

# ODA, poverty reduction and resilience-Latest trends

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# What is Official Development Assistance?

Resource flows to developing countries and multilateral organisations provided by official agencies where each transaction meets the following tests:

- ✓ It is administered with the promotion of the economic development and welfare of developing country as its main objective; and
- ✓ It is concessional in character, which implies a grant element of at least:
  - ✓ 45% for bilateral loans to the official sector of LDCs and other LICs
  - ✓ 15% for bilateral loans to the official sector of LMICS
  - ✓ 10% for bilateral loans to the official sector UMICS
  - ✓ 10% multilateral loans to multilateral institutions
- Grants are wholly concessional by definition and have a grant element of 100%.
- Discount rates vary according country group and institutions



# Does Official Development Assistance reduce poverty? (1)

- Three distinct theoretical camps:
  - “Strong positive link”: (Arndt, Jones, & Tarp, 2010, 2015; Sachs, 2005; Stiglitz, 2007).
  - “Effective under certain conditions” (Burnside & Dollar, 2000, 2004; Collier & Dollar, 2002; Collier, 2007; Mosley, Hudson, & Verschoor, 2004; Gomanee, Morrissey, Mosley, & Verschoor, 2005; Gomanee, Girma, & Morrissey, 2005).
  - “Perpetuates the cycle of poverty” Easterly (2003, 2006, 2008), Moyo (2009) and Doucouliagos and Paldam (2006) who uphold that aid is ineffective.

# Channels by which Official Development Assistance reduces poverty

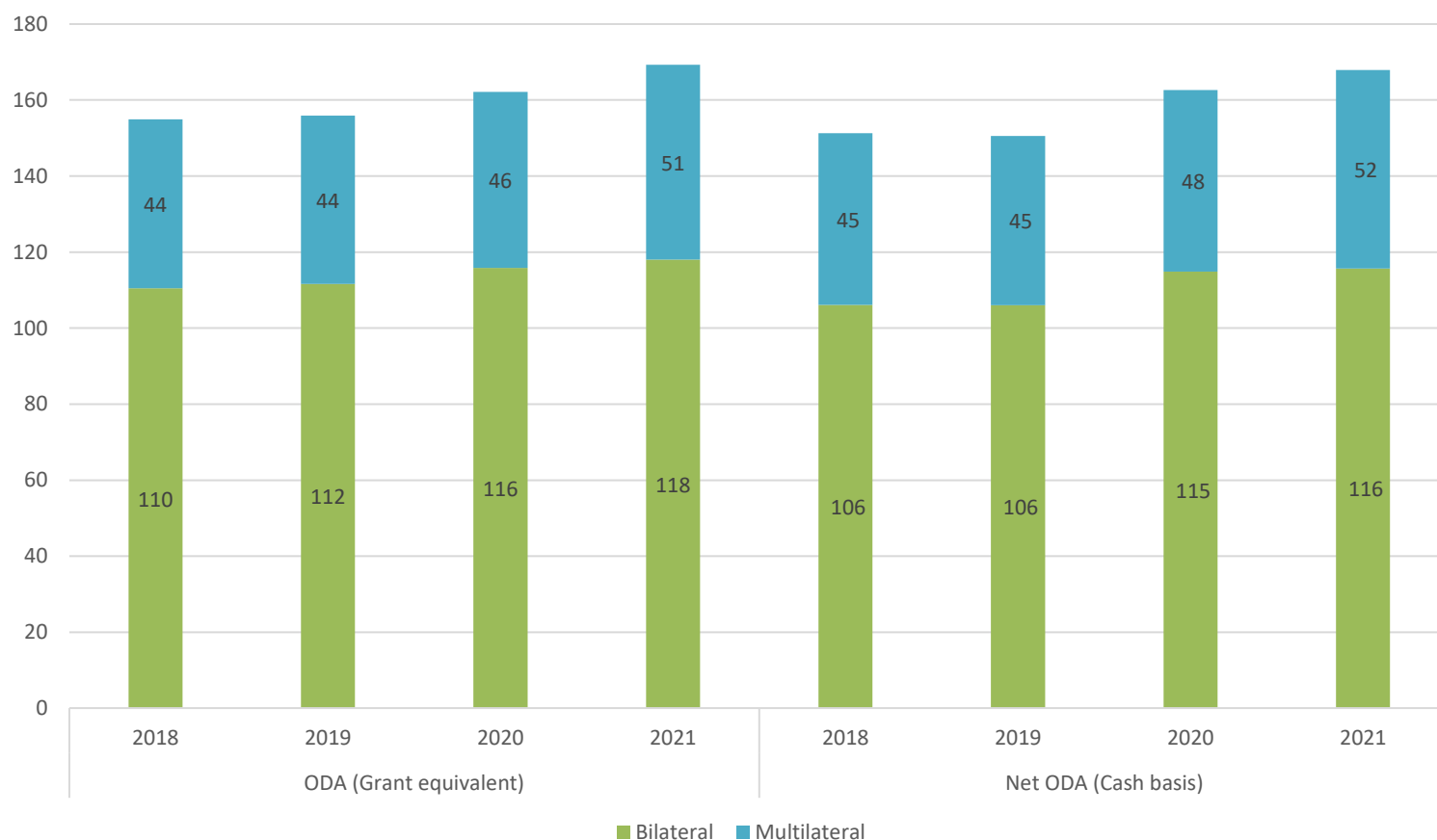
- Empirical literature limited but three key factors are often cited:
  - Who is targeted? Are the most vulnerable countries and population groups prioritized?
  - What is targeted? Are high-impact sectors (e.g., energy, water, health, education) heavily targeted? Is there a focus on strengthening crisis resilience to protect hard-won development gains?
  - How is aid is disbursed? Is aid effective (touches on issues like effectiveness principles, grant element, maturities and conditionalities)

