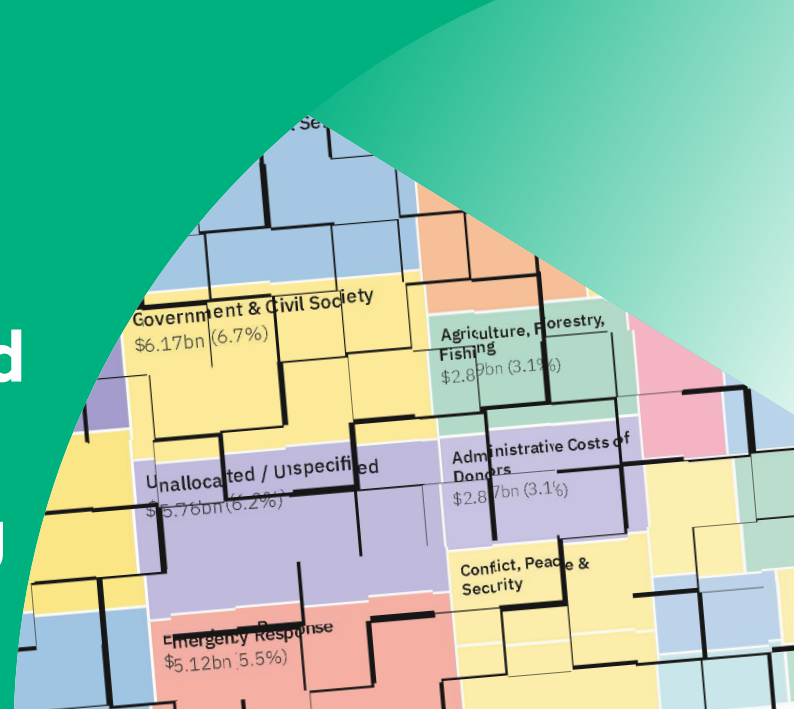


Five things we learned about development finance while building Aid Atlas



SEI brief

June 2020

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Key messages

- Aid Atlas is an online platform launched in December 2019 that enables quick and easy analysis of global development finance flows. We used it to explore some trends in development aid in the period 2013–17.
- Spending on general environment protection is a mere 2% of development finance flows. This is less than the amount that donors report in administrative costs.
- The refugee crisis in Europe added a significant aid burden on some of the most affected countries, as seen by massive increases in finance reported for refugees in donor countries. For most of the largest donors, this was additional funding to their existing aid programmes.
- Some donors do not disaggregate their financial data to specific countries, sectors or global objectives when reporting to the OECD's Creditor Reporting System. This makes the aid picture more opaque.
- Finance for climate change has a much lower disbursement ratio than for development finance overall, suggesting there are unique implementation problems associated with climate change projects. These need to be explored and overcome to improve the flow of finance.
- Improving the transparency and usability of data about development finance means more effort can be shifted from tracking financial flows to asking critical questions about the impacts of aid on the ground in developing countries.

Introduction

Finance for development is a crucial building block for many of the world's poorest countries. The scale of development aid has been growing over the past decade. According to the OECD's Creditor Reporting System (CRS), aid commitments grew from US\$ 169 billion in 2007 to around US\$ 314 billion in 2017. Roughly 40% of the funding over this period was provided as grants, while most of the rest consists of ODA loans (22%) and Other Official Flows (35%).¹ Private development finance (mainly from large philanthropies) makes up around 2.5% of total reported flows.

Those providing the finance and those whom it is intended to support have a mutual interest in ensuring this funding is put to good use and is delivering as much benefit as possible on the ground. That means strengthening the social, economic

¹ Not all Other Official Flows have been reported in the OECD CRS, this figure includes only those that are.

and environmental assets of developing countries, including addressing challenges faced by the poorest or most marginalized communities. It also means helping them work towards the Sustainable Development Goals (SDGs) under the United Nations' Agenda 2030.

To assess the effectiveness of this finance, it is imperative to first understand where and how it is being used. But the aid landscape involves a lot of different actors and funding streams, so compiling this picture has never been straightforward. Hence, a lot of effort is today spent tracking development finance, trying to see how much is being provided, where it is spent, and what use it is being put to.

