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Little to celebrate

An assessment of Official Development Assistance in 2022

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By Nerea Craviotto

Executive summary

In 2022, large parts of the global south started to experience a complex and multi-layered emergency due to the polycrisis brought on by the Covid-19 pandemic, and compounded by the war in Ukraine. Against this backdrop, Official Development Assistance (ODA, or aid) reached a new all-time-high of US$204 billion. This is one of the highest growth rates on record – reaching 13.6 per cent. However, despite reporting these historic levels, significant quantities of aid never even left the donor countries, leaving people across the global south with far less resources than they needed.

The reality behind the headline figures is that the 2022 data shows even higher inflation of ODA than we witnessed in 2021. That is the difference between the ODA reported by the wealthy countries that sit on the Organisation for Economic Cooperation and Development's Development Assistance Committee (OECD DAC) and the amount that actually reaches developing countries. In 2022, if we exclude the reported costs of hosting refugees in donor countries – 14.4 per cent of total ODA – aid rose by *only* 4.6 per cent in real terms compared to 2021. Add recycled Covid-19 vaccine donations, and net debt relief allowed, and we see that donor countries have inflated their ODA figures by US$30.9 billion (or almost 15 per cent of total ODA). This represents a 155 per cent (or US$18.8 billion) increase of ODA inflation compared to 2021.

Even if this rise had not been due to the inflation of ODA, the overall ratio of ODA to Gross National Income (GNI) still reached just half of the 0.7 per cent international aid target – at an average 0.36 per cent across all of the donors on the OECD DAC. This is despite the fact that this commitment was made more than 50 years ago.

Furthermore, an analysis of the geographical distribution of aid that actually did reach Africa is falling – by 7.4 per cent in real terms. And the same trend can be seen for aid targeting the least developed countries (LDCs) – the group of low-income countries that are lagging the most behind the achievement to: that are lagging furthest behind when it comes to achieving the Sustainable Development Goals (SDGs) by 2030.

In 2023, ODA quantity and quality will once again be under pressure. This briefing identifies a number of crucial issues that will need careful consideration by civil society organisations (CSOs). These include the threatening of the integrity of ODA statistics with an expanded agreement on Private Sector Instruments (PSIs), currently under negotiation, and the risk of ODA inflation through the reporting of debt relief. It is vital to make sure that the integrity of ODA is preserved to serve the needs of people across the global south rather than the interests of countries in the global north.

Introduction

As the world was slowly emerging from the Covid-19 pandemic, it was shaken once again in 2022 by Russia's invasion of Ukraine. The war disrupted the global supply of commodities, sharply increasing food and energy prices, and threatening recovery from the pandemic. At the same time, climate impacts continued and debt problems rose steadily across the global south. Back in the 1970s, rich countries committed to allocating 0.7 per cent of their GNI to ODA. [1] Yet not many countries have delivered on this commitment. Oxfam estimates that this has cost low- and middle-income countries US$6.5 trillion in undelivered aid between 1970 and 2021.[2] The failure of the donor community to meet its international commitments has made the costs of the Covid-19 recovery and the climate chaos even more onerous. Furthermore, if donors continue to fail on their commitments, the SDGs will be out of reach.

In 2022, ODA reached a new all-time high of US$204 billion. Compared to the previous year, in 2022 the increase amounted to an unprecedented 13.6 per cent in real terms, reflecting a trend of increasing flows amongst members of the OECD DAC. Yet despite this, more than 50 years after the 0.7 per cent commitment, ODA reached just an average of 0.36 per cent – the halfway point – for all DAC donors.

In terms of the quanlity of the ODA reported in 2022, there is also not much to celebrate. If we exclude the reported costs of hosting refugees in donor countries – 14.4 per cent of total ODA (equivalent to US$29.3 billion), ODA rose by only 4.6 per cent compared to 2021 in real terms. As the invasion of Ukraine was leading to millions and millions of people having to flee their homes, outside Ukraine the effects of the invasion on global markets and on the world's food supply worsened the existing hunger crisis. The funds needed to address this polycrisis needed to be significantly higher.

This briefing looks in detail at the main trends observed in the 2022 ODA preliminary figures released by the OECD DAC in April 2023.[3] Eurodad's analysis is divided into three sections. First, we analyse the main trends regarding the quantity of ODA and compare that with previous years. This includes how donor countries distributed ODA, in terms of both financing instruments and recipient country income groups. The second section looks into the numbers qualitatively and assesses the ODA inflation and diversion in the preliminary numbers, while also looking at the levels of "real ODA"[4] mobilised in 2022. Third, as a way of conclusion, the briefing identifies the critical issues facing ODA quantity and quality in 2023 and lays out key policy priorities to ensure that the integrity of ODA is preserved and that it serves the needs of people across the global south rather than the interests of the countries in the global north.

1. What were the ODA trends in 2022?

This section analyses the main quantitative trends observed in the preliminary ODA 2022 figures, in comparison with previous years. It also includes an analysis of how donor countries distributed their ODA budgets, both in terms of recipient country income groups and financing instruments. The analysis shows that, although ODA reached historic highs in 2022 – at US$204 billion and an ODA/GNI ratio of 0.36 per cent – there is little to celebrate behind these figures. In 2022, a 14.4 per cent of total 2022 ODA, equivalent to US$29.3 billion, was reported against the cost of hosting refugees in donor countries. Also, the analysis of the geographic distribution of ODA shows that aid to Africa is falling – 7.4 per cent in real terms. And the same trend is observed for aid targeting the least developed countries.

