european network on
debt and development

Failing the poorest

An assessment of ODA in 2020

Briefing Paper • May 2021

By Nerea Craviotto

Introduction

In April 2019 at the start of the Covid-19 pandemic, members of the Organisation for Economic Co-operation and Development (OECD)'s Development Assistance Committee (DAC) announced that they would strive to protect Official Development Assistance (ODA) budgets.[1] Since then, CSOs have been calling the donor community to raise their ODA ambitions. One year on, as the multiple impacts of this 'once-in-a-century crisis' became clearer, the preliminary 2020 ODA figures were eagerly awaited. On April 13 they were finally released.[2] Unfortunately, the reality failed to live up to expectations.

While ODA levels went up, the challenge of fulfilling the 50-year-old promise of channelling 0.7 per cent of gross national income (GNI) to those countries most in need still remains. So do the promises related to commitments made on the quality of aid. As rightly pointed out by the OECD Secretary General Angel Gurria,[3] "total ODA in 2020 equated to around a mere one per cent of the total amount countries have mobilised in economic stimulus measures to respond to the Covid-19 crisis". He also stressed that going forward "greater efforts are needed to help developing countries with vaccine distribution, with hospital services and to support the world's most vulnerable peoples' incomes and livelihoods". If 2021 does not show a change in donor strategies, the resulting message could be clear: a dual strategy of do 'whatever it takes' for developed countries, but just a 'whatever we deem possible' for developing countries.

Within the next sections, this briefing will look in more detail at the quantity and quality-related challenges that the 2020 ODA preliminary figures show.

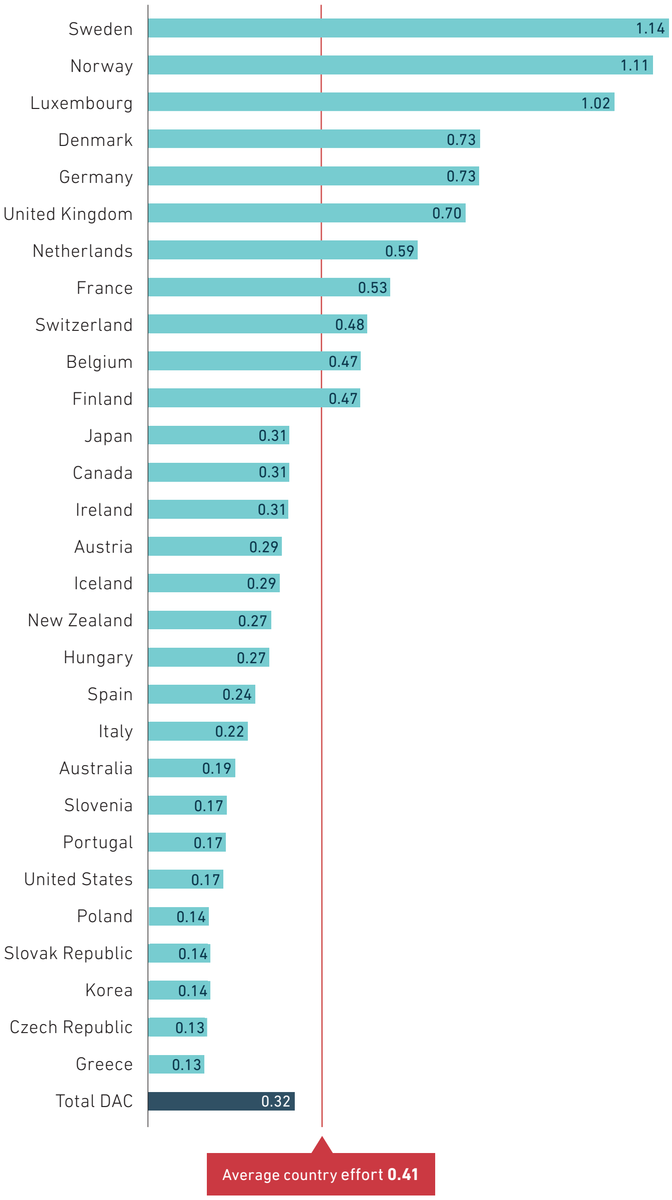
ODA increased but still insufficient

In 2020, ODA levels reached an all-time high of USD 161.2 billion (+3.5 per cent compared to previous year). Yet the 0.32 per cent of the combined gross national income (GNI) of DAC members that this covered is less than half of the long-standing spending target of 0.7 per cent - a promise made more than half a century ago.