## Does Official Development Assistance reduce poverty? (2)

- Empirical literature on aid effectiveness:
  - dominated by studies on the effectiveness of foreign aid on economic growth.
  - general dearth of the empirical literature on the effectiveness of foreign aid on poverty reduction.
- Latest surveys (e.g., Mahembe and Odhiambo, 2019) conclude that foreign aid has had a positive impact on poverty reduction, as reported by the majority of studies in both the non-monetary and monetary measures of poverty groups.

# Official development assistance, 2018–2021

*(Billions of United States dollars, 2020 constant prices)*



Source: OECD DAC statistics.

# The “Who”: OECD DAC donor performance against international commitments

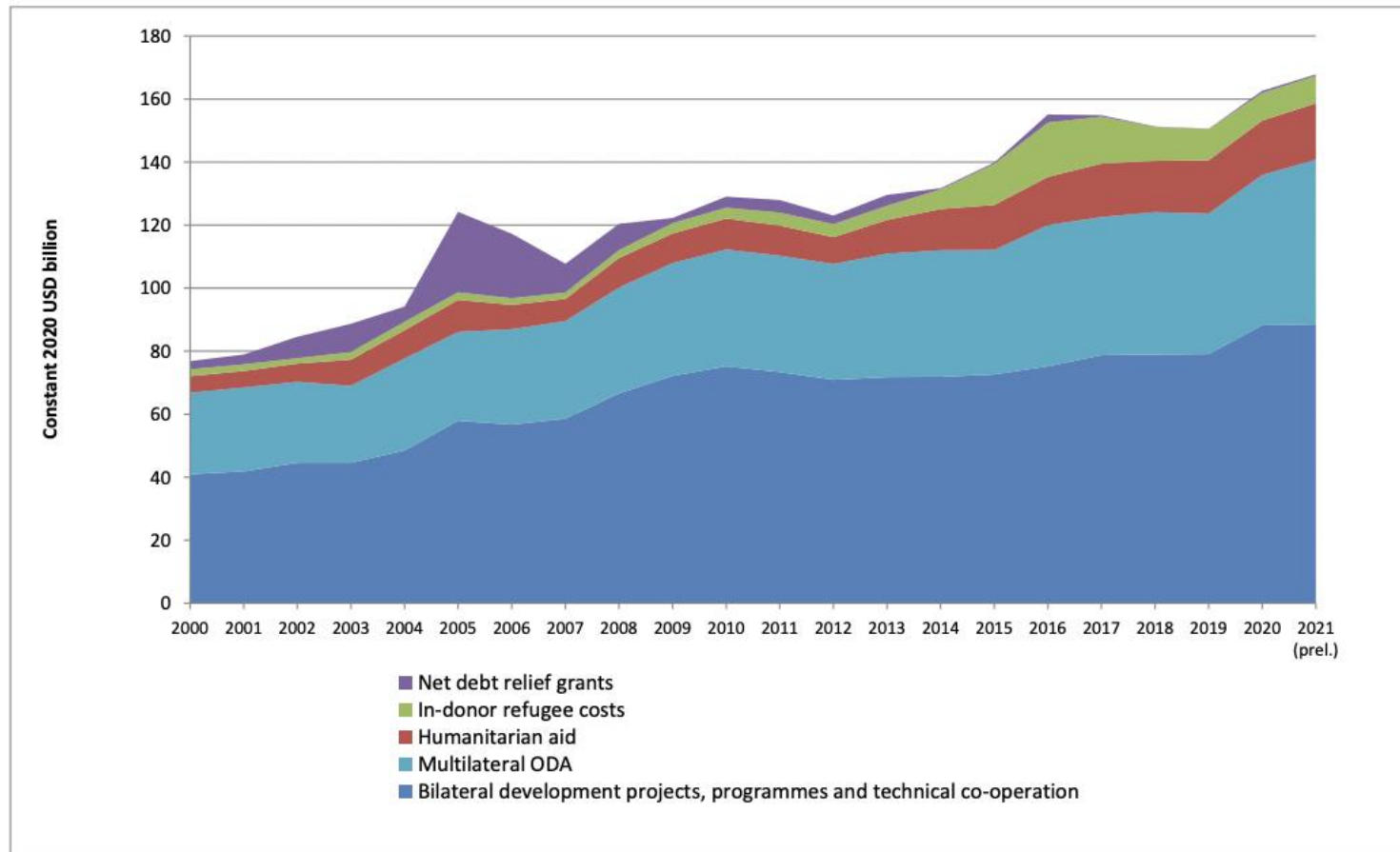
	Target	2018	2019	2020	2021*
<b>ODA as a share of GNI</b>	0.7	0.3	0.3	0.33	0.33
<b>Total ODA to LDCs as a share of GNI</b>	0.15-0.20	0.1	0.1		

\*Preliminary data

Source: OECD DAC statistics.

