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Six decades of ODA: Insights and outlook in the COVID-19 crisis

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Six decades of ODA: insights and outlook in the COVID-19 crisis

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Abstract

The COVID-19 crisis has direct and immediate implications for official development assistance (ODA) budgets. The health impact of this global pandemic has called for resources to respond. The social and economic fallout from shutdown measures and an unprecedented global recession will hit the most vulnerable the worst, likely with long-lasting effects. Assessing 60 years of ODA flows and evidence, this chapter shows that it is the most stable external resource for developing countries, has been resilient to economic crises, and is driven, above all, by political will and global solidarity. The importance of ODA's dependability and capacity to invest strategically is shown through a deep-dive analysis of trends in support of health systems and social protection, which have proven critical to a relevant government response to the COVID-19 crisis. Against the backdrop of this strong track record, the authors look at three possible scenarios for ODA budgets in 2020 and 2021 – testing hypotheses of an increase to support global recovery; holding steady despite economic downturn; or falling due to the global recession. The chapter suggests that ODA can continue to be dependable in times of crisis.

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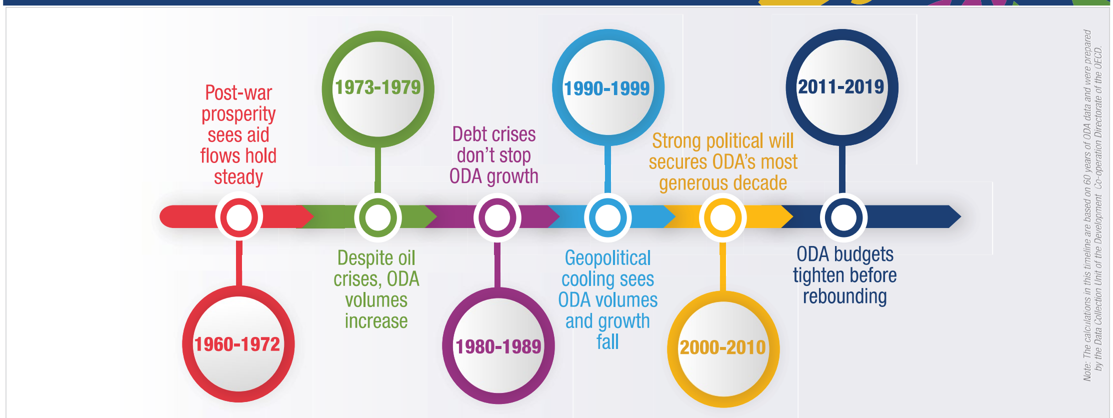
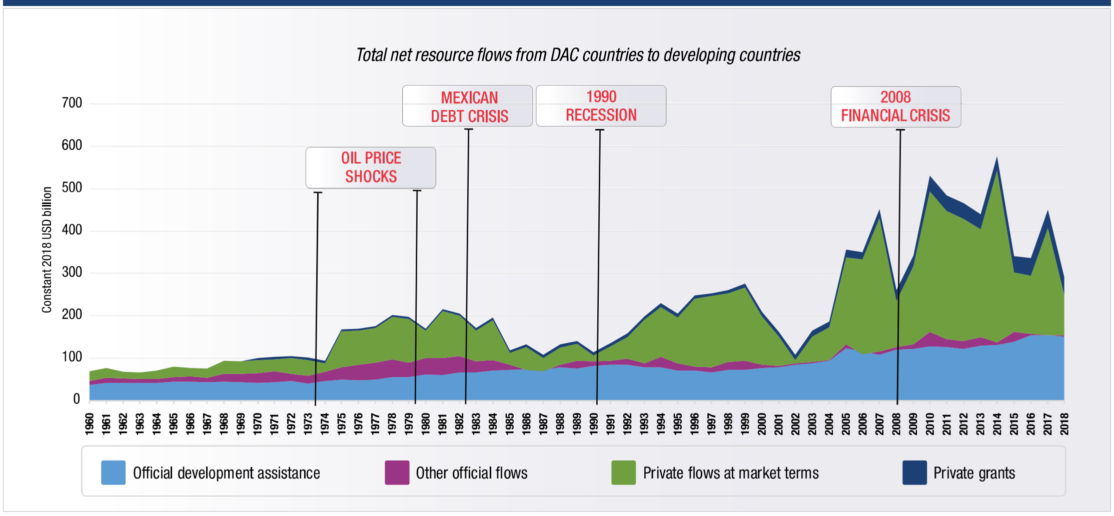
Infographic 1. 60 years of ODA resilience amidst economic crises[1]

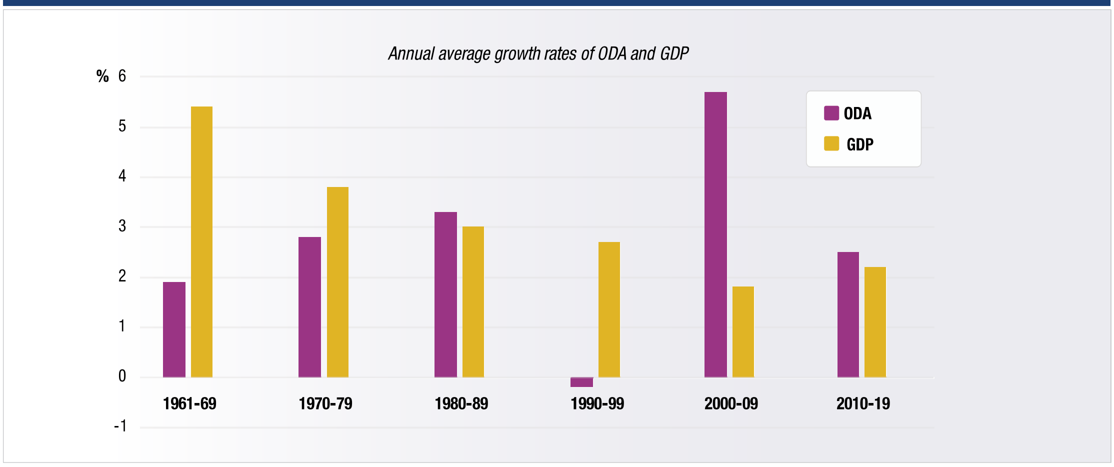
60 YEARS OF ODA RESILIENCE AMIDST ECONOMIC CRISES



HISTORICALLY, ODA IS THE MOST STABLE EXTERNAL RESOURCE FOR DEVELOPING COUNTRIES…



… WITH LIMITED CORRELATION BETWEEN INCREASES IN ODA AND GDP



60 YEARS OF ODA RESILIENCE AMIDST ECONOMIC CRISES

1960-1972: Post-war prosperity sees aid flows hold steady

From 1960 to 1972, a period of considerable post-war economic growth for both developed and developing countries, **total net ODA from members of the DAC remained steady,** but fell as a share of donors' rising GNI. In 1969, the DAC defined ODA and in 1970, the UN General Assembly adopted the ODA/GNI target of 0.7%.

