Market-shaping activities (e.g., to drive down costs of health technologies, including bulk procurement)
Management of negative regional and global cross-border externalities	<ul style="list-style-type: none"> ▪ Outbreak preparedness and response ▪ Responses to antimicrobial resistance ▪ Responses to marketing of unhealthy products (e.g., alcohol and tobacco) ▪ Control of cross-border disease movement
Fostering of global health leadership and stewardship	<ul style="list-style-type: none"> ▪ Health advocacy and priority setting ▪ Promotion of aid effectiveness and accountability
Country specific	<ul style="list-style-type: none"> ▪ Support to achieve universal reduction in deaths from infections and maternal and child conditions ▪ Control of non-communicable diseases ▪ Health systems support

Source: Adapted from Marco Schäferhoff and others, "International Funding for Global Common Goods for Health: An Analysis Using the Creditor Reporting System and G-FINDER Databases," *Health Systems & Reform* 5, no. 4 (October 2, 2019).

Box III.C.3

Broader measures of development support

Total official support for sustainable development

Initiated by the Organization for Economic Cooperation and Development (OECD) and developed by an international task force of experts created in July 2017, total official support for sustainable development (TOSSD) aims to capture both cross-border resource flows and support to international public goods and global challenges. It includes concessional and non-concessional support from traditional and emerging bilateral and multilateral finance providers, including South-South and triangular cooperation providers.^a

In May 2020, the TOSSD Task Force published a TOSSD dataset for 2017 activities, based on a data survey, to which 28 countries and 14 organizations responded, identifying additional activities that were not well covered in OECD statistics, such as contributions towards peace and security and Islamic finance.^b Several pilot studies have also been conducted and more are planned for 2021. The first regular TOSSD data collection will be published in March 2021, covering 2019 activities from 89 bilateral and multilateral providers.

Working Group on Development Support

The Inter-agency and Expert Group on SDG Indicators agreed that it would be beneficial to include an additional indicator in the Sustainable Development Goals global indicator framework to measure development support in the broadest sense that goes beyond official development assistance (see chapter IV of the *Financing for Sustainable Development Report 2021*). However, the Expert Group was not fully in agreement with the TOSSD methodology, and a working group was established in May 2020 to further consider the methodology.^c Subsequently, the working group held several meetings, with divergent views emerging on some of the components of development support, including international public goods.^d The working group will submit its recommendation to the United Nations Statistics Commission in 2022.^c

Source: UN DESA.

^a OECD, "Total Official Support for Sustainable Development (TOSSD)," 2020.

^b OECD, "Total Official Support for Sustainable Development (TOSSD): Key Findings from the 2019 TOSSD Data Survey," May 2020.

^c Economic and Social Council resolution E/CN.3/2020/2.

^d Ann Lisbet Brathaug, "IAEG-SDGs Working Group on Measurement of Development Support: Progress Report to the 11th Meeting of the IAEG-SDGs," November 3, 2020, available at <https://unstats.un.org/sdgs/meetings/iaeg-sdgs-meeting-11/>.

Facility (PEF) was launched in 2016 to provide an additional source of financing to the world's poorest countries when facing cross-border, large-scale outbreaks. PEF financing consisted of donor funding as well as insurance coverage provided in 2017 through catastrophe bonds issued by the World Bank and sold to capital market investors as well as insurance-linked swaps executed by the World Bank with insurance. The PEF insurance window was triggered on April 17, 2020 when the virus had met all the necessary activation criteria, including outbreak size, spread and growth. The triggers had been chosen in close coordination with WHO, based on historical data available for the diseases covered. At the time when the insurance window was triggered, IDA countries accounted for 0.62 per cent (4,653 cases) of reported COVID-19 cases globally. On April 27, 2020, the PEF Steering Body allocated \$195.84 million to 64 of the world's poorest countries with reported cases of COVID-19, with special attention given to areas with the most vulnerable populations, especially in conflict and post-conflict countries. All funds have been transferred to support the 64 countries in their COVID-19 response, including with essential and critical lifesaving medical equipment and personal protective equipment. However, there have been criticisms that the funds were not delivered fast enough, and that high payments made to private investors could have been invested in disease surveillance, diagnostics and other capacities for response to outbreaks.⁷⁸ The World Bank has not renewed the PEF insurance window after the pandemic bonds and swaps matured on July 15, 2020. The Early Response Financing mechanism, introduced in the nineteenth replenishment period of IDA, aims to learn from the PEF lessons (see chapter II).