As Figure 1 shows, in 2020, only six DAC members out of 30 meet or exceed their 0.7 per cent spending target for development assistance – Denmark, Germany, Luxembourg, Norway, Sweden and the United Kingdom. And while ODA rose in 16 DAC countries (with the largest increases noted in Canada, Finland, France, Germany, Hungary, Iceland, Norway, Slovak Republic, Sweden and Switzerland), and this is a step in the right direction, still more than half (18) of DAC members didn't even reach the half-way mark towards the 0.7 per cent target.

Moreover, ODA fell in 13 countries, with the largest drops in Australia, Greece, Italy, Korea, Luxembourg, Portugal and the United Kingdom. As Oxfam notes,[4] in 2020 alone, if rich countries would have kept their promises to the 0.7 per cent target the aid budgets would have been boosted by an additional USD 190 billion. Such resources could have contributed to combatting the higher levels of food insecurity and they could have strengthened access to health and social protection services.

Figure 1: ODA in 2020 on a grant equivalent basis – as a percentage of GNI



Source: OECD, 13 April 2021

ODA distribution

In 2020 the ambition of ODA reaching the poorest countries was not achieved yet again. Net bilateral ODA flows from DAC members to low-income countries dropped by 3.5 per cent compared to 2019, with USD 25 billion channelled to those countries most in need. This decrease flies in the face of IMF estimates that low-income countries would need to deploy around USD 200 billion in the coming five years to continue responding to the pandemic and an additional USD 250 billion to accelerate the economic recovery.[5]

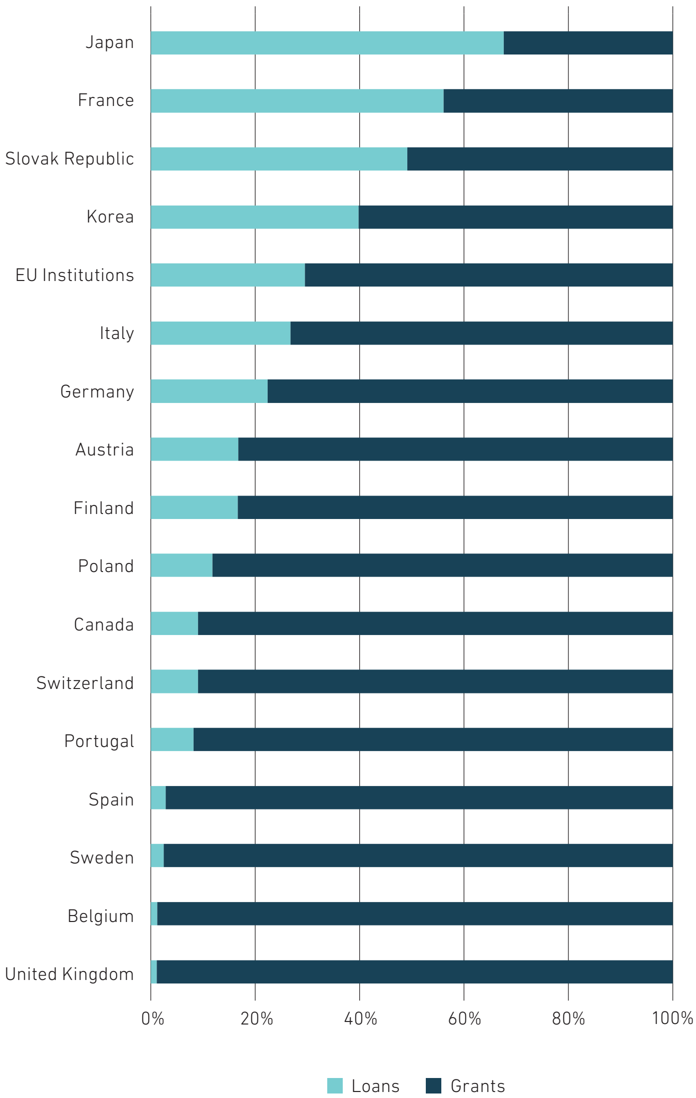
By contrast, net ODA flows to upper-middle income countries increased by 36.1 per cent (to USD 18 billion) and net ODA flows to high-income countries more than tripled (from USD 76 million to USD 372 million). Although net bilateral ODA flows to least developed countries (LDCs) increased by 1.8 per cent (from USD 33 billion in 2019 to USD 34 billion in 2020), these flows represented a mere 0.07 per cent of the DAC countries' GNI – far from the specific 0.15-0.20 spending target for LDCs donors committed to in the early eighties.[6] And, while it is clear that an important share of people living in poverty are based in middle-income countries, these figures raise questions about donor current strategies.