# The “What”: Composition of DAC member countries’ official development assistance

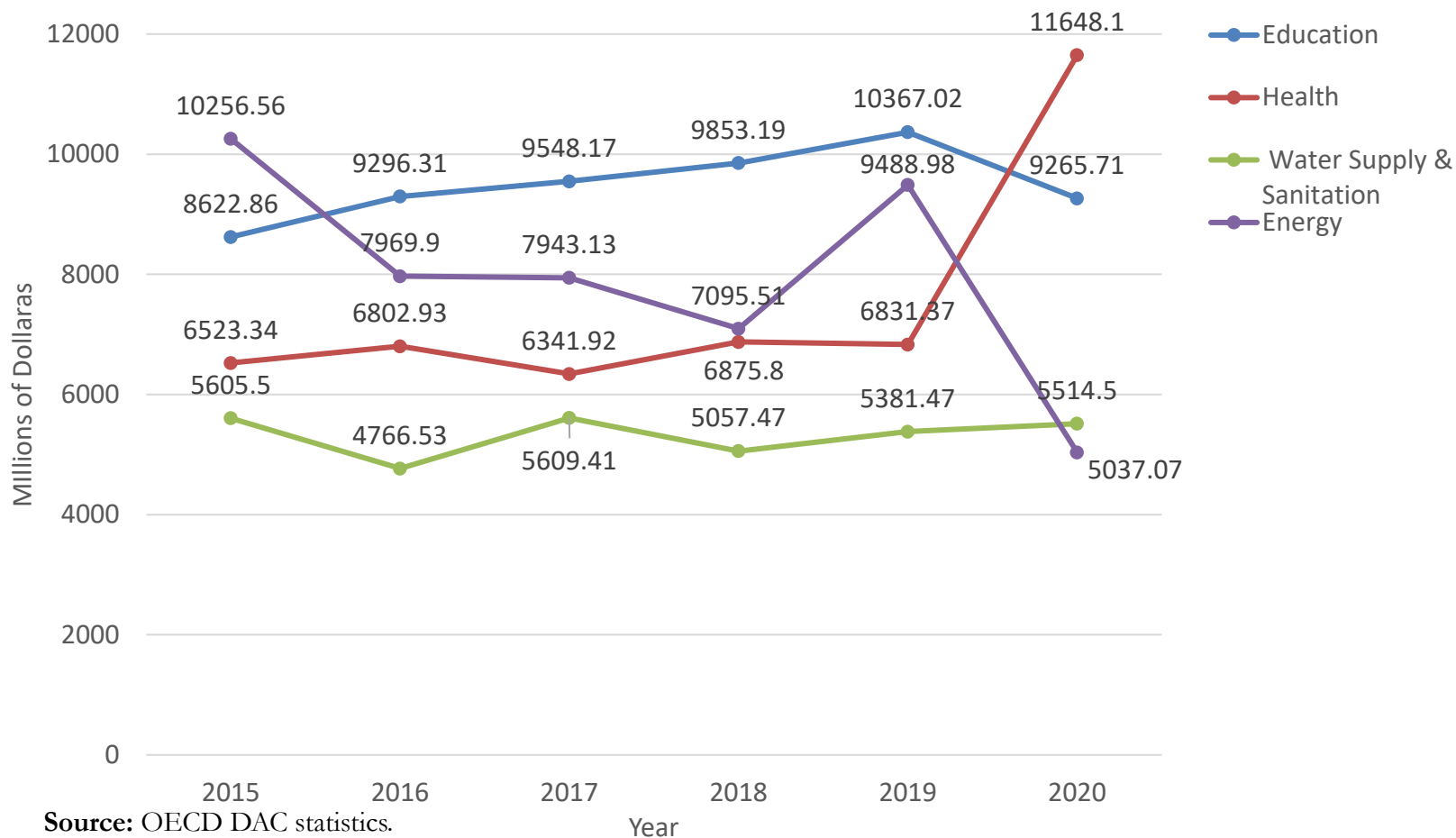
*(With preliminary data for 2021)*



Source: OECD, 12 April 2022.



# The “What”: Overview of ODA spending allocated to sectors with large poverty reduction impact



Source: OECD DAC statistics.