A. ODA volumes not as good as they seem

In-donor refugee costs and excess-vaccine donations

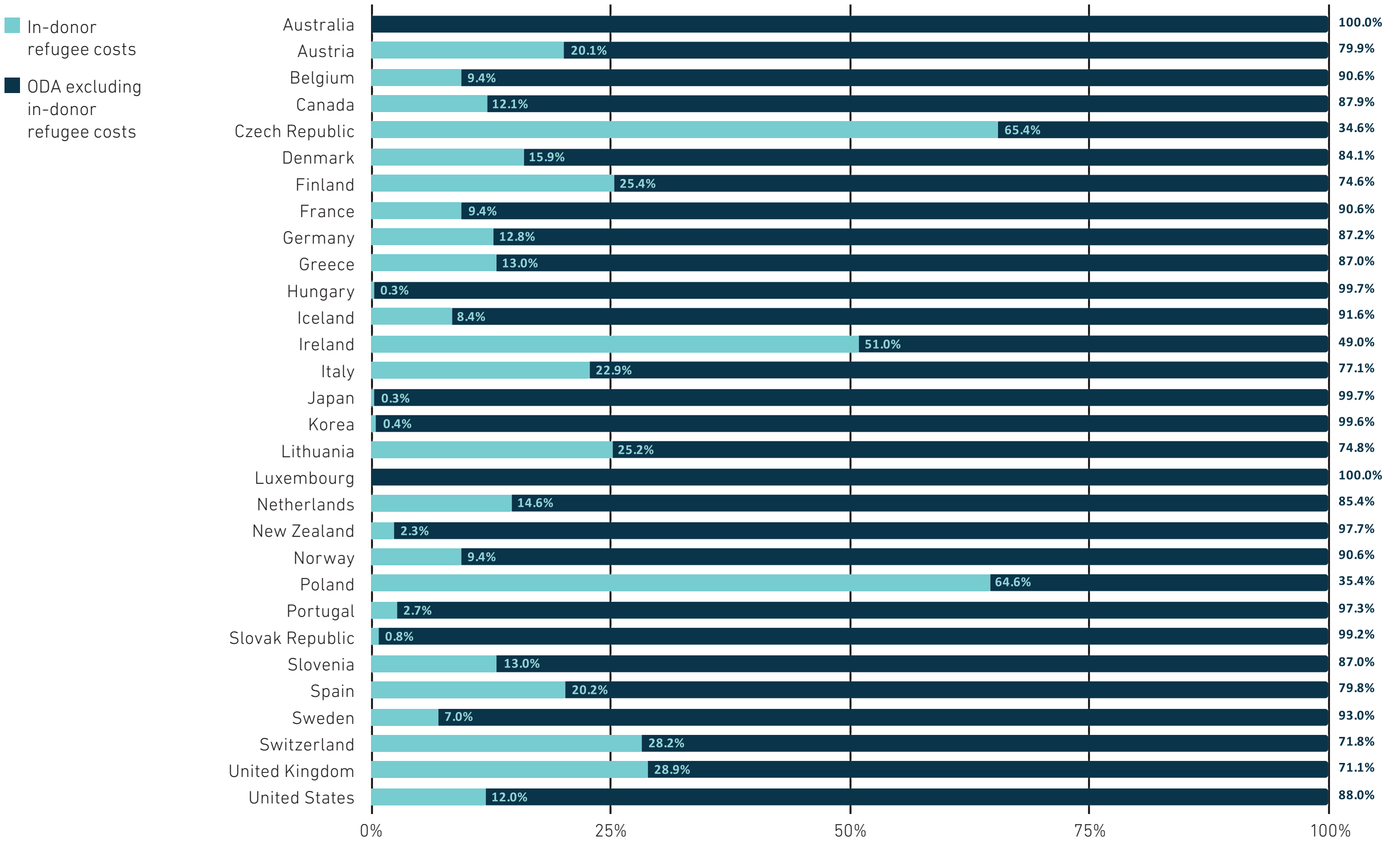
As already mentioned above, ODA reached the highest-ever recorded levels again in 2022. Whereas the increase of ODA in 2021 had largely been in response to the Covid-19 pandemic, this was not the case in 2022.

The invasion of Ukraine changed the playing field in many ways, including the DAC setting a record for the ODA reported in 2022 in costs related to hosting refugees: US$29.3 billion (14.4 per cent of total ODA). This is up from the previous record that was set in 2016, against the backdrop of the war in Syria and related refugee crisis: US$16 billion (11 per cent of total ODA).[5] The EU countries in the DAC (20 in total[6]) alone are responsible for 52 per cent of the total ODA reported in costs related to hosting refugees (equivalent to US$15.3 billion). As Figure 1 overleaf shows, in the case of the Czech Republic, Poland and Ireland, these costs represented more than 50 per cent of their total ODA levels in 2022.

For many years, CSOs have argued that the human rights obligations of all states to receive refugees should not be used as an excuse for ODA providers to spend limited development budgets at home, inflating aid and reducing vital resources to support the eradication of poverty and inequalities and fight climate change. However, our analysis shows that, if the Czech Republic, Denmark, Finland, Italy or Sweden had not included these costs in their ODA reports, their ODA levels in 2022 would have fallen. In the case of Greece, its ODA levels would have decreased even further.

Support to Ukraine also contributed to the increase in ODA in 2022, which amounted to a 7.8 per cent of total ODA levels (equivalent to US$16.1 billion). Meanwhile, ODA supporting Covid-19 related activities[7] went down to US$11.2 billion, a 45 per cent decrease from US$21.8 billion in 2021.[8] This was in line with improved levels in the health emergency.