The quality of ODA has to be improved too

A second challenge is to improve the quality of ODA. According to Eurodad, key issues in the agenda of the quality of ODA relate to the rise of loans versus grants, the diversion of ODA towards Private Sector Instruments (PSIs),[7,8] debt relief[9] and development effectiveness principles.

In 2020, the rise of ODA was partly affected by an increase in loans by some donors, notably France, Germany and Japan (there were others too). In 2020, a gross bilateral ODA equivalent to 22 per cent was channelled in the form of loans and equity investments, up from around 17 per cent in previous years. In recent years, donor providers have preferred loans, while the level of concessionality[10] has been declining significantly since the aftermath of the 2009 crisis.[11] As Figure 2 shows, in 2020, for some donors the share of loans versus grants was equal to or higher than 50 per cent of their gross bilateral aid – this being the case for Japan, France and the Slovak Republic. This evolution has not spared the LDCs, in opposition to the long-standing recommendations stipulating that ODA to LDCs should essentially take the form of grants.[12]

Figure 2: Share of gross bilateral grants for loan giving DAC members



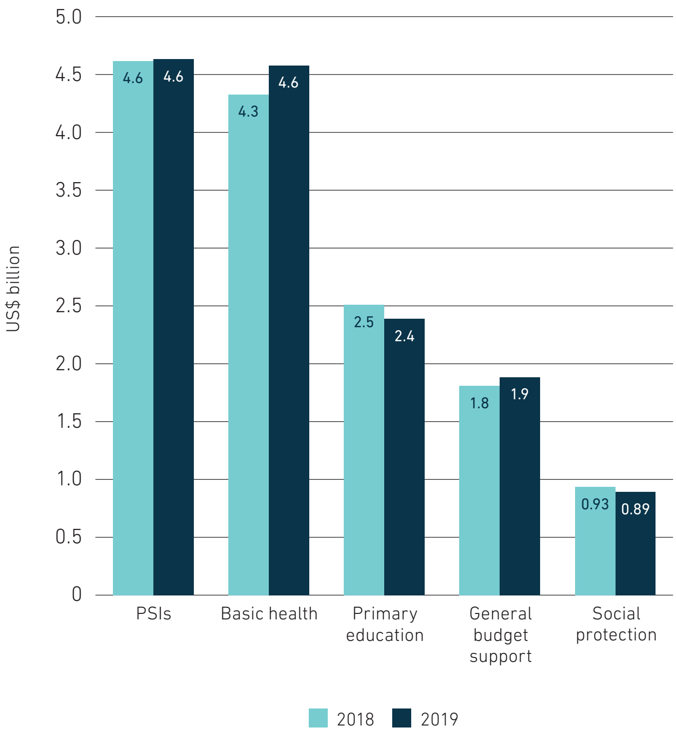
Source, OECD, 13 April 2021

While some DAC donors would argue loans as a development cooperation instrument are as effective as grants, they may not be considering the impact of these concessional loans on the debt sustainability of the country, further accentuated by the Covid-19 pandemic and related crises. They may also fail to consider the lack of a partner country's ownership at the time of negotiating the most convenient development instruments for their country, including for terms and conditions of loans. The latest progress report[13] of the Global Partnership for Effective Development Cooperation – the primary multi-stakeholder vehicle for driving development effectiveness – showed donors are failing to make substantive progress on their commitments to make ODA more effective, notably on country ownership.