The most comprehensive data set is that compiled by the OECD's Development Assistance Committee (DAC). The DAC's CRS database houses large volumes of data reported to the DAC by "donor" countries, some multilateral finance institutions, development- and climate-focused funds, and some large private philanthropies. Although the data is publicly available, it is not easy to use. The database itself has been developed over time and was never originally designed for publicly tracking development finance. But it is the most comprehensive data set available, and it can provide valuable insights into trends in aid over extended periods. In the past, SEI has used the CRS data to produce bespoke reports about some part of the development finance picture (e.g. climate finance in small island developing states), as have other research institutions. This kind of analysis has always been time-consuming, and in any case has limited shelf life and often appeals only to an audience in the specific country or region examined.

Many developing countries have some form of aid management platform that aims to keep track of incoming development support, but these vary in comprehensiveness. Smaller countries can and often do struggle to put together a coherent overview of the support they are receiving, or of how donor countries are accounting for this support.

All of this makes it difficult not only to see what is happening, but also to evaluate whether the funding is generating lasting positive impacts for those who need it most, which should be the whole point of development finance.

For this reason, SEI developed **Aid Atlas**. The Atlas is an interactive platform that allows easy analysis of extensive data about development finance. Aid Atlas can be especially useful for decision makers in developing countries, where finance data can be leanest. It is simple, intuitive to use, and enables a range of analyses that helps users to better understand where aid is coming from, where it's going, and what it's being used for. It allows users to tailor data to their specific interests. By making detailed analysis possible in an instant, one of our main aims is to free up resources so that those interested in aid effectiveness can move beyond spending so much effort tracking financial flows, and instead start interrogating whether aid is having a meaningful impact on the ground in developing countries.

Aid Atlas is freely available to use at aid-atlas.org.

Five things we learned

While building Aid Atlas, we spent time analysing the OECD's CRS data set in order to find ways of turning the data into useful analyses. Watching financial data come to life so quickly, and visually, sheds light on some fascinating patterns about the aid landscape. In this brief, we share a few insights we picked up during the process.

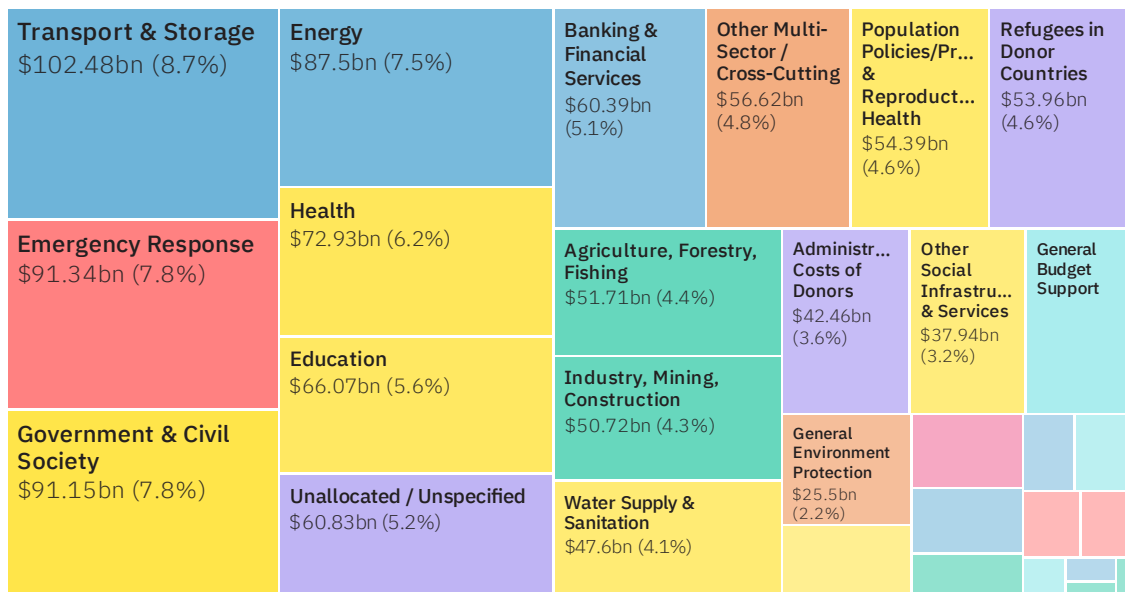
1. A global environmental crisis is not translating into large volumes of finance