Figure 1: Share of in-donor refugee costs of ODA 2022 in %



Source: OECD, 12 April 2023 (ODA 2022 preliminary figures)

However, the issue of vaccine donations and particularly the recycling of excess vaccine doses, which had caused an uproar amongst CSOs the previous year, continued in 2022. Vaccine donations reported as ODA amounted to a total of US$1.53 billion (or 0.8 per cent of total ODA), of which $1.51 billion were in-excess vaccine doses. Doses bought specifically for developing countries accounted for a mere 1 per cent of the total vaccine doses donated in 2022. Although the reporting of vaccine donations fell by 74 per cent in real terms compared to the previous year, CSOs expected DAC donors to drop the reporting of these costs completely in 2022.[9] Since the beginning of the negotiations at the DAC, CSOs – including Eurodad – have been critical of a system that first saw rich countries hoarding vaccine doses, making them inaccessible for poorer countries, then later dumping their unused vaccine doses on countries in the global south and reporting the related costs in their ODA records.[10]

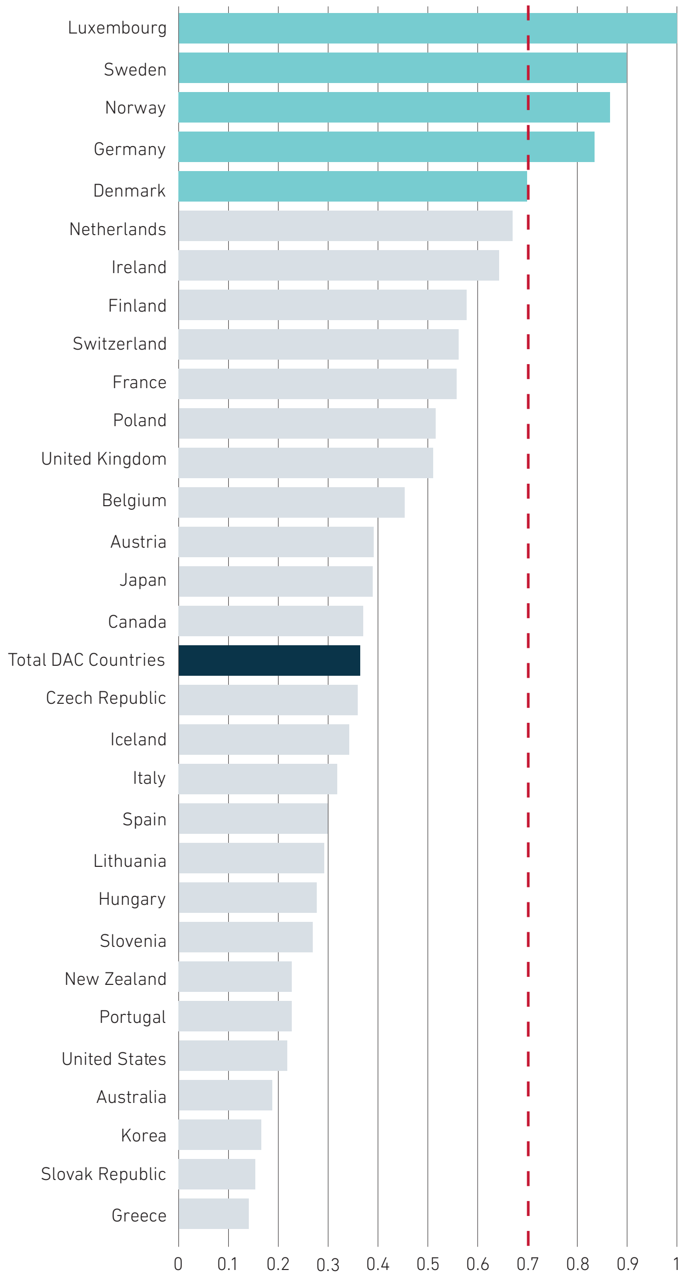
This shows that, in 2022, considerable amounts of ODA were actually diverted from where they were most needed to instead cover costs such as housing refugees in donor countries or the donation of surplus Covid-19 vaccine doses.

The 0.7 per cent international aid commitment

More than five decades after the international aid commitment to deliver 0.7 per cent of ODA/GNI to support countries in the global south, rich countries are still lagging far behind this target. In 2022, ODA as a per cent of GNI stood at 0.36 per cent compared to 0.33 per cent in 2021. Rich countries have a moral obligation to meet their 0.7 per cent commitment. The shortfall means that, for example, the world's richest countries owed US$6.5 trillion to the poorest ones in 2021.[11] Furthermore, considering the critical role that ODA can play in achieving the SDGs, ODA is one of the few options available to governments across the global south to put additional finance onto their budgets, so that they can increase spending on public services and social programmes without increasing their fiscal deficit.[12]

As Figure 2 shows, only five DAC members met or exceeded the 0.7 per cent target in 2022. These were: Denmark (reaching 0.7 per cent), Germany (reaching 0.83 per cent), Luxembourg (reaching 1 per cent), Norway (reaching 0.86 per cent) and Sweden (reaching 0.9 per cent).

Figure 2: ODA as a per cent of GNI of OECD-DAC member countries



Source: DAC1 – Total Official and Private Flows
Note: Green bars represent providers that met or exceeded the UN target of 0.7% ODA/GNI in 2022. ODA on a grant equivalent measure by members of the OECD DAC as % of GNI.

ODA increases and drops in 2022

The highest increases (in real terms) compared to 2021 ODA levels were recorded by:

- **Poland** – with an increase of 255.6 per cent, equivalent to US$2.5 billion. This increase is largely explained by 65 per cent of Poland's ODA (equivalent to US$2.2 billion) being reported as in-donor refugee costs, but also higher contributions being made to international organisations.
- **France** – with an increase of 12.5 per cent, equivalent to US$1.9 billion. This increase is partly explained by 9 per cent of France's ODA (equivalent to US$1.5 billion) being reported as in-donor refugee cost, but also to an increase of aid targeting sub-Saharan Africa.
- **Japan** – with an increase of 19 per cent, equivalent to US$3.3 billion, due to an increase in its bilateral lending, which included support to Ukraine (4 per cent of Japan's ODA, equivalent to US$0.7 billion).
- **Germany** – with an increase of 12 per cent, equivalent to US$4 billion (current prices). This increase can be partly explained by 13 per cent of Germany's ODA (US$4.5 billion) being reported as in-donor refugee cost.
- **United States** – with an increase of 8.2 per cent, equivalent to US$3.9 billion – partly explained by ODA channelled to Ukraine (16 per cent of the US's ODA, equivalent to US$9 billion), but also to in-donor refugee costs being allocated to ODA (12 per cent of the US's ODA, equivalent to US$6.6 billion).