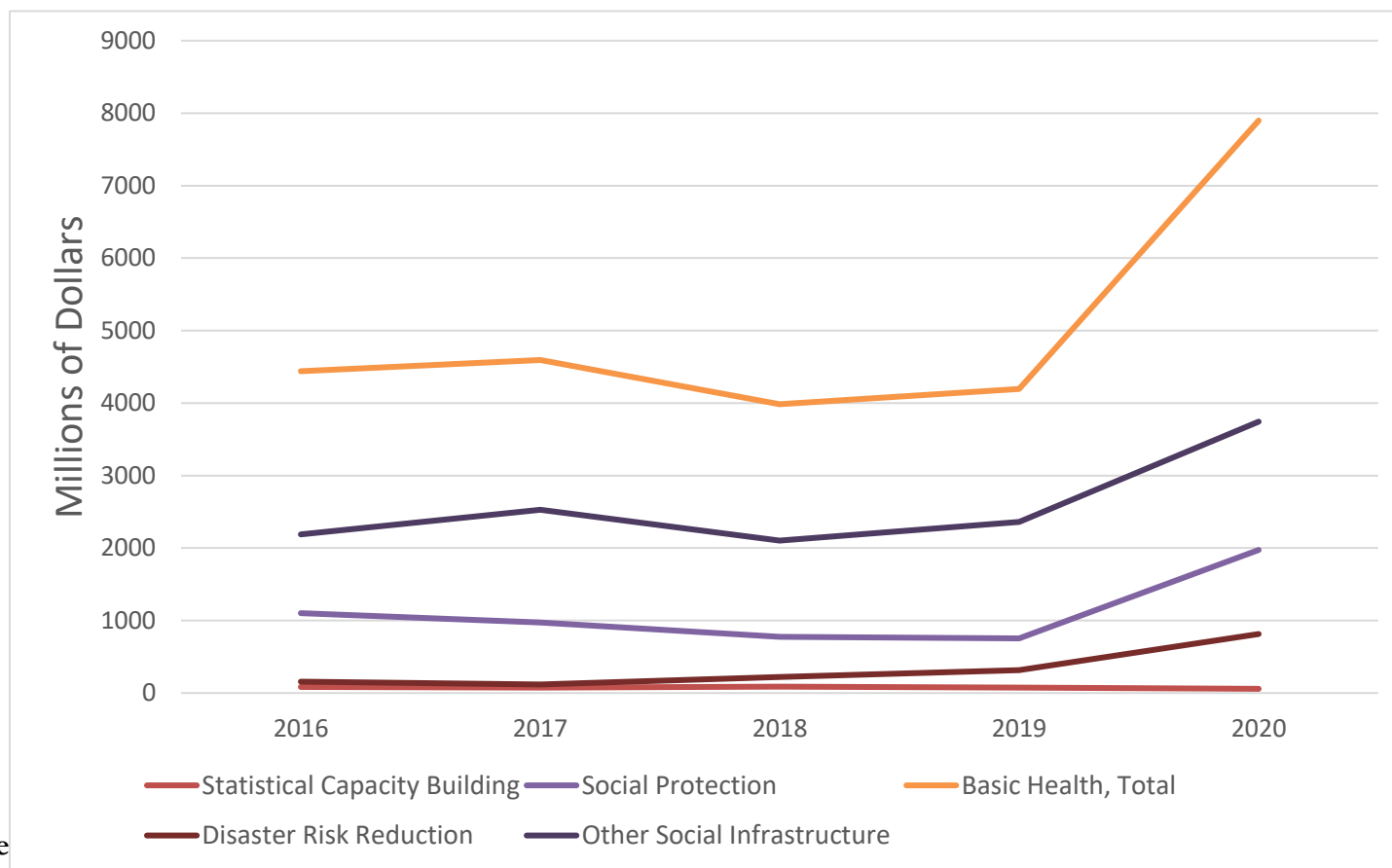
**DESA**

Department of  
Economic and  
Social Affairs



**Financing for  
Sustainable Development**

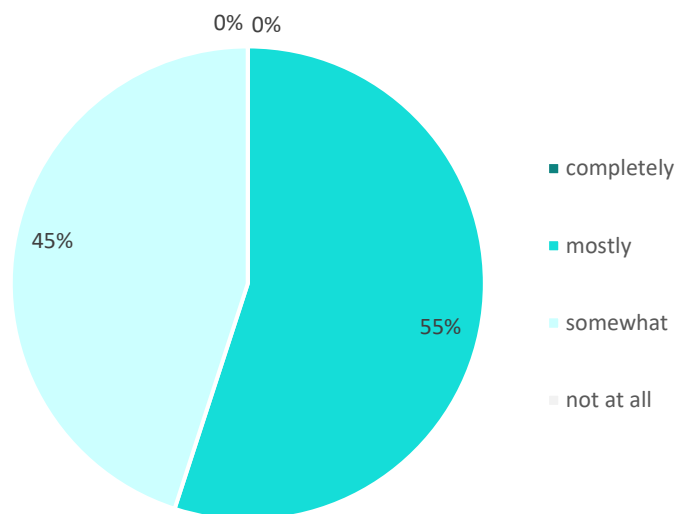
## The “What”: ODA Allocation of DAC Countries to Resilience-Aligned Sectors (Predict, Prevent and Protect)



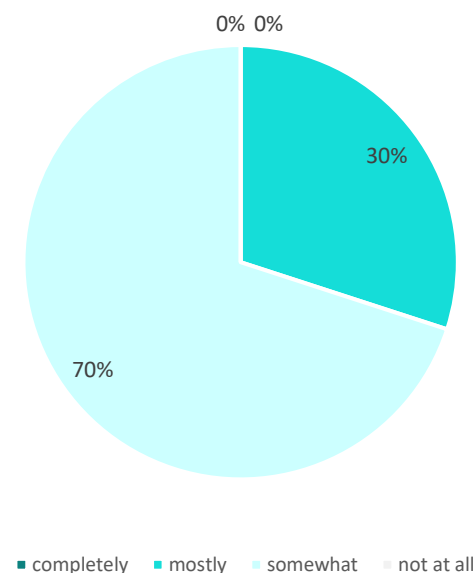
Source

# The “What”: 2022 DCF Survey results: How much were resources redirected from existing programmes to address the COVID-19 pandemic and its impacts?