1973-1979: Despite oil crises, ODA volumes increase

Despite two oil price shocks in this period, and growth of output slumping from 4.9% for developed countries to 0.9% and from 7.2% to 4.9% for developing countries, the volume of **ODA actually grew by 38%** in real terms from 1973 to 1979. Additionally, the ODA/GNI ratio stayed level throughout these years.

1980-1989: Debt crises don't stop ODA growth

The 1980s brought a succession of sovereign defaults and a fall in private lending. Growth did not recover to previous levels in developed or developing countries. Despite economic volatility, **ODA rose by 22%** in real terms between 1982 and 1990. In this decade, the annual average growth of ODA and GDP were similar, increasing by about 3% per year.

1990-1999: Geopolitical cooling sees ODA volumes fall

In the early 1990s, global GDP growth dropped while the end of the Cold War meant that geopolitical competition declined, with a high impact on ODA. **ODA volumes decreased by 19%** in real terms between 1990 and 1997 and from 0.33% of GNI in 1990 to 0.22% in 1997. The annual average growth rate of ODA was -0.20%, compared to an annual average GDP growth rate of 2.7%. The aid quality, effectiveness and results agenda started to gather momentum.

2000-2010: High political will makes it the most generous decade for ODA

After the Millennium Development Goals were agreed upon in 2000, ODA began to rise again. Commitments made by heads of state at the Monterrey Conference on Financing for Development (2002) and the Gleneagles G7 summit (2005) led to a **60% increase in ODA** in real terms. Annual average ODA growth was 5.7% compared to GDP at 1.8%. The impact of the 2008 global financial crisis did not affect overall levels until the following decade.

2011-2019: ODA budgets tighten before rebounding

ODA rose at a slightly higher rate (2.5%) than GDP (2.2%). ODA volumes and share of GNI fell by 1% in real terms in 2011 and 4% in 2012, showing a lagged effect of the financial crisis. ODA rebounded again in 2013, reaching its peak in 2016, mainly due to rising in-donor refugee costs. While ODA volumes fell slightly in 2017 and 2018, there were positive signs of renewed focus on the poorest countries in 2019 – with an increase in commitments for this objective.

Official development assistance: A crucial, catalytic resource in times of crisis

Today, as the COVID-19 crisis presents our greatest global test in living memory, there is a lively debate in the international development community about the outlook for official development assistance (ODA) in 2020 and 2021. How will OECD member country governments and citizens sustain support for the poorest countries that rely on concessional development finance to reduce poverty and tackle inequalities and fragility? Will ODA budgets increase, stay stable or be cut in the face of the unprecedented global recession that the world now faces (OECD, 2020[1])? OECD countries are taking extraordinary policy and financing actions at home, with the International Monetary Fund estimating the global total stimulus packages at USD 9 trillion (Battersby, Lam and Ture, 2020[2]). Will development co-operation policy and finance provided by OECD and other countries take a similarly ambitious approach to support a global recovery that benefits everyone?

The human toll of the crisis is also likely to be severe – whether from the direct impact of the virus, social and economic outcomes of lockdown measures, and global recession. The most vulnerable people and groups will likely be hit the worst (UNDP, 2020[3]). This is particularly true for those women, men and children living in fragile contexts, where the current crisis is likely to exacerbate existing health and societal problems. Estimates of global poverty increases vary: from an additional 71-100 million people (Gerszon et al., 2020[4]), to the most extreme forecast of half a billion being pushed into extreme poverty (Sumner, Hoy and and Ortiz-Juarez, 2020[5]). Regardless of the exact number, any increase in poverty indicates that the world is back-sliding on hard-won development gains, putting even further strain on developing countries to respond. The World Food Programme also expects a doubling of the number of people facing acute food insecurity (WFP, 2020[6]).

International co-operation for development, and ODA in particular, can be a crucial countercyclical flow in times of crisis. It has the potential to be a transformative force to support and guide a sustainable recovery in developing countries, upholding good practices around prevention, innovation, reliability and predictability, and supporting country ownership and systems (OECD, 2019[7]). As this chapter shows, ODA has also played a key role in building health and social protection systems in developing countries, which are critical to countries' ability to respond to the COVID-19 crisis and are central to resilience and recovery. Moreover, when it invests first and takes the greatest risk in areas of critical importance to well-being, ODA is catalytic – it paves the way for further external or domestic investment (Piemonte et al., 2019[8]). ODA has supported nascent social protection systems that were expanded after the 2008-09 financial crisis and are today being used to channel support to people impacted by the COVID-19 crisis.

Global development finance in 2020: A historical fall

ODA is just one source of development financing and is by no means the largest. Nor is it a replacement for strong domestic public financial management systems and resources. But the need for concessional development finance like ODA is unparalleled in 2020.

OECD research has found that other sources of development financing have already been severely impacted by this crisis, compounding pre-existing financial shortfalls and rising public debt in developing countries in recent years (OECD, forthcoming[9]). Domestic resource mobilisation will suffer and external private finance is projected to drop by USD 700 billion in 2020 (OECD, forthcoming[9]). Remittances are predicted to fall by 20% in 2020 (Ratha et al., 2020[10]); foreign direct investment has a forecasted decline of 30-40% in 2020-21 (UNCTAD, 2020[11]); and GDP growth is predicted to be at -2.1% to -5.1% in sub-Saharan Africa (Zeufack et al., 2020[12]), 1% in Asia (IMF, 2020[13]), and -4.6% in Latin America and the Caribbean (World Bank, 2020[14]). Trade will also be severely impacted, with the United Nations Conference on Trade and Development (UNCTAD) estimating that the crisis could trigger up to USD 50 billion of losses in exports across global value chains (UNCTAD, 2020[15]).