In terms of the highest levels of ODA contributions in absolute numbers, the US is still leading by far (US$55.3 billion), followed by Germany (US$35 billion), the EU institutions (US$23.1 billion), Japan (US$17.5 billion), and France (US$15.9). In 2022, France overtook the UK as the fifth-largest donor (including the EU institutions in this ranking). While the Polish ODA to host refugees was record-breaking (64.6 per cent of its total ODA levels, equivalent to US$2.2 billion), the Czech Republic's share of ODA reported as in-donor refugee costs was even higher (65.4 per cent, equivalent to US$0.65 billion) – making these two countries basically the main recipients of their own aid. This was followed by Ireland (with refugee costs representing 51 per cent of its total ODA budget, equivalent to US$1.2 billion).

There were only four DAC countries that reported a decrease (in real terms) in ODA for 2022:[13]

- **Australia** – with a decrease of 13 per cent, equivalent to US$506 million. This decrease is due to differences in Australia's financial year reporting.
- **New Zealand** – with a decrease of 17 per cent, equivalent to US$148 million. This decrease is explained by a "temporary downturn of its [New Zealand's] disbursements within its three-year budget cycle".
- **Greece** – with a decrease of 6 per cent, equivalent to US$ 35 million. This decrease is explained by a decrease in its bilateral and multilateral ODA.
- **Hungary** – with a decrease of 2 per cent, equivalent to US$39 million. This decrease is explained by smaller contributions to international organisations.

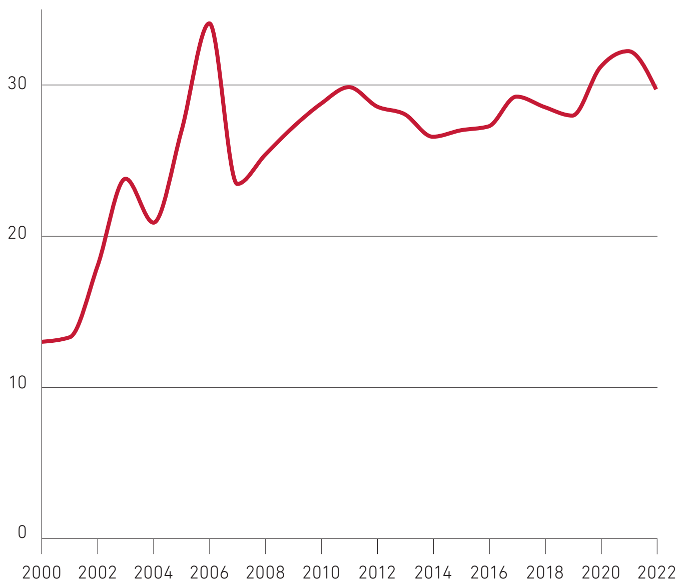
However, if in-donor refugee costs were left out of the ODA reporting in 2022, ODA would have decreased in eight additional countries, including: the Czech Republic, Denmark, Finland, Italy, Norway, Sweden, Switzerland and the UK. [14]

B. ODA geographical distribution: ODA flowing to LDCs still far below commitments

In terms of geographical disbursement, ODA to Africa fell to US$34 billion in 2022, compared to the previous year. This represents a decrease of 7.4 per cent in real terms. Of those funds, US$29 billion went to sub-Saharan Africa – a fall of US$4 billion from the previous year (representing a -7.8 per cent drop in real terms), breaking a trend that had seen ODA resources to sub-Saharan Africa rising (see Figure 3).

By income group[15], LDCs received US$32 billion, representing a drop of 0.7 per cent in real terms, compared to the previous year (see Figure 4 overleaf). Low-income countries received US$26 billion in net bilateral ODA flows from DAC countries, an increase of 3 per cent in real terms compared to the previous year. US$47 billion went to lower-middle income countries, representing an increase of 52.8 per cent compared to the previous year. However, out of this US$47 billion, US$16 billion went to Ukraine (equivalent to 16 per cent of ODA allocated to lower middle-income countries). Without the support channelled to Ukraine, lower middle-income countries would have received US$30.9 billion. ODA to upper middle-income countries amounted to US$13 billion, an increase of 1.4 per cent in real terms compared to the previous year.

Figure 3: Bilateral ODA towards sub-Saharan Africa is declining in recent years

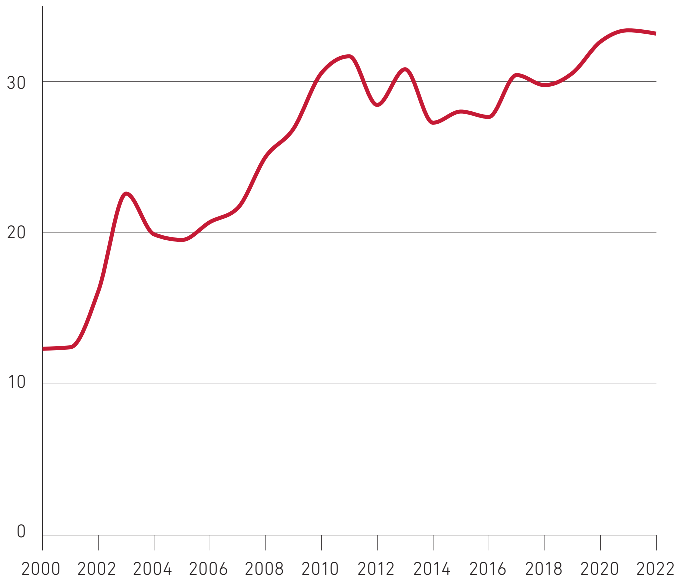


Source: Total Official and Private Flows [DAC1], Aid (ODA) disbursements to countries and regions [DAC2a]

Looking in more detail at available data on LDCs, flows to this income group made up a 15.7 per cent of total ODA in 2022, where they contributed 17.9 per cent the previous year.[16] Furthermore, the ODA levels reached in 2022 for LDCs falls short again of the levels set in international agreements – where rich countries committed to channel 0.15-0.20 per cent of GNI to LDCs, commitments that were reaffirmed with the SDGs and Addis Agenda.[17] Yet, given that total ODA is only at 0.36 per cent of GNI across DAC members, this leaves the financing of LDCs at (approx.) 0.057 per cent and at no significant change from the previous year (0.05 per cent). Still not reaching the lowest bar by nearly two thirds is emblematic of commitment for external financing for LDCs.