COVID-19 has also spurred interest in blended finance for health.

Previously, the amounts mobilized from the private sector for health was only 1.8 per cent of all transactions in 2017–2018.⁷⁹ Convergence, a global network for blended finance, reported that 19 per cent of blended finance transactions that were actively fundraising in 2020 were targeting the health sector. Past experience suggests that blended finance may be appropriate in health financing for small and medium-sized enterprises, and pharmaceuticals and vaccinations.⁸⁰

4.3 Philanthropy

Philanthropic flows have also been growing in the last decade, particularly for health (figures III.C.11 and III.C.12). Collectively, 38 private foundations represent the third largest source of development assistance to health, behind the United States and the Global Fund, with the Bill and Melinda Gates Foundation (BMGF) accounting for 50 per cent of all philanthropic flows in 2019. Philanthropic foundations mainly target initiatives in middle-income countries,⁸¹ focusing mostly on communicable diseases, vaccination and reproductive/maternal and new-born/child health.⁸² They have also been active in the COVID-19 response, with the BMGF injecting \$1.75 billion towards the production and procurement of medical supplies, as well as vaccine distribution.⁸³

The growth of philanthropic flows can help to meet health financing gaps but should be led by country priorities.

Philanthropic foundations help diversify funding sources for health, spur innovation, and direct attention to neglected parts of the global health agenda. However, they can also have an outsized influence on public policy decisions, focusing on areas of their own priorities rather than the priorities of Governments they are aiming to assist.⁸⁴ Thus, philanthropic providers should strengthen the quality, impact and effectiveness of their international development cooperation (see section 3). As expressed in the Addis Agenda, they should also consider managing their investment portfolio through impact investments, to leverage the impact of their activities.

5. Climate change and disaster risk reduction finance

While the initial reaction to the Covid-19 crisis has been to the health and immediate economic crisis, the pandemic has also highlighted the growing nature of systemic risks, particularly climate-related risks, and the importance of financing for disaster risk reduction. It has also underscored the importance of national actions on climate, such as carbon pricing and resilient investment (see chapter III.A), and of strengthening the climate finance ecosystem.

5.1 Climate finance

The international climate finance architecture is complex. Climate finance flows through multilateral channels—both within and outside of the United Nations Framework Convention on Climate Change financial mechanisms, as well as through bilateral, regional and national climate change channels and funds. MDBs and other public development banks as well as development agencies play a prominent role in delivering climate finance, in addition to various funds or institutions with a more dedicated focus, such as the Green Climate Fund, the Adaptation Fund and Global Environment Facility.

The COVID-19 crisis may have affected the delivery of the \$100 billion target in 2020. Under the climate agreements, developed countries agreed to jointly mobilize \$100 billion a year in finance by 2020 from public and private sources to address the needs of developing countries. Based on pre-COVID-19 data up to 2018, climate finance counted towards the \$100 billion target had been trending upward and there were reasonable expectations that the target would be met. However, partial data indicates that COVID-19 may have adversely affected both the demand and delivery of climate finance: developing countries' investment in climate-related projects decelerated as priorities shifted to combating COVID-19, while donors and MDBs found it difficult to sustain and expand climate finance as operations reoriented to supporting developing countries' COVID-19 responses (see sections 2.1 and 2.3).⁸⁵

Adaptation finance needs more attention. According to the latest OECD estimates, adaptation finance increased to \$17 billion in 2018, but accounted for only 21 per cent of international climate finance in 2018. Broader estimates by the Climate Policy Initiative (including both domestic and international climate finance), found that adaptation finance almost doubled to \$35 billion in 2018, but still accounted for only 5 per cent of

total climate finance.⁸⁶ These estimates are much smaller than the annual adaptation costs in developing countries, currently estimated at \$70 billion and expected to rise to \$140 billion to \$300 billion in 2030 and \$280 billion to \$500 billion in 2050.⁸⁷