Avoiding total collapse: The role of official development assistance…

The global nature of this crisis means that solidarity and co-ordinated international action is in the interest of every country. Members of the Development Assistance Committee (DAC) agree, recognising ODA as "an important means of supporting national responses" to the pandemic and stating that DAC members will "strive to protect ODA budgets" during the crisis (OECD, 2020[16]). Increasing ODA volumes is more important than ever according to many other political and international groupings that have issued calls to action to ensure developing countries are not forgotten in the recovery, and recognise the need to scale up financing for this (G77, 2020[17]; DAC CSO Reference Group, 2020[18]).[2] With the global economy predicted to shrink as a result of the COVID-19 crisis (OECD, 2020[1]), there is a risk that simply maintaining current (2019) ODA/GNI ratios will lead to an overall drop in finance. Civil society organisations have called on DAC members to increase ODA where possible and to uphold integrity of aid, human rights and effectiveness principles (DAC CSO Reference Group, 2020[18]).

Unlike private flows, official support for development, whether it is ODA, South-South co-operation, triangular co-operation or sovereign debt relief, could actually take a positive trajectory in this crisis. These flows are more easily shaped by political leadership, decisions and co-ordinated action that prioritise an inclusive global recovery. Greater transparency of grants and official lending to developing countries from other providers can also make a big difference for the recovery. At present, developing countries do not have a complete picture of all sources of financing for development, which can also undermine debt sustainability and macroeconomic stability (OECD, 2018[19]).

… A reliable source for developing countries over the decades

In nearly every decade since ODA began in the aftermath of World War II, the world has encountered significant economic crises (see Infographic 1). Throughout these challenges, ODA has proven the most stable source of external financing, particularly compared to private flows, which are more sensitive to economic shocks (see Infographic 1). Even though ODA may not be able to offset drops in other flows, its dependability is crucial to enable long-term planning within developing countries. It should be noted that the mix of external finance sources varies for developing countries of different income groups, with least developed countries (LDCs) more dependent on ODA than lower- or middle-income countries. As such, the particular situation of each country should be assessed.

Political will and global solidarity, not GDP growth, drive ODA

The most influential drivers of ODA include political will, public support and mobilisation, the scale and nature of humanitarian and development needs, solidarity, and mutual interest in global development progress – as explained in the *Development Co-operation Report 2019: A Fairer, Greener, Safer Tomorrow* (OECD, 2019[7]). Sixty years of data on official development assistance show that ODA budgets and commitments are driven by a political willingness to respond to human needs and co-ordinate to meet internationally agreed goals. While economic recessions can cause ODA budgets to fall, particularly when they are strictly pegged to gross national income (GNI) levels, this outcome is not inevitable. Indeed, as outlined in Infographic 1, throughout the economic crises of past decades, ODA has by and large remained resilient.

In the 1970s, OECD countries endorsed a target of 0.7% of GNI (OECD, 2020[20]), a goal which was later reiterated in the 2015 Addis Ababa Action Agenda (United Nations, 2015[21]). However, this collective aim has never been met (See Chapter on Collective Effort) and ODA has consistently hovered between 0.2% and 0.4% of GNI. Individual countries have reached or surpassed this target. In 2019, those countries were Denmark, Luxembourg, Norway, Sweden and the United Kingdom (OECD, 2020[22]). Countries from beyond the OECD have also been stepping up support for international development co-operation – growing the pie. For example, in 2019 the United Arab Emirates' total ODA on a grant-equivalent basis stood at USD 2.2 billion, equivalent to 0.55% of GNI. Recent OECD estimates suggest that the People's Republic of China's (hereafter "China") international development co-operation reached USD 4.4 billion in 2019). India, too, has provided significant levels of development assistance to neighbouring countries and particularly Afghanistan, where its more than USD 3 billion in development spending makes it the largest donor (OECD, 2019[7]). Furthermore, Indonesia has enhanced its South-South and triangular co-operation for trade and investment and advanced blended finance approaches internationally.

Trends in ODA flows indicate GNI growth has not been the main driver of ODA generosity. Annual average OECD GDP growth rates since the 1960s have fallen from over 5% to around 2%, where they have hovered in the last two decades (see second figure in Infographic 1). Conversely, ODA growth increased until the 1990s, when it went into decline only to rebound to its highest growth levels in the 2000s.

Support for health systems and social protection in developing countries: A positive trend

The development priorities of ODA are just as important as its overall level. The most effective allocations take into account partner country priorities and needs, are in line with international and domestic commitments and policies, and consider the comparative advantages of international development co-operation actors and partners. The DAC statement prioritises investment in health systems and social safety nets, which are central to every country's strategy to combat the medical, social and economic impacts of the COVID-19 crisis (OECD, 2020[23]). Securing global economic, social, environmental and health resilience will only be possible when national systems are supported to provide the multi-sectoral response necessary to combat this crisis. This section explores the role that ODA has played in building health and social protection systems in developing countries in recent decades – the period for which sector-specific data are available.

Safeguarding ODA to social sectors when it matters most

The presence of a quality health system[3] and social protection policies and programmes[4] are two key factors that help determine a country's ability to prevent, withstand, recover and adapt to impacts of the COVID-19 pandemic. Despite developing countries having a younger population who may suffer less from the worst health effects of COVID-19, other factors make developing countries more vulnerable to the pandemic's effects. These include high population density, high rates of informal labour, and heavy reliance on the services and manufacturing sectors for employment and foreign exchange. Food insecurity is already rising alarmingly.

ODA plays a crucial stabilising role even if levels do not match needs

Increasing domestic spending over time (whether via state, community or private sector resources), is essential in order to build strong, resilient and sustainably financed health systems (IHME, 2019[24]) and social protection programmes. Domestic investment is particularly important to build resilience in these systems because as per capita income in developing countries rises, ODA investments in areas such as health and social protection tends to decline. When this happens, there is a so-called transition gap which domestic and private spending needs to fill (Piemonte et al., 2019[8]).