At times where multiple crises are hitting the most vulnerable and poor the hardest, ODA must target the countries and regions that need it the most.

Figure 4: Bilateral ODA towards LDCs shows a decreasing trend since 2020



Source: Total Official and Private Flows [DAC1], Aid (ODA) disbursements to countries and regions [DAC2a]

C. Grants continue to show a decreasing trend, while bilateral sovereign loans are increasing

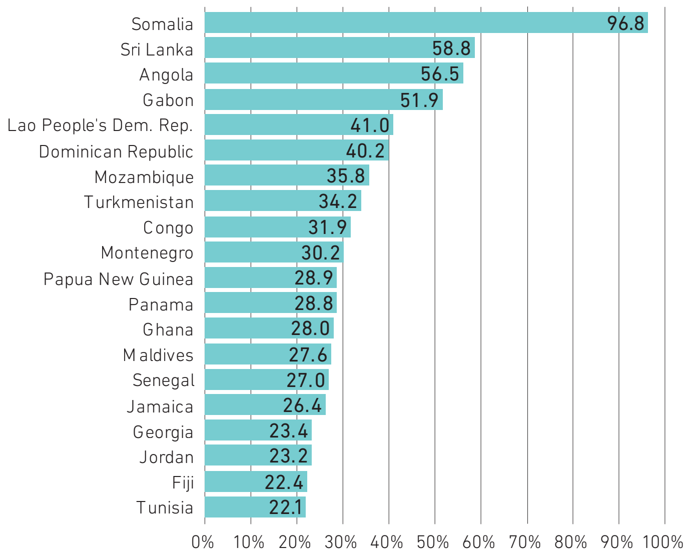
Many LDCs entered the Covid-19 crisis with weaker economic foundations and greater indebtedness than they had 12 years before, at the onset of the 2007/08 global financial and economic crisis. And the Covid-19 pandemic only exacerbated this trend. Between 2011 and 2019, LDCs' debt service tripled, jumping from US$10 billion to US$33 billion.[18] The use of bilateral loans to channel ODA remains a source of concern, notably for the most fragile countries.

In 2022, grants remained the main ODA channel, representing 87.7 per cent of total bilateral ODA. However, while the share of loans in the total bilateral ODA has been increasing since 2018 (see next paragraph), the share of grants in the total bilateral ODA between 2018 and 2021 shows a decreasing trend from 89.5 per cent to 87.7 per cent.[19] ODA channelled through multilaterals fell from the previous year to 26 per cent of total ODA in 2022. And a look at the share of ODA channelled through multilaterals between 2018 and 2022 also shows a decreasing trend from 29 per cent in 2018 to 26 per cent in 2022.[20]

In contrast to grants, bilateral sovereign loans (calculated since 2018 on a grant equivalent basis[21]) increased by 36.1 per cent in real terms in 2022 compared to the previous year. This represented 9.3 per cent of total bilateral ODA, equivalent to US$14.6 billion.[22] In 2022, the three countries that provided the highest share of bilateral ODA as sovereign loans were: France (22 per cent, equivalent to US$3.8 billion), Japan (60 per cent, equivalent to US$12.6 billion) and Korea (32 per cent, equivalent to US$1 billion). By contrast sovereign lending by EU institutions more than doubled (compared to the previous year) and represented 24 per cent of its bilateral ODA (equivalent to US$6 billion).

ODA has increasingly been delivered in the form of loans since 2006, with few exemptions in specific years.[23] Between 2018 and 2022, bilateral sovereign loans (on a grant equivalent basis) have increased by 75 per cent. Although LDCs are among the group of countries in the global south experiencing the highest levels of debt distress, bilateral sovereign loans to LDCs and other lower income countries have increased by 38.3 per cent between 2018 and 2021. Whereas for lower middle-income countries (LMICs) and upper middle-income countries (UMIC) the increase has been 29.6 per cent and 12 per cent respectively.

Figure 5: Servicing costs on public and publicly guaranteed external debt as a percentage of government revenues; top 20 countries in 2022



Source: UNCTAD Secretariat calculations based on World Bank data

In April 2023, the UN Conference on Trade and Development (UNCTAD) warned the international community about how "debt distress will result in a development crisis and wider inequalities, with 39 countries paying more to their external public creditors than the amount they received in new loans".[24] This would result, as the UNCTAD warns,[25] in an adverse impact on public investments and social protection. These trends are simply the wrong way to go to achieve the SDGs and combat climate change.

2. What are the key elements to look at in 2022 in terms of quality of ODA?

This section looks into the 2022 ODA preliminary figures qualitatively and assesses the inflation and diversion in these figures, while also looking at the levels of "real ODA" mobilised in 2022. The reporting of costs that do not belong to ODA in 2022, including in-donor refugee costs and vaccine donations, has allowed DAC providers to inflate their ODA figures by US$30.9 billion (or almost 15 per cent of total ODA). This represents an increase of ODA inflation of 155 per cent (or US$18.8 billion) compared to 2021.