Increasing climate finance for LDCs and SIDS, particularly grant finance, should support efforts to combat climate change and recover from the COVID-19 crisis. Climate finance to LDCs and SIDS has steadily increased between 2016 and 2018 but represent only a fraction of total climate flows—14 per cent for LDCs and 2 per cent for SIDS. SIDS typically receive the highest receipts per capita due to their small populations,⁸⁸ though it fulfils only a small part of total needs.⁸⁹ In contrast, low-income countries, almost all LDCs, are among the lowest per capita recipients of climate finance. LDCs receive most of their climate finance through loans (66 per cent) (figure III.C.13), which contrasts with ODA to LDCs more generally, of which 89 per cent is in grants (figure III.C.13).⁹⁰ This in part reflects that a majority of climate finance is for the energy, transport and storage sector (45 per cent in LDCs, and 41 per cent in SIDS), where ODA support is also usually through loans. As LDCs and SIDS face steeper fiscal and debt sustainability challenges from the COVID-19 crisis (see chapters III.A and III.E), increasing grant finance and the overall volume of climate finance should help meet their nationally determined contributions (NDCs) and better support their recovery from COVID-19. How much climate finance contributes to debt challenges will depend in part on how much the investments financed contribute to a country's growth and development.

Streamlining methodologies and improving the transparency of data will better support the reporting and monitoring of climate finance. This should be done through an inclusive process, including

through the Enhanced Transparency Framework of the Paris Agreement.

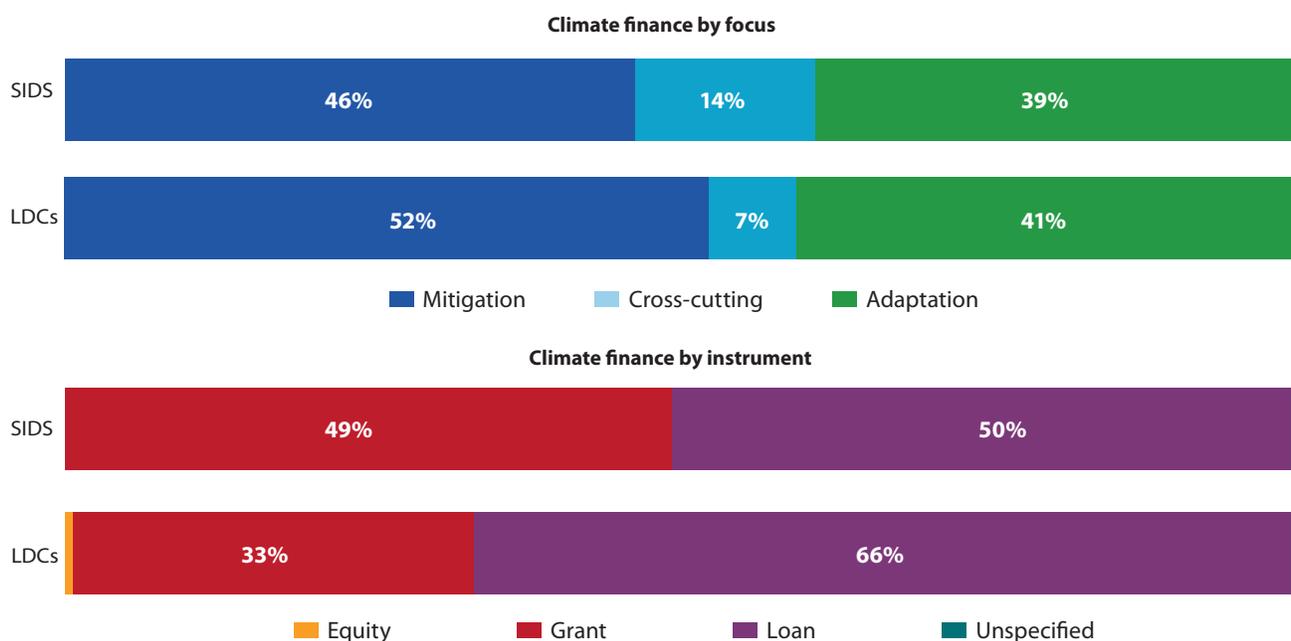
Options for strengthening and scaling up climate finance flows

Political will is needed to scale up both climate finance and, more broadly, development assistance to address the confluence of crises. The unprecedented \$14 trillion COVID-19 response (see chapter III.A) demonstrates the ability to mobilize finance. It is an example that climate finance too, could be mobilized at the scale needed to address the climate crisis, if there is political will.