With a doubling of the number of people facing acute food insecurity to 265 million in 2020 (WFP, 2020[6]), governments, with support from development partners and in partnership with civil society and the private sector, also need to urgently expand social protection programmes (Ravallion, 2020[25]). These programmes serve as a counter-cyclical measure by stimulating consumption and investment. Today, in sub-Saharan Africa domestic funding for social assistance on average exceeds that of international development partners (UNDP, 2019[26]). However, spending on social protection accounts for less than

10% of public expenditure (excluding health) suggesting insufficient investment, even before the COVID-19 pandemic hit (ILO, 2017[27]). So while there has been progress in expanding coverage, increasing benefits and simplifying administrative requirements, there is still great scope to broaden and deepen social protection coverage in partner countries (Gentilini et al., 2020[28]).

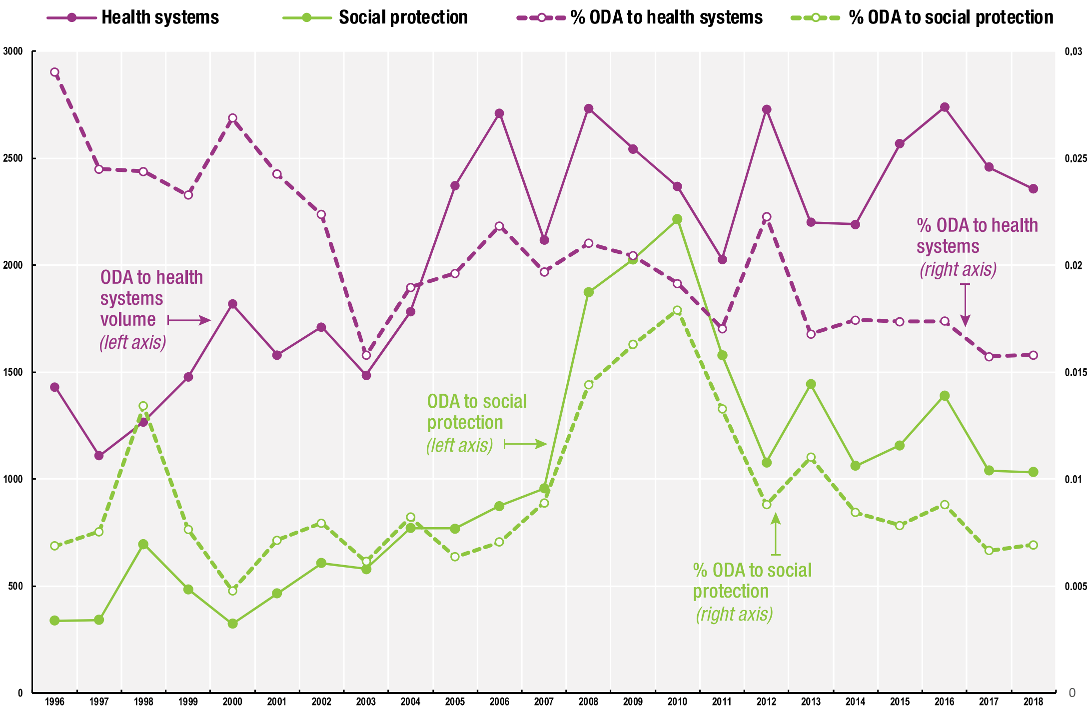
ODA for health systems rose in line with political commitments

OECD-DAC countries committed an average of 2% of bilateral ODA for health systems[5] in the period from 1996 to 2018, with a marked increase in volume (USD 2.4 billion) that began in 2005 (Figure 1). On average, since 1996 ODA commitments to health systems, regardless of aid modality, have constituted 14% of total DAC countries' plus the EU institutions' bilateral ODA commitments to health. Funding for health systems declined to 11% in recent years, however, when international focus and funding commitments shifted to infectious diseases, such as Ebola.

The most generous decade in the history of ODA (2001-10) was no exception for health ODA, spurred by the three health-related Millennium Development Goals, and the 2000 G8 countries' commitment to combat six specific diseases.[6] For sustainable results, vertical programmes by disease required functional health systems, and as a result, the strengthening of health systems was factored into both disease-specific and cross-cutting investments. As spending for health increased dramatically in this decade, so did ODA for health systems (IHME, 2012[29]).

Figure 1. Overall volume increase: Bilateral ODA commitments to health systems and social protection, 1996-2018

Million USD, 2018 constant prices



Note: ODA commitments include those of DAC countries, plus the European Union institutions. Purpose codes used for health systems include 12220, 12230, 12261, 12281, 13030 and 13081; for social protection, 16010.
Source: OECD Statistics, 2020.

ODA for social protection has increased steadily since 1996

Social protection programmes in developing countries are relatively recent developments. In 1990, 80% of the world's social protection expenditure was concentrated primarily in high-income countries (OECD, 2014[30]), although a number of cash transfer programmes were already well established in poorer countries (Omilola and Kaniki, 2014[31]). By 2010, international co-operation was driving the expansion of social protection to low-income countries – designing, financing, and sometimes delivering social protection programmes in sub-Saharan Africa (Devereux and White, 2010[32]). Indeed, the right domestic policies accompanied by support provided by international development co-operation can lift millions out of poverty, as demonstrated by Ethiopia's Productive Safety Net Programme (OECD, 2019[7]). The further expansion in social protection programmes coincided with the aftermath of the 2008/09 financial, fuel and food crises when social protection, including new public works programmes, were introduced and expanded, often via trust funds administered by the World Bank (Mccord, 2017[33]). Indeed, ODA commitments for social protection channelled through multilateral agencies increased in both volume and percentage starting in 2009, in line with this growth (Box 1).