A. Private Sector Instruments – it is too early to say what the 2022 figures look like

Following the 2018 temporary agreement on reporting methods for Private Sector Instruments (PSIs), DAC providers can report financial flows channelled through PSIs as ODA (see Box 1 below for the definition of PSIs). This agreement aims to incentivise the use of specific instruments in developing cooperation, following a risky, but well installed narrative, which assumes that the private sector is the answer to mobilising higher volumes of development finance. Eurodad and partners have been closely monitoring PSI trends, given the risk of undermining the quality and integrity of ODA.[26]

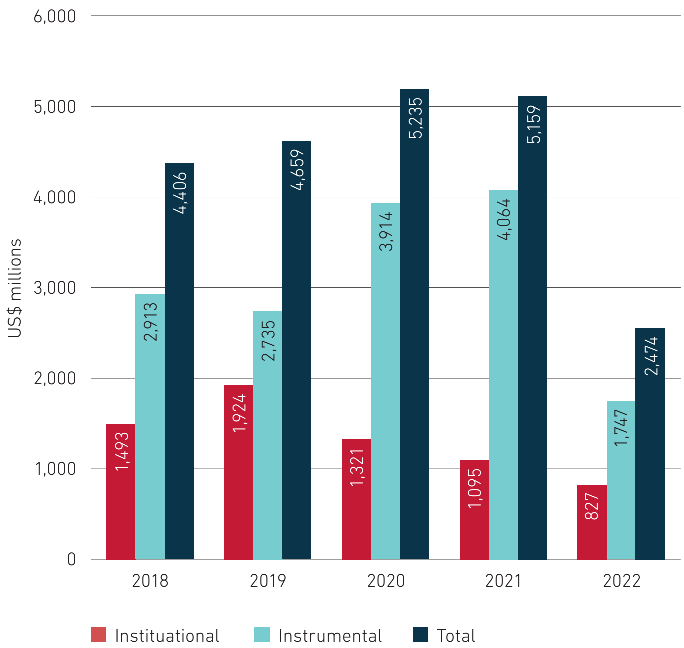
Box 1: What are Private Sector Instruments?

Private Sector Instruments (PSIs) 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. In turn, these invest in private entities (e.g. enterprises or investment funds) in developing countries. They 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 as PSIs – whether they are provided as grants or equity investments.

PSIs should not be confused with blended finance, although the two are very linked. PSIs are instruments, while blended finance is a structuring approach. PSIs are used by ODA providers to invest in private sector entities (whether directly or via PSI vehicles such as DFIs). With blended finance, ODA providers (or other providers of concessional finance) invest alongside private sector entities or investors and may or may not use PSIs to do so.

Between 2018 and 2021 (see Figure 6), the amount of ODA reported as PSIs has grown at a rate of 17 per cent.[27] The PSI figures for 2022 are not included in this analysis as they are not yet representative – the available data is still preliminary and is incomplete. The preliminary figures for ODA in 2022 showed lower levels of PSIs – a total of US$2.6 billion, compared to previous years. This lower PSI level could be related to PSI ODA reported negatively, but these detailed figures are not yet available. This is because, under the current temporary agreement, DAC donors need to report the reimbursement of loans and related interests and benefits obtained through PSIs operations negatively. The full picture will only be available by the end of the year when the OECD will upload the full 2022 ODA data in its statistical database.[28]

Figure 6: Data on PSI ODA 2018-2022



Source: OECD-DAC Creditor Reporting System (extracted January 2023)
Note: Data is for DAC countries and EU Institutions. Data is extracted as US$ Disbursements (deflated, 2020 dollars).

In 2022, 15 DAC donors reported PSI ODA (two additional donors, compared to previous years), with France (US$0.6 billion), the United Kingdom (US$0.4 billion), Canada (US$0.4 billion) and Japan (US$0.3 billion) reporting the highest amounts. Over the four years from 2018 to 2021,[29] excluding the EU institutions, DAC donors reported most of the PSI ODA under the instrumental approach (62 per cent, equivalent to US$15.5 billion for the four years). This measures the ODA eligible component for each PSI transaction between the PSI vehicle and the development finance institution. The rest (38 per cent, equivalent to US$5.8 billion for the four years) was reported under the institutional approach, which estimates ODA eligibility for the total transfer of official funds to a DFI, or other vehicles such as investment funds.

Where the detail on recipient countries is available, between 2018 and 2021, the vast majority went to UMICs, at an average of 55 per cent for the four years, followed by LMICs, with an average for the four years of 41 per cent. Only an average of 4 per cent of PSI ODA was channelled to LDCs. These findings confirm results from other analyses pointing out that PSIs tend to favour middle-income countries, which are less risky for these kinds of operations. Regarding the sectors in which PSI ODA is invested, for the four years under review, an average of 42 per cent of PSI ODA was invested in operations in the banking and financial services sector, followed by the industry sector with a 16 per cent of PSI ODA and the energy generation (renewable sources) sector with 12 per cent of PSI ODA.

In 2023, members of the DAC are negotiating the expansion of the PSI agreement into guarantees, mezzanines and other PSIs, including bonds. The conclusion of these PSI negotiations will formalise the replacement of the principle of "concessionality" (whereby ODA resources channelled to development cooperation must offer more generous terms than those from the market) with the one of "additionality". This means that, if a PSI operation can prove value or financial additionality, it will no longer need to be concessional. Such a move risks blurring the lines between development and commercially-oriented activities, with the danger of diverting even more scarce ODA resources to operations whose contribution to sustainable development is unclear.

As a consequence, PSI levels will likely increase. Some donors have already stated their ambition to allocate additional resources to PSIs[30] and the new rules will facilitate this. It has already been the case, for example, in France and Germany.[31] In 2021,[32] the EU also decided to renew its guarantee instrument – the European Fund for Sustainable Development Plus (EFSD), with an expanded budget and a single instrument for its external action, the EFSD+, for the period 2021-2027. The new budget framework includes €14 billion for European DFIs.[33]

Eurodad has criticised this trend, underlining the risk of diverting scarce concessional development resources away from interventions and modalities that have proven to be effective in delivering development results, particularly considering evidence of their additionality and development impact is still insufficient.

