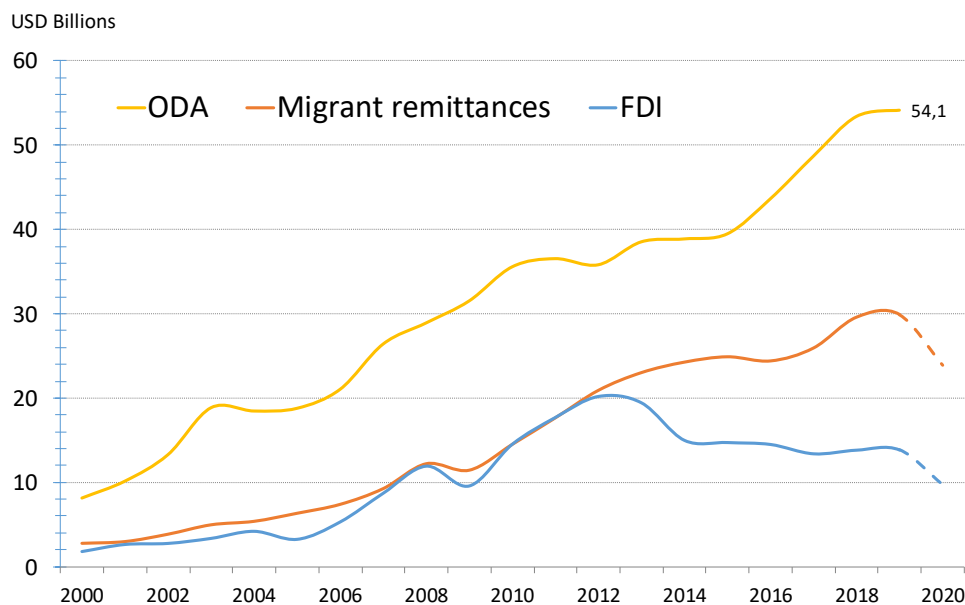


Towards a sustainable upturn in official development assistance?

By [Luc Jacolin](#) and Khalil Bechchani

Official development assistance (ODA) should be bolstered in 2020 by the international response to the Covid-19 crisis, whose impact in low-income countries is still uncertain. The main challenge is to ensure that the efforts undertaken will be sufficient and sustainable: increasing ODA is desirable if the sustainable development goals for 2030 are not to be compromised.

Chart 1: Changes in financial flows entering LICs (in USD billions)



Sources: World Bank, OECD and Banque de France estimates for 2020.

[Although low-income countries \(LICs\) have so far been less directly affected than developed countries by Covid-19](#), the pandemic could still have major [economic and human](#) consequences for [LICs](#) due to their extreme [vulnerability](#). [According to the IMF](#), in 2020, these countries will have to face up to a 1% contraction in GDP, a rapid widening of their budget deficit (2 percentage points of GDP higher than in 2019 and even 7 percentage points higher for oil-producing countries) and significantly elevated public debt (up 5 percentage points to 49% of GDP). The financing needs of LICs are expected to be even more substantial given that they have limited tax resources (16% of GDP on average) and high levels of debt (more than 50% are at high risk of debt distress according to the [IMF's](#) classification).