For the five years from 2013 to 2017 inclusive, disbursements that were directed to *General environment protection* totalled roughly USD\$ 28 billion worldwide. This is about 2% of total development finance disbursements over this period, and on average just under US\$ 6 billion per year. This category includes things like environmental policy and administrative management, biosphere protection, biodiversity, site preservation, environmental education/training and environmental research.

There is undoubtedly other spending on “the environment” that is not reported using the *General environment protection* category of the CRS. For instance, funding that targets climate mitigation objectives could be said to have environment protection as a goal, and most of this climate-related finance is reported in other sectors.

Nonetheless, given the scale of environmental challenges globally, and the rapid pace at which many environmental indicators are going backwards, US\$ 6 billion annually sounds a trivial amount. By comparison, as Figure 1 shows, around 50% more finance was spent on the *Administrative costs of donors* compared with funding for *General environment protection* – and these figures do not include the administrative costs of implementing agencies, such as UN institutions and others, which can often be up to 10% of the total project budgets.

Figure 1. Sectoral breakdown of all development finance in 2013–2017, inclusive (amounts in millions of USD)



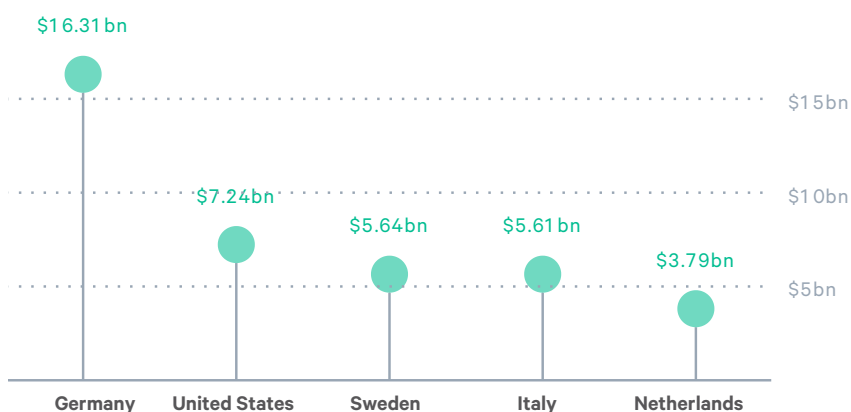
2. The refugee crisis in Europe was an additional burden on some large aid providers

According to UNHCR,² around 37 000 people a day are forced to flee their homes because of conflict or persecution; there are presently 26 million refugees worldwide and another 3.5 million seeking asylum. Global spending on *Refugees in donor countries* in 2013–2017 was roughly USD\$ 53 billion. Disbursements peaked in 2016 at US\$ 16 billion.

Within Europe, the donor countries reporting the highest amounts were Germany and Sweden, which corresponds to the massive refugee intakes these countries absorbed over a short period of time, followed by Italy and the Netherlands. As shown in Figure 2, the US is the other top five donor in this category.

² www.unhcr.org/figures-at-a-glance.html

Figure 2. Countries reporting most funding for refugees in donor countries in 2013–2017



Interestingly, in 2015–17 Germany received a staggering 1 444 225 asylum applications³ and Sweden’s intake was 217 482,⁴ while the US accepted around 195 000.⁵ However, the amount of finance reported for *Refugees in donor countries* by the US was considerably higher than by Sweden, totalling nearly half that reported by Germany (despite total US intake being around 13% of Germany’s).