Following the provisional reporting arrangements[14] for PSIs agreed in 2018, ODA channelled through private sector instruments (PSIs) decreased slightly (0.38 per cent) compared to 2019, with USD 3.18 billion reported as PSIs in 2020, representing a 0.02 per cent of total ODA. This included USD 1.32 billion distributed under the institutional approach (PSI vehicles, such as development finance institutions) and USD 1.86 billion distributed under the instrumental approach (for example, in the form of net loans and equities to private companies operating in ODA-eligible countries).

While some may think these figures look rather small, the scale is significant when compared to allocations for specific purposes or sectors.[15] Although the available 2020 ODA data does not allow for this calculation yet, the basis of ODA figures for 2018 and 2019 allow us to raise a red flag, especially in the current context. Gross PSI ODA in 2018 and 2019 (US$ 4.6 billion) was above the amount of gross bilateral ODA that DAC members spent on basic health (US$ 4.3 billion) in 2018 and just equal in 2019 and it represented approximately five times the DAC bilateral ODA spent in 2018 and 2019 on social protection (US$ 934 million and US$ 891 million respectively) – both key sectors in the aftermath of the Covid-19 pandemic.[16]

Figure 3: Contextualising the scale of PSI ODA



Source: OECD DAC CRS data extracted on 25 January 2021
Note: All data is for 2018 and 2019, gross disbursements of bilateral ODA from DAC members.

Furthermore, as the Eurodad report 'Time for Action'[17] shows from the assessment of 2018 and 2019 ODA data, the practice so far indicates that the vast majority of PSI ODA goes to middle-income countries and little information is available in terms of development impact. Once full ODA 2020 data is available towards the end of 2021, a detailed assessment of PSI ODA data for 2021 will be possible too. The use of PSIs has raised many questions within civil society organisations[18] regarding its ability to reach those most in need and, as a consequence, the diversion of scarce ODA resources from where they have most impact.

The rise in 2020 ODA figures has also been affected by rising debt relief from USD 149 billion in 2019 to USD 541 billion in 2020, likely explained by the introduction of the new reporting measures[19] for debt relief in the grant equivalent system, which were approved by the OECD-DAC in July 2020. Today debt relief only amounts to 0.34 per cent of ODA (it was 0.1 per cent in 2019) but this is likely to increase in the years to come as a consequence not only of the post-Covid-19 pandemic context, but also the incentive[20] the new rules for ODA debt relief create for donors to get closer to their targets.

The way forward

Before the Covid-19 pandemic, collective efforts to reach the Sustainable Development Goals (SDGs) were already falling short. With developing countries hit by new waves of the Covid-19 pandemic, ODA can and must play a crucial role in tackling the impacts of the coronavirus crisis and continue supporting a recovery centred on human rights, gender equality and a just transition.

ODA projections for 2021 are still uncertain, as the rich economies around the world are still on the path to recovery and so is their GNI, which for many donor countries sets their ODA levels. Yet, as stated by the Overseas Development Institute,[21] "many governments, especially in Africa and Asia, have a narrow set of financing options to address the health emergency and support the needed fiscal stimulus packages. These countries cannot borrow in international capital markets at reasonable rates, because their poor credit rating, and they cannot print currency to avoid inflation spikes". Moreover, their capacity to mobilise resources at domestic level is also limited by international corporate tax dodging, which is costing countries around the world hundreds of billions of dollars every year. That leaves development aid as one of the few financing options developing countries have available to respond to the current and future needs on the ground. And these needs cannot wait until the economic situation gets better in the rich countries, the time for solidarity across countries, and notably from rich countries to the poorer ones, is now.

In 2021, a substantial and immediate increase in ODA levels must be the top priority to ensure an equal path of recovery across the world and the achievement of the 2030 Agenda on time, otherwise we risk pushing the poorest countries into another lost decade for development.[22] Attention should be given as well to aspects related to the quality of aid and progress to deliver on the commitments to make ODA more effective.