Climate finance and COVID-19 recovery efforts must be mutually supportive. Climate action must help to revive economies, and economic packages designed to overcome the COVID-19 crisis must be “green”. Failure to do so could lock economies into fossil fuel dependence, putting achievement of the Paris Agreement and the SDGs out of reach. Many investments, including in climate-resilient infrastructure and water management can meet the dual objectives of economic recovery and climate action.⁹¹ Policy integration between climate finance, development assistance and the COVID-19 response is critical and could almost halve the investment required to meet the SDGs and the goals of the Paris Agreement in developing countries.⁹²

Strengthening and scaling up climate finance flows requires a coordinated effort from bilateral donors, the system of public development banks, climate funds and the private sector. The share capital of MDBs and other multilateral DFIs should also be increased so that they can scale up their climate finance operations, including through blended finance where appropriate (see section 2.4). Public development banks can also play a key role in climate finance, both through direct

Figure III.C.13
Climate finance to least developed countries (LDCs) and small island developing States (SIDS) by focus and instrument, 2016–2018
(Percentage)



Source: OECD, *Climate Finance Provided and Mobilised by Developed Countries in 2013-18* (OECD, 2020).

investments and mobilizing private finance (see chapters II and III.A);⁹³ however, they need support to build their capacity and to facilitate their access to international climate funds, such as that demonstrated by the Green Climate Fund in setting up Development Bank of Southern Africa's climate finance facility (box III.C.4). Private finance is also critical to meeting the Paris Agreement's climate finance targets and there is increased momentum in the business community to advance the low-carbon transition, although not yet at the pace or scale needed (see chapter III.B).

Simplifying access and improving the effectiveness of climate finance can better support NDCs. Developing countries have highlighted that accessing climate finance can often be a resource-intensive and time-consuming process that can stretch beyond the term of an incumbent government.⁹⁴ The Task Force has previously highlighted that policies and procedures to access climate finance should be simplified. A more coordinated and complementary approach by bilateral and multilateral agencies is also required to overcome the complex and fragmented climate finance architecture. Efforts toward this end are continuing, including to increase inclusiveness and complementarity, and simplify access.⁹⁵

Increasing the gender responsiveness of climate finance is an opportunity to increase the effectiveness and efficiency of adaptation and mitigation programmes. For example, in sub-Saharan Africa, women are still the primary agricultural producers but because they seldom own land, they are excluded from formal consultations to determine the adaptation needs of their communities.⁹⁶ Thus, to be effective, adaptation programmes should consider gender perspectives, without which they can exacerbate discrimination against women. Investments in cleaner public transport systems can also benefit from accounting for the different needs of men and women for mass transit, including gender-specific security concerns of women. Although the Green Climate Fund was the first multilateral fund to have a comprehensive gender-responsive approach from the beginning, implementation of the approach has been delayed and subsequent updates to its gender policy and action plan have become less ambitious.⁹⁷ Other climate funds have also been making substantial efforts to incorporate gender considerations, albeit retroactively, into fund programming guidelines and structures.

Bilateral and multilateral providers should expedite the alignment of their activities with the Paris Agreement. Average commitments of official development finance for upstream and downstream fossil fuel activities were estimated at about \$3.9 billion annually

in 2016 and 2017, 70 per cent of which were by non-concessional finance from multilateral providers.⁹⁸ In 2016, MDBs agreed to a joint framework for aligning activities with the Paris Agreement and, although promising, progress has been slow, as MDBs have indicated that full implementation would not occur until 2023–2024. Frameworks to assess alignment also require more clarity, and assessments should be fast-tracked and cover all activities. Currently in development, assessment frameworks will initially apply to new direct operations, with assessments of intermediated lending planned for 2021 or 2022; existing portfolios will not be evaluated.⁹⁹ Bilateral providers also need to do more to end support for oil, gas and coal; almost half of COVID-19 stimulus by 21 of the largest OECD countries supported the fossil fuels sector.¹⁰⁰

5.2 Financing for disaster risk reduction finance

The significant increase in disaster risk in recent decades—driven by the unintended consequences of policies and investments that are not risk-informed and the increased frequency and intensity of disasters from climate change—further underscores the urgency of greater investment in risk reduction and resilience.