The rise of spending on refugees prompts questions about what effect this has on other kinds of aid flows. For the period 2015–2017, disbursements for *Refugees in donor countries* scaled up dramatically while

the trend globally for disbursements of *All development aid* is almost flat, at roughly US\$ 250 billion annually. This suggests the refugee crisis may have drawn aid resources away from other developing countries and sectors. But a closer look reveals this is not the case for all donors: total development finance from both Germany and Sweden increased significantly during this period, corresponding in large part to an increased expenditure on refugees. So, for these countries providing high levels of financial support to *Refugees in donor countries*, these costs were borne as an addition to existing aid budgets rather than displacing other aid. By contrast, total US contributions to development aid have been more or less flat since 2010. Meanwhile, spending on *Refugees in donor countries* has increased substantially, especially from 2013 onwards. This means US aid spending has declined in some other sectors.

Aid Atlas data refers to the costs for refugees hosted within the borders of the aid provider. Globally, only 16% of global refugees are hosted in developed countries. Pakistan, Uganda and Sudan host the highest number of refugees (followed by Germany), while around a third of all refugees are actually hosted in Least Developed Countries.⁶ So, imagine the costs of this global refugee crisis on poorer countries: even where some support is provided by the international community, the strain on public resources and the natural environment makes the task of pursuing sustainable development far more difficult.

The Syrian refugee crisis which led to European countries spending more on refugees has also had other effects on development aid. One interesting feature is a dramatic increase in aid disbursed to Turkey, Syria’s neighbour, for *Material relief assistance and services* (under the *Emergency response* sector) – from US\$ 146 million in 2015 to US\$ 646 million in 2016. At the same time as receiving financial support, Turkey also reported providing US\$ 10.7 billion in disbursements in 2015 and 2016, most of this to Syria (US\$ 8.5 billion). In other words, Turkey was both a recipient and a donor of development finance.

3. Finance for critical agendas like sustainable oceans cannot be assessed properly

The sustainable oceans agenda comprises issues like sustainable fisheries, marine pollution, ocean acidification, sustainable management and protection of marine and coastal ecosystems, and increasing economic benefits to Small Island Developing States and Least Developed Countries from the use of marine resources through sustainable management of fisheries, aquaculture and tourism.

3 appsso.eurostat.ec.europa.eu/nui/show.do?dataset=migr_asyappctza&lang=en
 4 www.migrationsverket.se/English/About-the-Migration-Agency/Statistics/Asylum.html
 5 www.pewresearch.org/fact-tank/2019/10/07/key-facts-about-refugees-to-the-u-s
 6 <https://www.unhcr.org/globaltrends2018/>

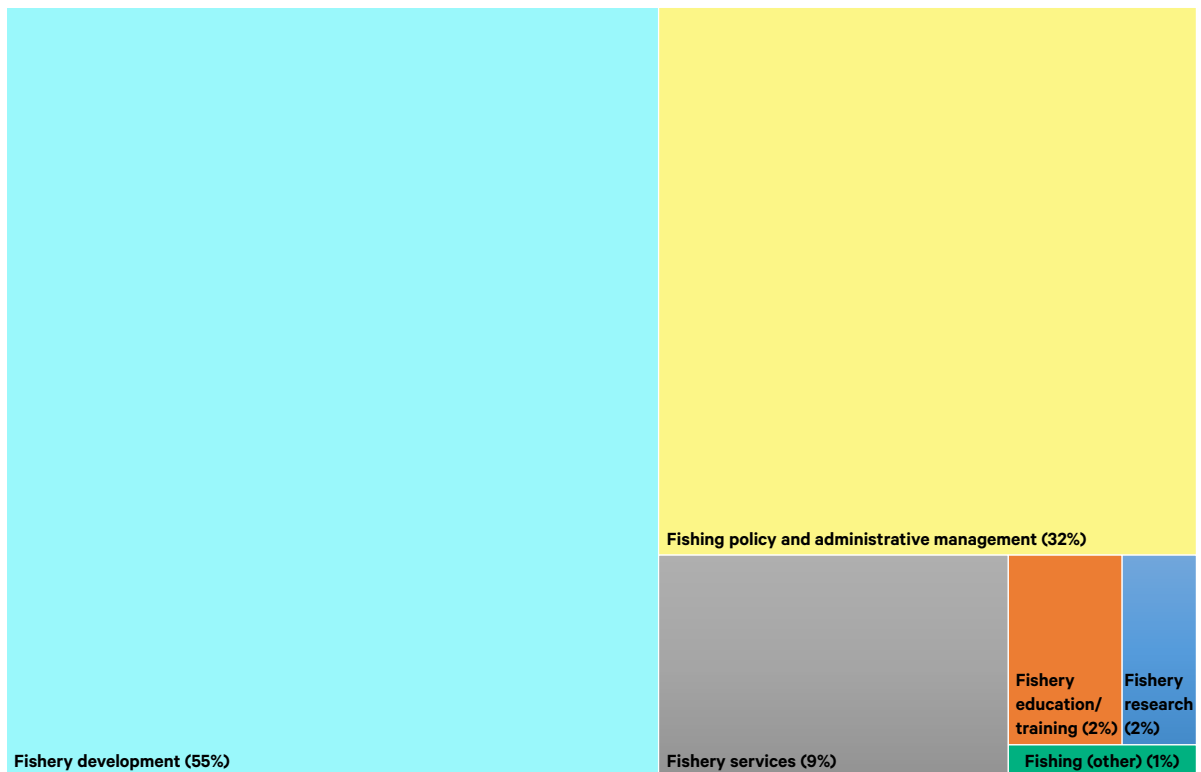
Using the OECD's CRS database, it turns out there is no straightforward way to assess how much development finance has targeted sustainable oceans. By looking into some individual sectors, we can derive a partial picture of finance that may be relevant for this objective – but the picture is both distorted and incomplete.