ODA committed for social protection[7] increased from 0.7% of total bilateral ODA in the late 1990s to 1.8% in 2010, averaging 0.9% of ODA committed over the period (Figure 1). Beginning in 2008, social protection commitments doubled in volume, to reach USD 1.9 billion, and increased substantially in ODA share to 1.4%. ODA commitments to social protection[8] returned to 2007 levels in 2012 and remained more or less stable through 2018 while development co-operation programmes for employment creation and income generation, beyond the scope of social protection, has remained low over the period, hovering around 0.4% of total ODA committed.

Box 1. Ways in which official development assistance to health systems and social protection is channelled

Providers allocate their bilateral official development assistance (ODA) through different channels, including government, civil society, multilateral organisations, public-private partnerships and the private sector. While other actors may implement projects down the chain, statistical reporting on channels is a good indication of which actors are well-positioned to deliver ODA in a given country.

Public sector institutions are the main channel for ODA to strengthen health systems, with civil society preferred in fragile states

From 2014 to 2018, 31% of ODA for health systems was delivered through public sector institutions, 30% through non-governmental organisations (NGOs) and 20% through multilateral channels. Over the same period, NGOs have been delivering less ODA, while private sector institutions play a greater role, accounting for 18.3% in 2018.[1] Looking at subsectors of health systems, support for health education and health personnel development was still provided, primarily, through government channels, whereas ODA targeting health systems related to reproductive health was more likely to be channelled through civil society.

Fragile states were more likely than non-fragile states to rely on civil society as a channel for health systems investments. However, in the subgroup of 15 extremely fragile states, the public sector was slightly more active than civil society. Across all three groups (extremely fragile, fragile and non-fragile), multilateral channels were only the third preferred channel for bilateral funding earmarked for health systems, after civil society and public sector institutions.

Social protection is increasingly delivered through multilateral channels, except in fragile contexts

On average, in the years 2014-18, half of social protection ODA transited through public sectors; 21% through civil society or NGOs; and 18% through multilateral organisations. Aid spent through civil society remained constant throughout this period, but there was a decrease in the social protection ODA delivered through public sector institutions from 48% in 2014 to 42% in 2018, and a corresponding increase in the use of multilateral channels, from 15% to 23%.[2]

Perhaps not surprisingly given the role of governments in ensuring the sustainability of social protection programmes, ODA for social protection was channelled primarily through the public sector across all three country groups (extremely fragile, fragile and non-fragile). This is particularly striking for the 43 fragile states category (excluding the 15 extremely fragile), in which the public sector implemented 63% of ODA for social protection. The multilateral system accounted for a smaller share of social protection delivery in fragile contexts (18% on average in 2017-18) when compared to non-fragile contexts (27% on average in 2017-18). The 15 extremely fragile states were more likely to depend on civil society and multilateral channels for the delivery of social protection measures.

Notes: 1. Starting in 2016, private sector institutions became an important channel of delivery, and include many flows that used to be included in the residual “other” category. 2. The slight increase in the use of multilateral channels for social protection can be attributed to Germany, Japan and Sweden.

Fragile contexts: At risk of being left behind by ODA providers?

The overlap of fragile contexts with those countries most vulnerable to infectious disease is disconcerting. The infectious disease vulnerability index assesses factors under seven domains that include the strength of national health systems and the ability of a government to deliver basic health services like water and sanitation, and the international community’s support to strengthen a country’s health system and provide critical funding and expertise.[9] Of the 25 most vulnerable countries according to the index, 22 are in sub-Saharan Africa, and all but 3 (Benin, São Tomé and Principe, and Togo) are considered fragile (Moore et al., 2016[34]). Weak national health systems coupled with increases in poverty due to the lack of social protection means more people may have to resort to humanitarian health assistance and food aid in 2020 (OECD, 2020[35]).

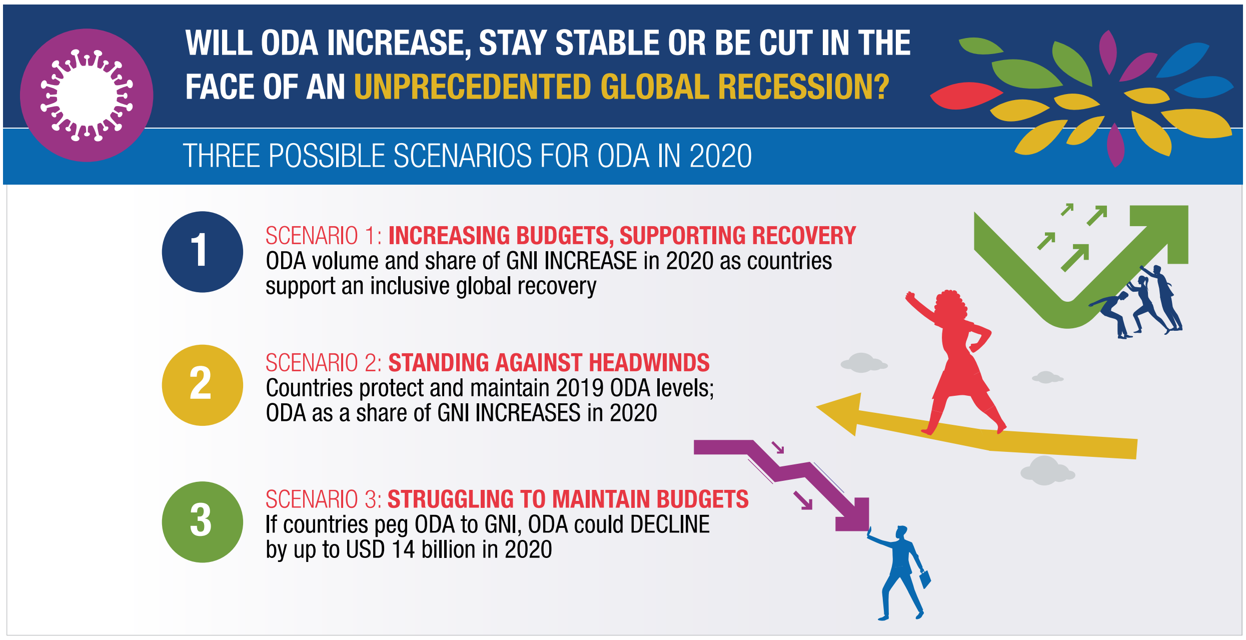
ODA plays a critical role in supporting the health systems of fragile contexts. Since 2014, around 30% of DAC members’ total bilateral health ODA disbursements to the 15 extremely fragile contexts was consistently spent on health systems, double the proportion allocated to health systems in less fragile states. At the same time, ODA to strengthen health systems in the 58 fragile states decreased in volume in real terms, from USD 1.5 billion in 2014 to USD 1.4 billion in 2018. Social protection expenditure in fragile states peaked in 2016 at USD 897 million, accounting for 64% of total bilateral ODA for social protection, but decreased significantly in real terms to USD 459 million in 2018, when only 49% of bilateral ODA for social protection went to fragile states.[10]

Looking forward: Three scenarios for official development assistance in 2020/21

Despite the unique challenges posed by the COVID-19 pandemic, historical trends suggest that ODA can be resilient in 2020 and 2021. It may even increase.