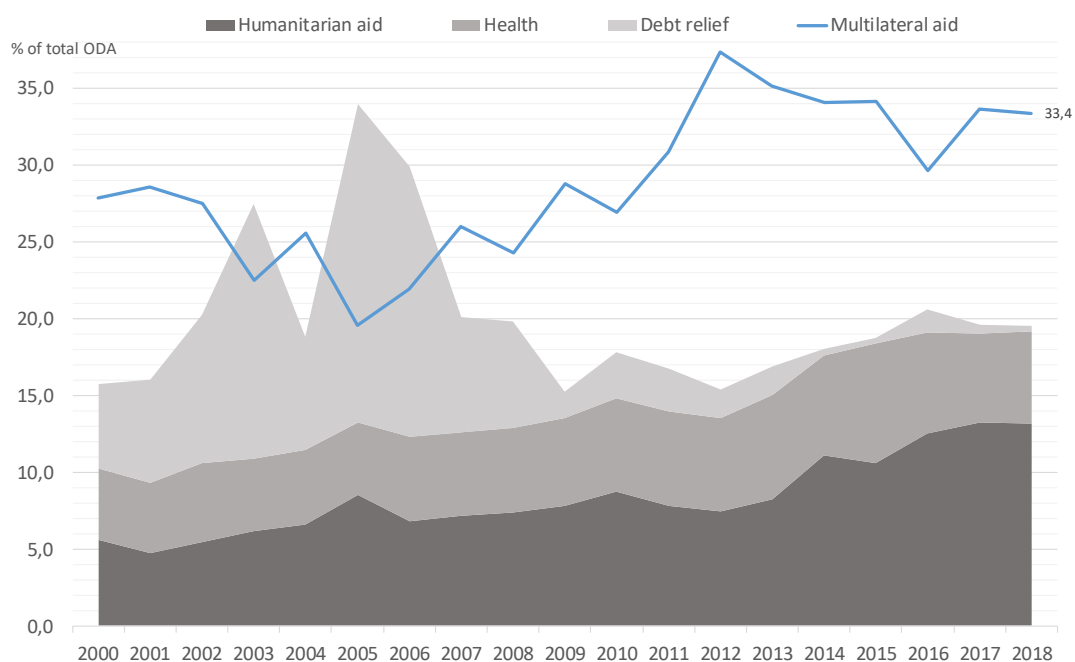
Changes in [ODA](#) (government aid that promotes and specifically targets the economic development and welfare of developing countries) in 2020-21 represent a major financial concern for LICs. ODA is their most significant source of external financing (more than USD 54 billion in 2019): twice the value of migrant remittances and four times greater than the amount of foreign direct investment (see Chart 1). And at a time when these latter financing sources are expected to [decline dramatically](#), ODA plays a crucial countercyclical role in reducing imbalances caused by the shutdown in activity.

Multilateral aid should increase in response to the crisis

This crisis should result in a surge in ODA thanks to [rapid and extensive support to LICs from multilateral institutions](#) (multilateral aid accounted for one third of total ODA in 2019 – see Chart 2). The IMF has implemented an emergency zero-interest facility financed through its Poverty Reduction and Growth Trust (PRGT) and accompanied by commitments from multilateral banks. In conjunction with this financing, a debt service suspension offering relief to 73 eligible countries (39 of which had declared their interest as of 9 July 2020) during the period from 31 May 2020 to 31 December 2020 was adopted under the aegis of the G20. This initiative may be carried over into 2021, conditional on the pandemic’s evolution.

Depending on the scale of the crisis in LICs, mainly in Sub-Saharan Africa, additional aid, notably to support health systems, as well as debt rescheduling or forgiveness, may be needed. The involvement of private lenders in these types of initiatives would be welcome in order to prevent individualistic behaviour or “holdouts” (particularly debt repurchases by vulture funds) and to [better share costs between public and private creditors](#). The main donor countries of official development assistance recently agreed on a [better method for reporting debt relief or forgiveness](#) in order to encourage such efforts.

Chart 2: Multilateral ODA (in blue) and sectoral ODA (in grey, as a % of total ODA)