For example, in 2013–2017 just over US\$ 2 billion was disbursed for the *Fisheries* sector. As shown in Figure 3, over half of this targeted fishery development, which includes among other things finance for exploitation and utilization of fisheries. 10% of the total targeted fishery services, which includes activities like the developing fishing harbours and markets. Without scrutiny of individual activities, it is not possible to know whether finance that supported these activities is contributing to sustainable or unsustainable practices. This could be examined further using Aid Atlas, by downloading the data file for *Fisheries* projects and searching through individual transactions to learn more about what was funded.

Other activities that may support the sustainable oceans agenda will be found in other sector codes of the data, but there is no systematic way of isolating these. For example, there are likely to be relevant activities under *General environment protection*, which as explained above includes purposes like environmental policy and administrative management, biosphere protection, biodiversity, environmental education/training and environmental research. Another relevant sector may be *Water supply and sanitation* (e.g. the purpose waste management/disposal could be related to marine pollution from land-based activities, which relates to the SDG target 14.1). The *Energy* sector includes a purpose code for marine energy, which comprises ocean thermal energy conversion, tidal and wave power. The *Mineral resources & mining* sector includes activities related to offshore minerals.

Even if data from these purpose codes were brought together, it still does not provide a reliable picture of finance for sustainable oceans.