In light of past trends, this section explores three scenarios for ODA flows in 2020 and 2021 (Infographic 2).[11] Given the unprecedented nature of the COVID-19 crisis, and the fact that it was still unfolding globally when they were sketched, these scenarios are not meant to narrow down the possible outcomes: they aim to frame the nascent dialogue on how, in the context of exceptional fiscal constraints, and based on historical precedents, providers of development co-operation can best support developing countries, and rise to the challenge of better protecting global public goods.

Infographic 2. Scenarios for ODA in 2020



Scenario 1: Increasing budgets, supporting recovery

The authors analyse positive early signals of political commitments to support an inclusive global recovery, which could lead to an increase in ODA volume and share of GNI in 2020 if sustained.

Numerous fundraising efforts have already proven successful since the start of the COVID-19 crisis, including humanitarian relief (UNOCHA, 2020[36]), providing macroeconomic stimulus and debt relief (IMF, 2020[37]), funding vaccines and health systems (GAVI, the Vaccine Alliance, 2020[38]), and vaccine research and accessibility programmes (European Commission, 2020[39]). Under this scenario, it is possible that multilateral support and bilateral activities dedicated to crisis response, recovery and rebuilding could see ODA volumes and its share of GNI increase (see figure 2). Indeed, recent statements by national leaders including the French and German Presidents (Deutsche Welle, 2020[40]; Financial Times, 2020[41]), and the EU (European Commission, 2020[42]) suggest that support for developing countries may be included in new stimulus packages. In addition, G20 countries have agreed to a “debt service standstill” until the end of 2020, from all official bilateral creditors, providing some direct liquidity support to the poorest countries.

While it is still unclear what form support measures will take and whether they will conform to the definition of ODA, signals from several countries suggest that development co-operation budgets may rise in 2020.[12] For example, the US Congress provided over USD 2 billion to USAID and the State Department in two emergency supplemental appropriations (USAID, 2020[43]); Germany has committed an additional EUR 3 billion by 2021 to its international spending (Federal Ministry of Finance, Germany, 2020[44]); and Norway recently announced that despite COVID-19, it was proposing that its aid budget for 2020 be maintained without cuts (Government of Norway, 2020[45]).[13] The OECD estimates the debt standstill stemming from DAC members to the poorest countries is between USD 1.5 billion and USD 3 billion (OECD, 2020[46]). This could also increase net flows in 2020 for loan-giving members as debt repayments affected by the standstill would not be recorded, but the impact would be reversed in the following years, which could result in a lagged decrease in net flows if this is not offset by greater disbursements.

Preliminary results from a survey of DAC members on their response to the COVID-19 also suggest a strong push by members to step up support and action (Box 2).

Box 2. DAC members' response to COVID-19, preliminary findings from a survey

A survey on DAC members' response to the COVID-19 pandemic was carried out by the OECD in April 2020. Twenty-seven of the 30 DAC members responded to the survey or provided information on their development co-operation response to the pandemic. While more detailed analysis will be published by the OECD later in 2020, here are some preliminary findings:

- **Short-term responses focused on virus management**, mostly through support for health systems, humanitarian aid and food security, as well as supporting developing countries to prepare for and respond to the pandemic.
- **Medium-term activities prioritise making diagnostics and vaccines available** for the poorest countries with weak health systems as well as other support to help developing countries tackle the economic, social and political effects of the crisis.
- **Development co-operation programmes in the pipeline for 2020 were often reoriented or reprogrammed.** The impact of the crisis on field-level operations led members to assess major issues affecting operations. Many are embracing a flexible approach to ensure continuity of activities. The purpose of reprogramming was to adapt and contribute quickly to support the global response at bilateral and multilateral levels.
- **New resources mobilised as official development assistance (ODA), sovereign loans and private sector support.** In addition to ODA grants and sovereign loans, a few members indicated they would provide loans to the private sector, and guarantees in order to mobilise additional funds from private investors.
- **Agreed moratorium on repayments and rescheduling loans.** Some loans to developing countries are being rescheduled to free up additional budgetary resources.
- **National and international mechanisms were key for co-ordination.** Existing national level co-ordination mechanisms (between ministries, civil society organisations, the private sector and other relevant stakeholders) played an important role in preparing a COVID-19 response. Respondents stressed that supporting an integrated and coherent response from the multilateral system (particularly the United Nations) was also crucial.
- **Information-sharing mechanisms and co-ordination with civil society were stepped up.** Some members reported that they were enabling civil society organisations (CSOs) to reorient their programmes to pandemic-related activities. They also gave more flexibility to CSOs to manage the effects and redirection of ongoing co-operation with local civil society actors.
- **Potential delays in implementation of ongoing development programmes and monitoring and evaluation.** There could be some delays or postponement in evaluations, especially with regards to larger projects.

Scenario 2: Standing against headwinds

The authors analyse a hypothesis that countries will protect and maintain 2019 ODA levels. In this scenario, ODA as a share of GNI would increase in 2020.