B. ODA 2022 preliminary figures, not the "real ODA" figures

Over the past 40 years, the OECD DAC has established the rules for calculating ODA, amending them periodically. Some of these amendments have led to improvements in the quality of ODA – i.e. the DAC Recommendation on Untying ODA.[34] Others have translated into the erosion of the quality of ODA – for example, the reporting of debt relief in the grant equivalent system[35] or the reporting of in-excess vaccine donations.[36]

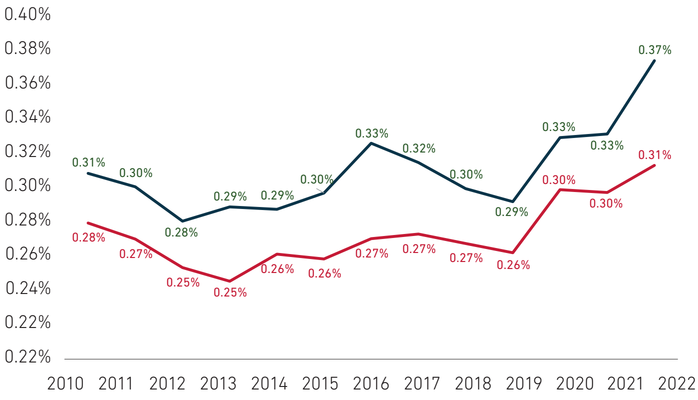
Current rules allow DAC donors to report against their ODA budget: an estimate of expenditure on refugees for their first year in the provider country; attributed student costs in the provider country; debt relief granted to creditors; and, since 2021, recycled Covid-19 vaccine doses donated to ODA-eligible developing countries and related costs. However, none of these represent a transfer of funds to developing countries, but rather a diversion of funds from where they are most needed. Over the years, CSOs have raised concerns about the reporting as ODA of these costs, which do not fit the definition of ODA.[37]

In 2022, the reporting of these costs, including recycled vaccine donations, has allowed DAC providers to inflate their ODA figures by US$30.9 billion (or almost 15 per cent of total ODA). This represents an increase of ODA inflation compared to 2021 of 155 per cent (or US$18.8 billion).[38] This includes:

- US$29.3 billion reported as in-donor country refugee costs
- US$1.5 billion reported as excess recycled Covid-19 vaccine donations
- US$116 million reported as net debt relief.[39]

Figure 7 suggests (under the label of real ODA) what the ODA/GNI trends for the period of 2010-2022 would have been without including the above-mentioned costs. The aim of Figure 7 is to show how these costs inflate ODA – in 2022, it meant a difference of 0.06 points in the GNI/ODA ratio (from 0.31 per cent real ODA/GNI to 0.36 per cent reported ODA/GNI).

Figure 7: Reported ODA/GNI vs "real ODA/GNI", 2010 to 2022



Source: Analysis from B. Tomlinson (Aid Watch Canada), based on OECD DAC Table 1 and 2 (constant prices)
Note: Data for 2010 to 2022 is reported on a cash-flow basis, for consistency reasons. Data is for DAC providers only

Together with other CSOs, Eurodad has argued that – in the absence of a permanent agreement on PSIs that addresses the risks to ODA integrity and related safeguards – DAC providers should report their investments in PSI as Other Official Flows, rather than as ODA.[40] With the inclusion of ODA PSI reported in the 2022 preliminary figures, the inflation of ODA would be US$33.5 billion (equivalent to 16 per cent of total ODA for 2022).

The inflation of ODA undermines the value of the aid statistics. Currently, the figures officially presented provide a less and less robust picture of the resources received by countries in the global south to implement nationally determined development plans

3. What are the key issues for ODA in 2023?

In May 2023, the World Health Organization (WHO) announced "with great hope" an end to Covid-19 as a public health emergency. However, it also stressed that this does not mean the disease is no longer a global threat.[41] The current polycrisis context is far from over. Another UN agency, UNCTAD,[42] warned the international community that countries in the global south are facing years of difficulty as the global economy slows down amid heightened financial turbulence. Many countries are facing mounting debt (see Figure 5) and although declining energy costs are leading to lower inflation levels across countries, elevated food prices are keeping the cost of living very high, which is reinforcing levels of poverty. In 2022, at least 258 million people in 58 countries faced "acute food insecurity", defined as hunger so severe that it poses an immediate threat to people's livelihoods and lives.[43]

Yet, as this briefing shows, the support mobilised by the international community to face this and other competing crises has been insufficient. Furthermore, the available ODA resources are increasingly being compromised by costs and operations that do not fit the definition of ODA.

ODA can and must play a crucial role in supporting a development path centred on human rights, gender equality and just transitions for rapid decarbonisation. ODA alone cannot solve all the development challenges. However, it is meant to operate in tandem with national- and international-level actions to reinforce the fiscal space of countries to fulfil their human rights, progress towards implementing the SDGs and dealing with climate change. Thus, ODA has a key role to play in certain contexts. In 2023, we identify **three main areas of concerns** that deserve a closer look from the CSO community, as laid out below.

i. The quantity of ODA will likely decrease

Meeting the 0.7 per cent international commitment is more urgent than ever: DAC donors must accelerate their efforts to meet their 0.7 per cent international commitment, mindful of the accumulated unpaid ODA, which reached US$6.5 trillion by 2021.[44] Rich countries spent billions on bailing out banks during the 2008 financial crisis and propping up the real economy during the Covid-19 pandemic. The polycrisis is a real and immediate emergency for fiscally constrained countries in a larger part of the global south, which are witnessing famine, climate chaos and deterioration of development gains in sectors such as girls' education. This emergency deserves a proportionate answer with ODA spending on a 'war footing'.

Recently, there have been several announcements in the right direction: Spain[45] is set to achieve 0.5 per cent of its GNI allocated to ODA by 2023; France[46] is set to achieve the 0.7 per cent target of its GNI allocated to ODA by 2025; and Norway is maintaining its commitment to the 1 per cent target. Countries such as Luxembourg (with an ODA/GNI ratio of 1 per cent) should continue to show leadership to other countries too.

In view of the pressing needs of countries across the global south, for many stakeholders, the figure of 0.7 per cent GNI is being questioned. It is no longer considered sufficient to address all the needs arising from the current polycrisis context.