As part of a wider disaster risk reduction strategy, contributors to disaster response will need to realign their financing from an ex post to ex ante provision of risk-pooling funds and instruments in order to improve the efficiency, predictability and speed of response. An increased focus on preparedness should include developing instruments that build incentives for risk mitigation and reduction into their design.

The international response to disasters has mainly concentrated on emergency efforts and preparedness, with a much smaller share of ODA going to disaster risk reduction (figure III.C.14). In the last ten years, ODA to disaster risk reduction averaged 0.1 per cent of total ODA, while 10 per cent was for emergency response. Unless there are more investments in disaster risk reduction, pressure on humanitarian aid is expected to mount as the climate crisis intensifies. This may impact ODA flows to other sectors, which appears to be happening already with support for LDCs. About 40 per cent of all humanitarian and disaster risk reduction aid goes to LDCs, where emergency support has risen steadily from 15 per cent of total ODA to LDCs in 2010 to 22 per cent in 2019. By aligning their operations and activities with the Sendai Framework, bilateral and multilateral donors, including MDBs can ensure that disaster risk reduction is mainstreamed across their support to developing countries.

Box III.C.4

Development Bank of Southern Africa's Climate Finance Facility

The Green Climate Fund supported the Development Bank of Southern Africa (DBSA) to create the first private sector Climate Finance Facility in Africa. The DBSA Climate Finance Facility is a specialized lending facility designed to increase private investment in climate-related infrastructure projects in the Southern African Development Community (SADC) region, which faces significant climate mitigation and adaptation challenges. The Climate Finance Facility is the first time the “green bank” model has been applied to an emerging market. Green banks are public, quasi-public, or non-profit entities established specifically to facilitate private investment into low-carbon, climate-resilient infrastructure. The lending facility consists of credit enhancements including first loss or subordinate debt and tenor extensions to catalyse private sector climate investments, primarily in water and renewable energy.

Source: Green Climate Fund, “FP098: DBSA Climate Finance Facility,” Projects & Programmes, October 20, 2018; Convergence, Development Bank of Southern Africa, and Coalition for Green Capital, “Design Grant Case Study, Climate Finance Facility,” June 2019.

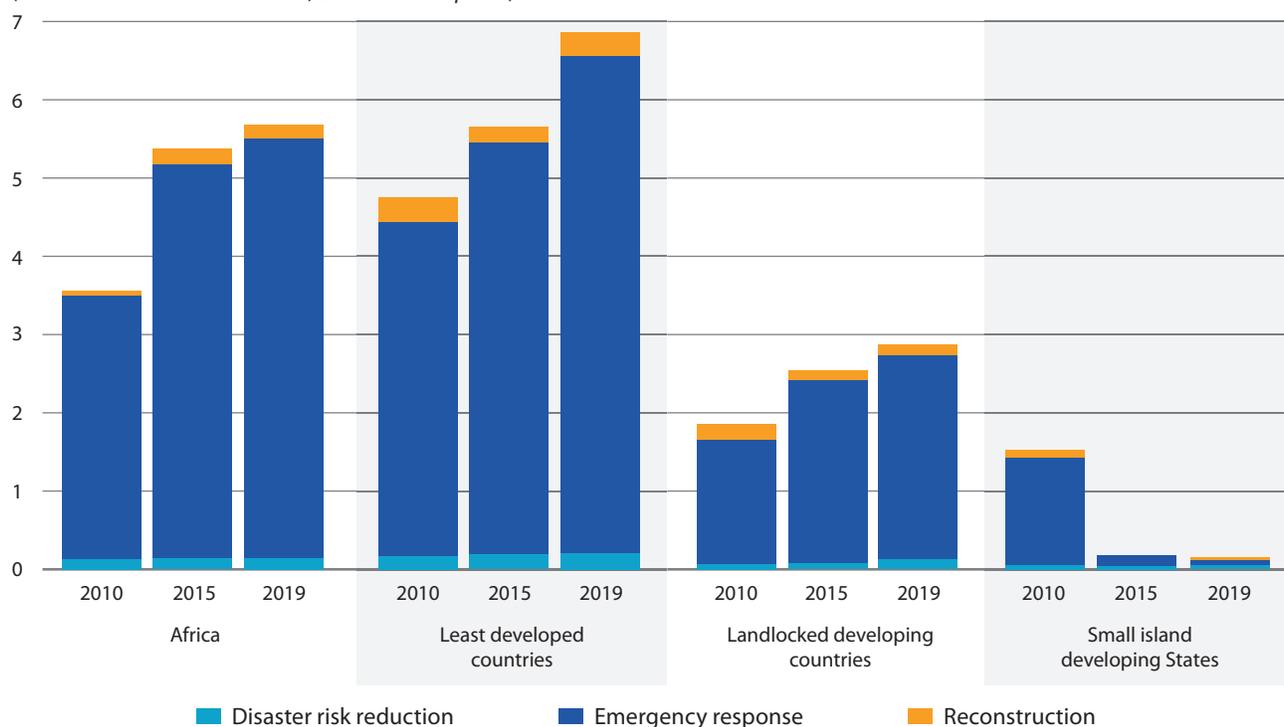
Ensuring that infrastructure investments are resilient to disasters is an opportunity to reduce risk. Infrastructure investments can either improve the efficiency and resilience of existing infrastructure assets or develop new projects to address climate and disaster risks (e.g., a new coastal defence project to reduce the effects of sea-level rise). As noted in chapter II, these risks can be managed through (i) better incorporating multi-hazard disaster risks, including climate risks, in early-stage planning of infrastructure; (ii) investments in adaptation projects that reduce the risks that infrastructure, and its users, would otherwise face; and (iii)