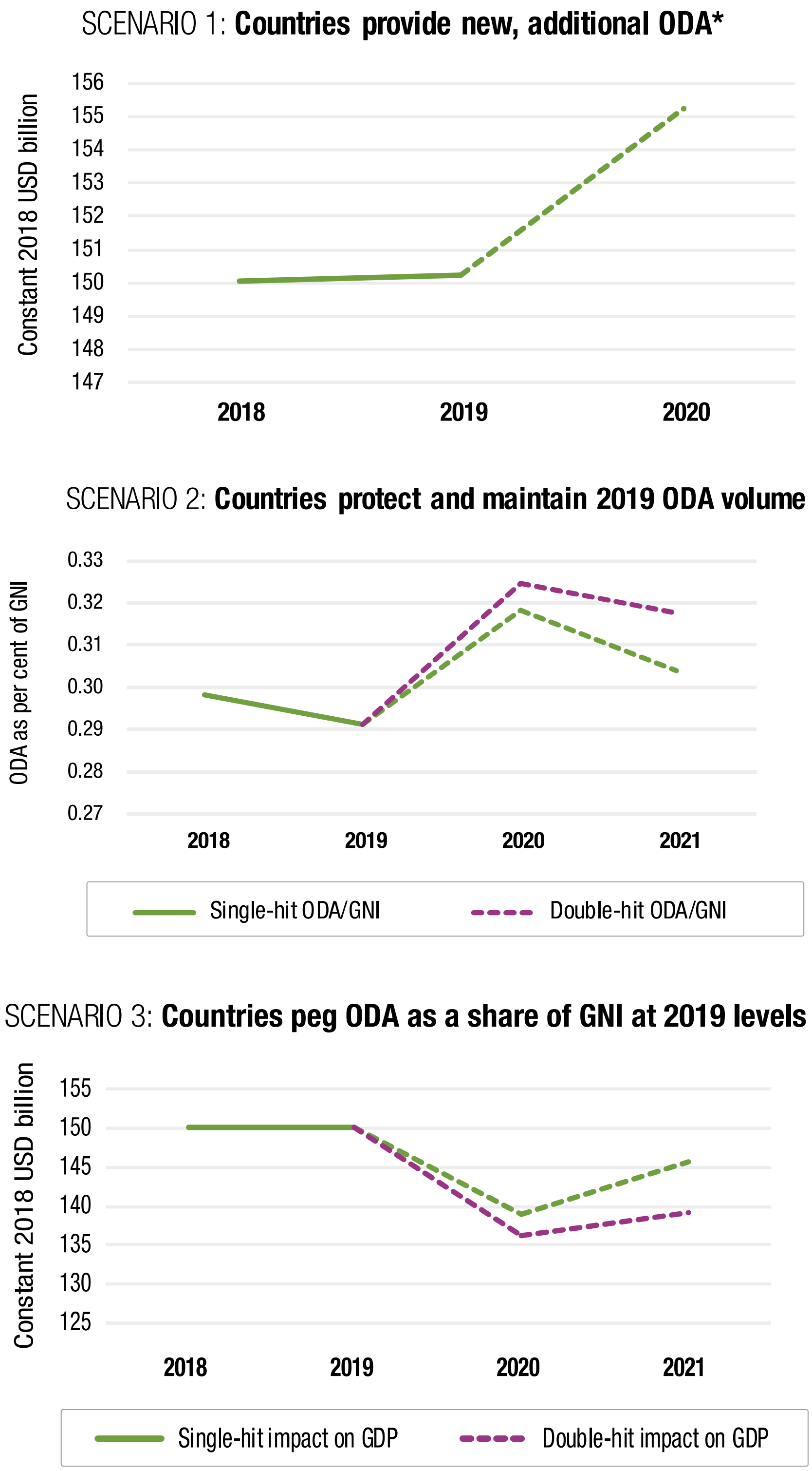
The path to economic recovery is highly uncertain and is vulnerable to a possible second wave of the pandemic. The OECD has released estimates for GDP projections based on two scenarios – one in which the virus is brought under control and one in which a second global outbreak hits before the end of 2020 (OECD, 2020[1]). In 2019, the volume of net ODA flows was equal to 0.29% of the GNI of all DAC members combined. If countries maintain current (2019) volumes of net ODA in 2020, total ODA as a share of DAC countries' GNI would need to rise to 0.32% to offset a single- or double-hit drop in GDP (see figure 2, scenario 2). If ODA levels were to remain constant at 2019 levels in 2021 as well, then as a share of GNI they would represent 0.30% under the single-hit scenario as slow economic recovery takes place, and 0.32% under the double-hit scenario.[14] OECD DAC Peer Reviews have found that protecting aid budgets from short term shocks to public finances is not a new practice in OECD countries. Indeed, a small number of members of the DAC have mechanisms in place to smooth ODA volumes over several years so that they can honour commitments and protect partnerships in the event of abrupt changes to available resources (e.g. Denmark and the Netherlands).

Scenario 3: Struggling to maintain budgets

The authors analyse a hypothesis of countries pegging ODA to GNI at 2019 levels. In this scenario ODA could decline by up to USD 14 billion in 2020.

Declining GDP could put pressure on DAC members' ODA budgets. According to OECD GDP projections, if DAC providers of development co-operation decide to provide the same shares of GNI as ODA in 2020 (0.29% on a net flow basis) as they did in 2019, net ODA levels could fall by between USD 11 billion to USD 14 billion in 2020 (expressed in 2018 prices and exchange rates) (see figure 2, scenario 3).[15] The OECD estimates a slow economic recovery in 2021. If providers seek to keep ODA at 2019 shares of GNI, ODA budgets could rise in 2021 but it would not reach its 2019 levels. Given that many 2020 budgets had already been finalised before the crisis hit, it may also be possible that the impact of recession on ODA budgets will not be immediate, but rather have a lagged effect on ODA in the coming years – which appears to have been the case when ODA declined in 2011, three years after the 2008 financial crisis.

Figure 2. Possible impact of the economic recession on ODA flows in 2020 and 2021



Notes: The OECD estimates GDP projections based on two scenarios – one in which the virus is brought under control (single-hit) and one in which a second global outbreak hits before the end of 2020 (double-hit). Under the single-hit scenario, OECD GDP growth is estimated to be -7.5% in 2020 and 4.8% in 2021. Under the double-hit scenario, OECD GDP growth is estimated at -9.3% in 2020 and 2.2% in 2021. * Under Scenario 1, the increase in 2020 is calculated based on announcements made by some members, and assumes most of these are ODA.
Source: Authors' calculations based on data outlined in scenarios 1, 2 and 3 described in this section.