Figure 3. Development finance disbursements for the fisheries sector

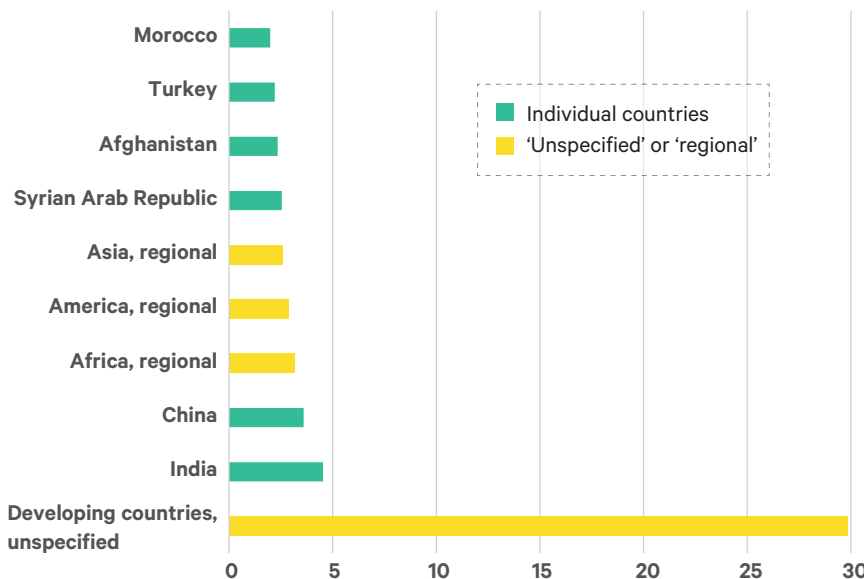


This data problem is not unique to sustainable oceans. It is similarly challenging to piece together a complete picture for other agendas. For instance, SDG 2 calls for “zero hunger”. Food security and food provision does not have its own sector in the CRS, but relevant activities might be found under a number of “purpose” categories such as school feeding (under *Education*), basic nutrition (under *Health*), food crop production (under *Agriculture*), and food security policy and administrative management (under *Other Multisector*). Similarly, data about support for disaster risk reduction and response (also a high-profile international agenda) is spread across multiple sector and purpose codes such as: *Disaster risk reduction* (under *Other multisector*) and material relief assistance and services (under *Emergency response*). Note that in 2018 a new policy marker for Disaster Risk Reduction has been added to the OECD’s CRS system, and is visible on the Aid Atlas platform, so finance for DRR may become easier to track in future years.

4. Some donors do not disaggregate their data to individual recipients, sectors or policy objectives

Germany was the third largest donor by total commitments between 2013–17, and roughly a third of Germany’s development finance was reported to the CRS as targeting *Developing countries, unspecified* (see Figure 4). In fact, over the whole period for

Figure 4. Top recipients of Germany’s development finance, 2013–2017



which Aid Atlas has data (2002 onwards), *Developing countries, unspecified* is the single largest recipient category (amounting to US\$ 404 billion). When donors report this way, they make the global aid picture more opaque, because we are unable to see which countries this funding was intended to benefit. Of course, some of this funding may not be intended for specific countries, but instead for things like research or for regional policy or technical support mechanisms. But sometimes the funds are intended for individual countries. For example, Germany has a large portfolio of projects in the Pacific islands that are regional programmes but which benefit specific countries, yet much of this support has been reported as *Oceania regional* rather than disaggregated to individual recipients.

We observe the same problem when looking at how finance has targeted different sectors. For

2013–17, the sixth largest sector category by amount of finance disbursed is *Unallocated/unspecified*. With total disbursements of around US\$ 66 billion, this is hardly a trivial amount, and we have no picture of how this funding was targeted (without delving deeper into project documents). Germany features again in the top five list of donors who have reported this way. Furthermore, the largest recipient of this *Unallocated/unspecified* finance is *Developing countries unspecified*.

Similar issues can also be seen in the data for global objectives (these are called “policy objectives” in the OECD’s CRS). An example is the Inter-American Development Bank, which seems not to indicate any of the global objectives targeted by their financial support other than Gender equality.

So, some of the data leaves us with more questions than answers. A first step toward answering these would be to look at the individual projects. Some data on project descriptions can be downloaded directly from the profile pages in Aid Atlas.

5. Implementation problems with climate finance?

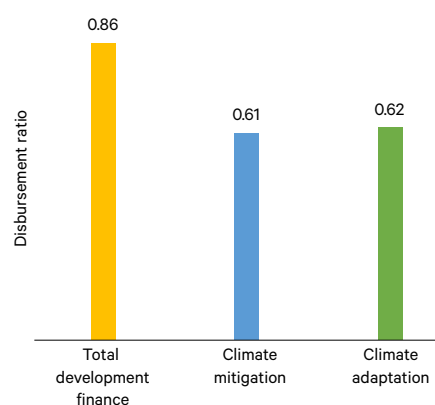
Concerns about how climate finance is working have been raised regularly by recipient countries and research institutions, and one commonly cited problem has been the burdensome processes for accessing and using resources (Amerasinghe et al., 2017; Dupuy K. et al., 2019; Green Climate Fund, 2019; Lundsgaarde et al., 2018; UNFCCC and Standing Committee on Finance, 2018). Such criticism has referred particularly to the multilateral climate funds, like the Green Climate Fund, Adaptation Fund, several funds under the Global Environment Facility, and the World Bank’s Climate Investment Funds.