mainstreaming the use of standards and regulations throughout infrastructure development.¹⁰¹ While a range of international public financing options are available, such as through MDBs, the Green Climate Fund and other similar funds,¹⁰² these need to be scaled up and leveraged, including through blended finance where appropriate (see section 2.3 and 2.4), to meet the infrastructure financing demand.¹⁰³ There are also various proposals, particularly from SIDS, for resilience funds to finance resilient infrastructure and disaster risk reduction (box III.C.5).

Figure III.C.14

Gross bilateral ODA disbursements for disaster risk reduction, emergency response and reconstruction by country groups on a cash basis, 2010, 2015, 2019

(Billions of United States dollars, 2018 constant prices)



Source: OECD Creditor Reporting System database.

Note: Disaster risk reduction includes ODA for disaster prevention and preparedness. The higher ODA disbursements for SIDS in 2010 was due to the emergency response to Haiti that year.

Box III.C.5**Resilience funds for small island developing States**

The unique characteristics of small island developing States (SIDS) (e.g., small size, remoteness, susceptibility to natural disasters) make them particularly vulnerable to the impacts of climate change. Between 2003 and 2019, SIDS (except Singapore) have received about \$1.8 billion from multilateral climate funds to finance mostly adaptation projects, with the Green Climate Fund the largest contributor.^a Although funding has risen in the past few years, it meets only a fraction of actual needs,^a which are at high risk of increasing due to more frequent and intense disasters.

Hence, in the 2019 mid-term review of the Samoa Pathway,^b SIDS called for the “possible development of a targeted voluntary disaster fund. . . to manage disaster risk and build back better after disasters.”^c Work is underway to review the proposal, and the United Nations General Assembly will consider the findings in September 2021. Similar proposals are being advanced at the regional level:

- In 2018, Pacific SIDS agreed to develop a Pacific Resilience Facility to finance small-scale disaster risk reduction projects (\$50,000–\$200,000) within the region,^{d,e} which were unlikely to be financed by global climate funds due to their small size. A global pledging event is scheduled for 2021 to raise \$1.5 billion for the Facility;^e
- In 2019, Caribbean SIDS discussed the creation of a SIDS Resilience Foundation^f that would attract private sector funds to support resilience-building activities,^g although it did not gain traction. The Economic Commission for Latin American and the Caribbean (ECLAC) has since proposed a Caribbean Resilience Fund under its Debt for Climate Adaptation Swap initiative; instead of debt-service payments, countries would make payments into the resilience fund (see *Financing for Sustainable Development Report 2020*; see also chapter III.E of *Financing for Sustainable Development Report 2021*). Donors, including the Green Climate Fund, are being approached to capitalize the Fund.^h

Source: UN DESA

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