Next steps

We are in the midst of a truly historic global challenge. The constantly changing situation makes it difficult to predict the future impact on ODA, but past trends have shown its resilience and its role as a stable source of external finance for developing countries. The unprecedented economic crisis that the world now faces must not be the only driver of future ODA flows. To weather the challenges presented by COVID-19, it is vital that the international community continues to safeguard ODA, especially for basic health infrastructure and social protection programmes where it has been proven to make a real difference. As in the past, political will and global solidarity can translate into protecting or increasing ODA levels to help developing countries deal with the short and longer term consequences of the pandemic. Rising to the moment requires taking the necessary actions to support a global recovery that benefits all nations and all people. The DAC High Level Meeting planned for late 2020 will be an opportunity for members to discuss how they can better co-ordinate and keep up their support for development co-operation in light of this profound crisis.

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Notes

[1] DAC statistical systems on resource flows to developing countries were reorganised to capture data specifically on ODA. Data for the period 1960-1969 are retrospective; Sharp increases in net ODA between 1973 and 1979 were noted in Austria, Denmark, Finland, Germany, New Zealand and the United Kingdom, where ODA rose between 50% to 70%. ODA doubled in the Netherlands, Norway and Sweden; Sharp increases between 1980-89 were noted in Finland, Italy, Japan, Luxembourg, Portugal, Spain and Switzerland; Between 1990-99, although net ODA increased in a number of DAC countries, it fell in Belgium, Canada, Finland, France, Germany, Italy, Japan, Sweden and the United States; Net ODA fell for two consecutive years - 2011 and 2012 - for Belgium, Denmark, Finland, France, Greece, Ireland, Japan, the Netherlands and Spain. At the same time between 2011-19, a handful of countries - Denmark, Sweden, Norway, Luxembourg and the United Kingdom – delivered on their target of 0.7% ODA/GNI (and above), which helped to maintain overall ODA growth.

[2] These include the G20 (G20, 2020[50]), the G77 (G77, 2020[17]), the UN (United Nations Economic and Social Council, 2020[54]) and the Global Partnership for Effective Development Co-operation (GPEDC, 2020[51]).

[3] Health systems are referred to in SDG Targets 3.3, 3.8, 3.11, 3.12 and 3.13. SDG Target 3.8, in particular, highlights the need for universal health coverage as called for by the G20.

[4] Social protection is specifically mentioned in SDG Target 1.3.

[5] According to the World Health Organisation (WHO), a health system includes all activities whose primary purpose is to promote, restore and/or maintain health as well as the people, institutions and resources to improve the health of the population they serve. A quality health system relies on having trained and motivated health workers, a well-maintained infrastructure, and a reliable supply of medicines and technologies, backed by adequate funding, strong health plans and evidence-based policies (WHO, 2018[49]).

[6] The shift from horizontal to vertical programmes by disease started with GAVI, the Vaccine Alliance, created in 2000 and the Global Fund to Fight AIDS, Tuberculosis and Malaria, launched in 2002. This was followed by the United States' President's Emergency Plan for AIDS Relief in 2003. Private philanthropy led by the Bill and Melinda Gates Foundation helped spearhead funds such as GAVI.

[7] Social protection is defined according to the Social Protection Inter-Agency Coordination Board as "the set of policies and programs aimed at preventing or protecting all people against poverty, vulnerability, and social exclusion throughout their lifecycles, with a particular emphasis towards vulnerable groups" (ISPA, n.d.[48]). There is variation in the definition of "social protection" used by bilateral and multilateral providers of development co-operation. Almost all, however, have approved the definition presented in the text as

part of the Social Protection Inter-Agency Coordination Board initiative on joint social protection assessment tools.

[8] According to the sector classification used by reporters to the DAC under purpose code 16010, social protection includes “social protection or social security strategies, legislation and administration; institution capacity building and advice; social security and other social schemes; support programmes, cash benefits, pensions and special programmes for older persons, orphans, persons with disabilities, children, mothers with newborns, those living in poverty, without jobs and other vulnerable groups; social dimensions of structural adjustment.” Humanitarian purpose code 72040 “emergency food assistance” is not included in this chapter’s analysis of social protection trends.

[9] Seven broad domains and factors were assessed to determine vulnerability to infectious disease outbreaks: 1) demographic; 2) healthcare; 3) public health; 4) disease dynamics; 5) political-domestic; 6) political-international; and 7) economic.

[10] ODA disbursements are presented in 2018 USD constant prices.

11 Note to reader: The “grant-equivalent” ODA headline figures are not comparable with the historical series on a “cash basis” on which the analysis in the rest of the chapter is based. The data refer to net ODA flows on a cash basis unless otherwise specified. For the sake of transparency and analysis of trends over time, the OECD will continue to publish ODA data on a cash basis.

[12] Under Scenario 1, the increase in 2020 is calculated based on announcements made by some members and assumes these could be ODA. The announcements made to date could add about USD 5 billion to ODA. On a net flow basis, ODA could, tentatively, based on these announcements, reach USD 155 billion in 2020, whereas under the grant-equivalent basis it could reach USD 161 billion (constant 2018 prices). The analysis assumes that ODA volume will not decrease compared to 2019 levels in other DAC countries.

[13] The EU also recently proposed an additional EUR 16.5 billion for external action including humanitarian aid as part of its proposed EUR 750 billion recovery instrument, Next Generation EU (European Commission, 2020[42]).

[14] Under the grant-equivalent methodology, ODA as a per cent of GNI in 2019 was 0.30%. Under Scenario 2, which hypotheses that countries will main ODA at 2019 levels, ODA/GNI could reach 0.33% in 2020 and 0.31% in 2021 according to the single-hit scenario, or 0.34% in 2020 and 0.33% in 2021 according to the double-hit scenario.

[15] On a grant-equivalent basis, under Scenario 3, which hypothesises that countries main 2019 ODA/GNI ratios in 2020, the fall could be between USD 13 billion and USD 16 billion in 2020 (constant 2018 prices).

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