One way to look for process-related challenges in the data is to compare commitments of finance with disbursement levels over the same period. This gives an indication of whether funding that has been approved (“committed”) is actually being paid out (“disbursed”). A low ratio of disbursements to commitments might indicate, for instance, that there are challenges in executing projects on the ground, or some other problems in the delivery of funding.

The data shows clearly that finance for climate change mitigation or adaptation activities has a significantly lower disbursement ratio than the average for all global development finance (see Figure 6). In other words, less of the approved funding is being spent.

To explore why this might be the case, we looked further at disbursement ratios for individual donors in 2013–17. All the biggest providers of climate finance – France, the European Bank for Reconstruction and Development, EU institutions, the US, Germany, and Japan – have a much higher disbursement ratio for non-climate projects than they do for climate projects. So, the problem does not seem to lie with how effective they are at disbursing funds in general.

Figure 6. Disbursement ratios for all development finance, all mitigation finance, and all adaptation finance worldwide in 2013–17 inclusive



Among the multilateral climate funds, disbursement ratios are also very low. The Green Climate Fund had not reported in the CRS any disbursements by the end of 2017, despite commitments beginning in 2015 and totaling US\$ 2.4 billion by 2017. Similarly, the Global Environment Facility (GEF) reports very low disbursement ratios for its finance targeting climate change: 7% for mitigation and 16% for adaptation. The GEF seems only to report disbursements data for their activities targeting climate change in 2016 (and a very minor amount in 2017). The World Bank’s Climate Investment Funds (CIFs) also have a very low disbursement ratio (32%). The Adaptation Fund does better than its peers with a disbursement ratio of 57%, though this is still significantly lower than the 86% disbursement ratio of total development finance worldwide.

We also explored whether the low disbursement ratios might be related to the sectors where climate finance is clustering. Around two thirds of all financial commitments from 2013 to 2017 for mitigation are in the energy sector and the transport and storage sector. Globally, the disbursement ratio in the energy sector is 62%, while for transport and storage it is 70%. For adaptation, funding commitments are clustered in general environment protection; agriculture, forestry and fisheries; and water supply and sanitation. Globally, the disbursement ratio in the general environment protection sector is 88%, in agriculture, forestry and fisheries it is 72%, and in water supply and sanitation is 73%.

So, the disbursement ratios in many of the sectors where climate finance is concentrated are indeed significantly less than the global average for all development aid, which is 86%. However, while this appears to be a contributing factor, it doesn’t fully explain the very low disbursement ratios.

This suggests that challenges related to climate finance disbursement may be related to some complexity particular to climate change projects, and/or problems with the

**Published by**

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intermediary organizations involved as accredited entities that are supposed to help developing countries execute the projects. Either way, the data points to the need to explore the problem and find solutions so that finance for climate change can be spent with the urgency that the problem demands.

Improving data on aid and encouraging more analysis of aid's effectiveness

The OECD Development Assistance Committee's database is the most comprehensive available database for an overview of development finance. But for many who need this data for real decisions, the data requires much time and effort to use correctly. Over time, the format and requirements for data collected by the OECD DAC have changed. As a result, today's database is a mix of coding logics and sectoral categories which is not perfectly designed as a tool for tracking global flows or monitoring effectiveness.

The purpose of Aid Atlas is to simplify the use of the data for a wide range of stakeholders. But what can be shown is still limited by the structure and coverage of the underlying data set. Just by bringing greater transparency to the data, Aid Atlas aims to encourage those countries and institutions which report their financial support to do so in a way that provides more disaggregated and complete sets of information about their activities.

There may be no perfect way to organize the data on financial support so that it can be easily analysed for all possible sectors or development objectives. Nonetheless, some changes or additions to the OECD's policy markers, for example, would help to better track support for some important international agendas – like sustainable oceans – in the future.

Finally, arguably the main reason for tracking financial flows in the first place is to be able to evaluate what impact finance is having. Making tracking simple helps to more easily explore questions about aid effectiveness. In 2020, we aim to integrate other kinds of data into Aid Atlas, including indicators of social, economic or environmental change in recipient countries. Doing so will make it easier to correlate trends in development finance with outcomes on the ground in developing countries, and thus contribute to further debate and scrutiny of aid effectiveness.

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