In-donor refugee costs are expected to decrease: The 2023 ODA figure should show lower levels of costs allocated to hosting refugees in DAC donor countries. According to the current rules, DAC donors are allowed to report such costs as ODA only for the first year. This is likely to bring lower levels of total ODA.

Increasing ODA amounts may be channelled to Ukraine: According to the World Bank, the reconstruction and recovery of Ukraine will require about US$411 billion over a ten-year period.[47] While Ukraine is a lower middle-income country eligible for ODA, its reconstruction and recovery cannot be at the cost of all the other ongoing competing development priorities across the global south. DAC countries must not only maintain the current levels of ODA. They also need to mobilise additional resources in order to respond to the current Ukraine humanitarian crisis and the related recovery and reconstruction costs. And all this must be done without compromising the crises elsewhere that are driven by poverty, poor governance, climate change, inequality and conflict.

Double counting of climate finance and ODA must be avoided: The line between ODA and climate finance is thin. It is important that financial commitments on both sides are fulfilled, and that there is strict monitoring to make sure that the reporting of each financial stream does not become meaningless. For example, a recent study[48] shows that, between 2011 and 2018, only 6 per cent of climate finance provided by rich countries was new and additional to ODA. The consequence is that not only is the global climate finance target being missed, but also there is an element of double counting between global financing commitments.

ii. The integrity and quality of ODA continues to be eroded

The OECD DAC is the forum where donor countries set international principles, rules and standards about what counts (and what does not count) as ODA. These discussions have so far led to a few temporary (i.e. PSIs) and permanent (i.e. debt relief, reporting of in-excess Covid-19 vaccine donations) agreements that have contributed to undermining the credibility, integrity and solid reputation of the ODA statistics. The decisions of the DAC have an impact on the quality and quantity of the ODA that reaches countries in the global south. In 2023, there are several key issues at stake:

Private Sector Instruments: In 2023, the OECD DAC is negotiating the update of the agreement on the reporting of PSIs as ODA, which will conclude with the inclusion of new PSI instruments such as guarantees, mezzanines and other private sector instruments, including bonds. The conclusion of these negotiations will make official the replacement of concessionality (the backbone of ODA) by additionality. This is a slippery slope that risks undermining the definition of ODA[49] as we know it today.[50]

So far, little has been done to mitigate the risk of diverting scarce ODA resources away from its clear comparative advantage of addressing the eradication of poverty and reducing inequalities, and from prioritising public investments in non-profitable sectors rather than profit-making investments. As negotiations continue, a clear theory of change and stronger safeguards are needed, with a primary focus on development impact, rather than achieving financial targets.

In addition, DAC members must ensure that the integrity of ODA is protected. As the negotiations stand today, the returns generated through PSI operations (thus, beyond the cost of the original investment) could soon be reported as ODA. Yet, reporting ODA out of these returns does not fit the definition of ODA, as there is no budgetary effort from the donor. Instead, it would inflate ODA figures even more.

Debt relief: The preliminary ODA figures in 2022 do not show any major debt relief operations. However, this could quickly change over the coming months, as debt relief may be needed to support recovery in countries that have been severely hit by the current context of overlapping crises or climate-related emergencies. This could also inflate 2023 ODA figures. Under the new ODA reporting system for loans (grant equivalents[51]) donors are rewarded upfront for the risk of their loans not being repaid. The greater the risk profile of the loan, the more that can be reported as ODA. The decision by the DAC back in 2020 allows additional ODA to be reported when donors need to cancel or reschedule their ODA loans to developing countries, as a result of bilateral agreements or as part of international efforts on debt relief. This strongly undermines the credibility, integrity and solid reputation of DAC statistics. Back in 2020, DAC members agreed to review the debt relief agreement. 2023 should be the year where the review of it finally starts.

In-excess Covid-19 vaccine donations: Costs related to the donation of in-excess Covid-19 vaccine doses were still reported as ODA in 2022. Some DAC members are still pursuing the reporting of these costs in 2023 as well. A final decision on whether these costs can be reported or not in ODA in 2023 has currently been postponed. However, this decision should materialise at some point before the end of 2023.

Aid effectiveness: Although the preliminary ODA data does not allow an analysis of the implementation of the aid effectiveness principles – such as country ownership, focus on development results, alignment, harmonisation and mutual accountability – it is still important that the international development community pays attention to progress on delivering the commitments to make ODA more effective. Scarce ODA resources must be aligned with the development effectiveness principles, including those engaging the private sector.

iii. Put the concept of "real ODA" back into the public debate

The erosion of rules is slowly translating into decreasing aid levels reaching countries in the global south directly. In 2023, additional pressure is needed for DAC members to seriously consider the need for an external independent review of the whole ODA modernisation process,[52] and its impact on the quantity and quality of ODA. This includes a review of the expansion of the ODA concept, its definition and related reporting rules. As this briefing shows, the high level of ODA seen in 2022 is not enough. It masks the fact that an important amount of reported ODA is not real aid: at least US$30.9 billion (or almost 15 per cent of total ODA) accounts for costs that do not fit the definition of ODA. In 2023, CSOs should join forces to put the concept of "real ODA" back in the public debate.

ODA is a vital and unique resource to tackle poverty and inequalities around the world

Since the SDGs are far out of reach for many countries across the globe[53] and the target date of 2030 is just around the corner, there is no time to lose. ODA is a vital and unique resource to tackle poverty and inequalities around the world. Without greater ambition in 2023 on the quality and quantity of aid, ODA will not reach those that the international community promised not to leave behind through the development goals agreed in 2015

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About Eurodad

The European Network on Debt and Development (Eurodad) is a network of 60 civil society organisations from 28 European countries. We work for transformative yet specific changes to global and European policies, institutions, rules and structures to ensure a democratically controlled, environmentally sustainable financial and economic system that works to eradicate poverty and ensure human rights for all.

Contact

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