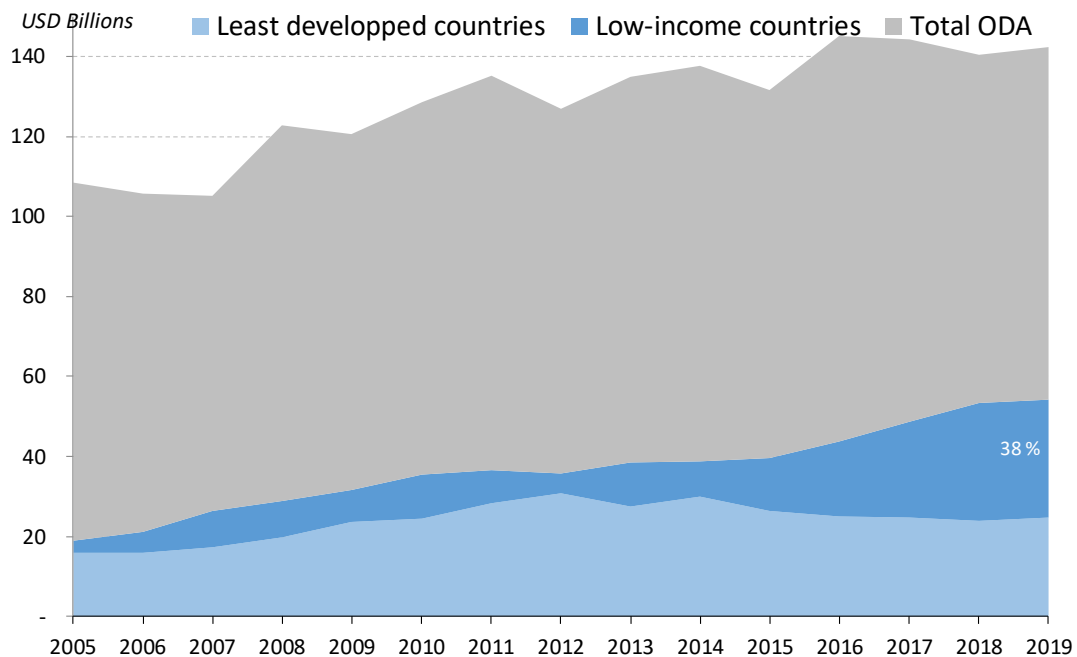
Source: OECD, DAC database. ODA is either multilateral (in blue) or bilateral. The chart also shows the three sectoral components of aid most likely to be mobilised to cope with the Covid crisis (stacked areas).

The multilateral response relies on the support of the main donors involved since the beginning of the crisis. For example, the PRGT received an additional USD 7 billion (up to USD 13 billion by the end of April 2021), while the IMF’s Catastrophe Containment and Relief Trust (CCRT) is being topped up by USD 1.4 billion. France’s commitment to multilateral institutions was also reasserted through an agreement in principle between the Banque de France and the IMF for a state-guaranteed loan to the PRGT of at least SDR 2 billion. Furthermore, France’s response includes EUR 1.2 billion to help fund health systems, 10% of which takes the form of donations.

Aid must be sustainable

The key question is whether the aid granted in response to the crisis is truly additional and sustainable given that ODA continues to be insufficient overall and increased only slightly prior to the crisis (see Chart 3). Although ODA rose by 1.4% in constant US dollars in 2019, it still remains well below the set objectives (0.3% rather than the objective of 0.7% of donor countries' gross national income), including for LICs, which only received 38% of official development assistance in 2019. It is too early to measure ODA for 2020, but an [OECD survey](#) suggests that some donor countries are prepared to increase their ODA volumes this year, while other donor countries have undertaken to ring-fence their aid budgets.

Chart 3: ODA to low-income countries and least developed countries (in USD billions)



Sources: OECD, DAC database.

However, the overall trend in ODA remains uncertain due to the systemic nature of the crisis and the possibility of several staggered waves of diffusion. The current crisis clearly places the public finances of donor countries under great pressure. The effects of reallocation at the expense of programmable aid (aid linked to multi-annual projects) could also undermine assistance that had been initially agreed, while LICs' fiscal policies could be forced to negotiate sensitive trade-offs in terms of investments, particularly in infrastructure.

Lastly, the [weak resilience of LICs to climate change](#) should push the international community to adopt coherent strategies to deal with the rising scale and frequency of natural disasters. Their impact on amounts of ODA, its sectoral allocation and its effectiveness will be decisive in achieving the sustainable development goals set by the UN for 2030 (E. Debels and M. Le Goff, forthcoming). Combating global warming involves significant transfers to developing countries, but for the time being, the international community has a long way to go to keep its promise of providing USD 100 billion annually.