Recent years have seen a lot of discussions within the OECD DAC[23] about what can and cannot be counted as ODA and how, very much influenced by the interest of some key donors to reach the 0.7 ODA/GNI target. These discussions have led to a number of temporary[24] and permanent[25] agreements that have contributed to the undermining of the credibility, integrity and solid reputation of DAC statistics. Currently, DAC members are busy discussing which Covid-19 related expenditures could be reported as ODA, which could easily lead to the emergence of new forms of in-donor-country expenses.

In this context, the DAC community should consider the need for an external review of the whole ODA modernisation process and its impact on the quantity and quality of ODA, including the review of the expansion of the ODA concept, its definition and related reporting rules. The world is in an unprecedented, multi-faceted crisis with the COVID-19 pandemic hitting developing countries particularly hard. Data from the World Bank (WB) in January 2021 estimated that the number of people who would be pushed into Covid-19-induced poverty could increase to between 143 and 163 million. The time is now for DAC members to make sure ODA is channelled through the best possible instruments and mechanisms and with the highest ambition in terms of quantity and quality to ensure that the needs of the poorest and most marginalised people remain at the heart of allocations.

Endnotes

1 OECD (2020). "Tackling coronavirus - Contributing to the global effort". Available here.
2 OECD DAC (2021). "COVID-19 spending helped to lift foreign aid to an all-time high in 2020 but more effort needed". Available **here**.
3 Ibid.
4 Oxfam International (2021). "Slight increase in aid only a drop in the ocean to combat the Covid-19 crisis". Available **here**.
5 IMF (2021). "IMF Executive Board Discusses Macroeconomic Developments and Prospects in Low-Income Countries—2021". Available **here**.
6 UN – LDC Portal. "Commitments and special terms on ODA to LDCs". Available here.
7 Private Sector Instruments are financing instruments that ODA providers can use to make direct investments in private enterprises or in 'PSI vehicles' – such as development finance institutions (DFIs), investment funds, or other special purpose vehicles – which in turn invest in private entities (e.g. enterprises or investment funds) in developing countries. They can consist of loans to private sector entities, equity investments, mezzanine finance instruments (such as subordinated loans, preferred equity, and convertible debt/ equity) and guarantees. Capital contributions to DFIs are also considered PSIs – whether they are provided as grants or equity investments.
8 Caio. C et Craviotto, N. (2020) "Opinion: What the new data on private sector instruments doesn't tell us". Available **here**.
9 Van de Poel, J. (2020) "Eurodad response to the DAC's agreement on reporting debt relief as ODA". Available **here**.
10 The degree of 'softness' of a credit reflecting the benefit to the borrower compared to a loan at the market rate.
11 UNCTAD (2019). "The Least Developed Country Report 2019". Available **here**.
12 OECD (2021). "Recommendation on Terms and OECD Legal Instruments Conditions of Aid". Available **here**.
13 GPEDC (2019). "Headlines from the 2019 Progress Report." Available **here**.
14 OECD (2018). "Reporting measures for private sector instruments." Available **here**.
15 Caio, C. et Craviotto, N. (2021). "Time for Action: How private sector instruments are undermining aid budgets". Available **here**.
16 Ibid. 11.
17 Ibid. 11.
18 Meeks, P. (2019). "Why 2019 is a Make-or-Break Year for International Aid". Available **here**.
19 OECD (2020). "Reporting debt relief in the grant equivalent system". Available here.
20 Van de Poel, J. (2020). "Eurodad response to the DAC's agreement on reporting debt relief as ODA". Available **here**.
21 Carson, L. et al. (2021). "Prospects for aid at times of crisis". Available **here**.
22 UN (2021). "Pandemic threatens lost decade for development, UN report reveals". Available **here**.
23 OECD. "Modernisation of the DAC statistical system". Available **here**.
24 OECD (2020). "Reporting debt relief in the grant equivalent system". Available **here**.
25 OECD (2018). "Reporting methods for private sector instruments". Available **here**.

Contact

Eurodad
Rue d'Edimbourg 18-26
1050 Brussels Belgium
+32 (0) 2 894 4640
assistant@eurodad.org
www.eurodad.org