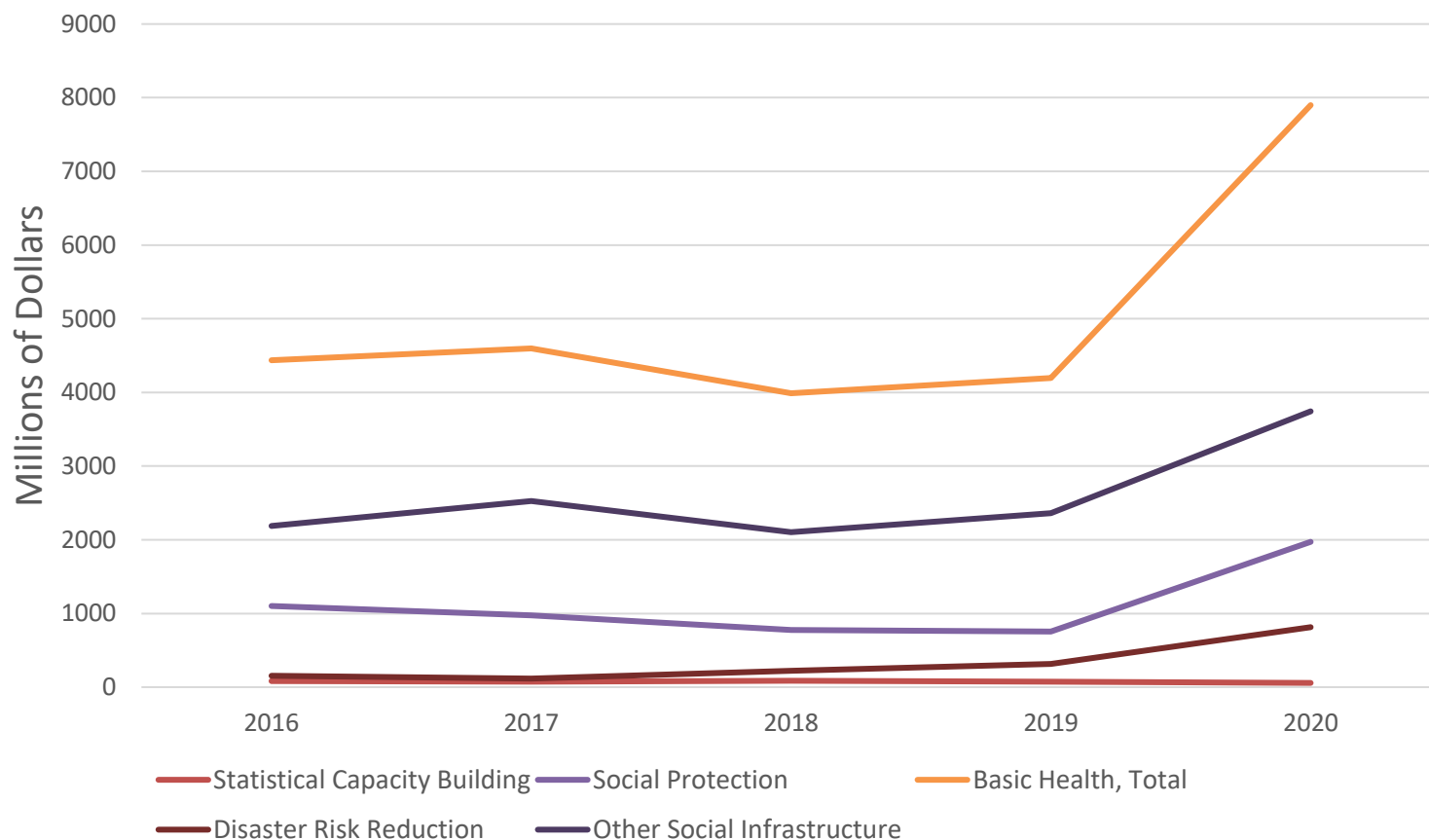
Resources redirected across LDCs (n=21)



Resources redirected across LIC (n=10)



## The “What”: ODA Allocation of DAC Countries to Resilience-Aligned Sectors (Predict, Prevent and Protect)



Source: OECD DAC statistics.

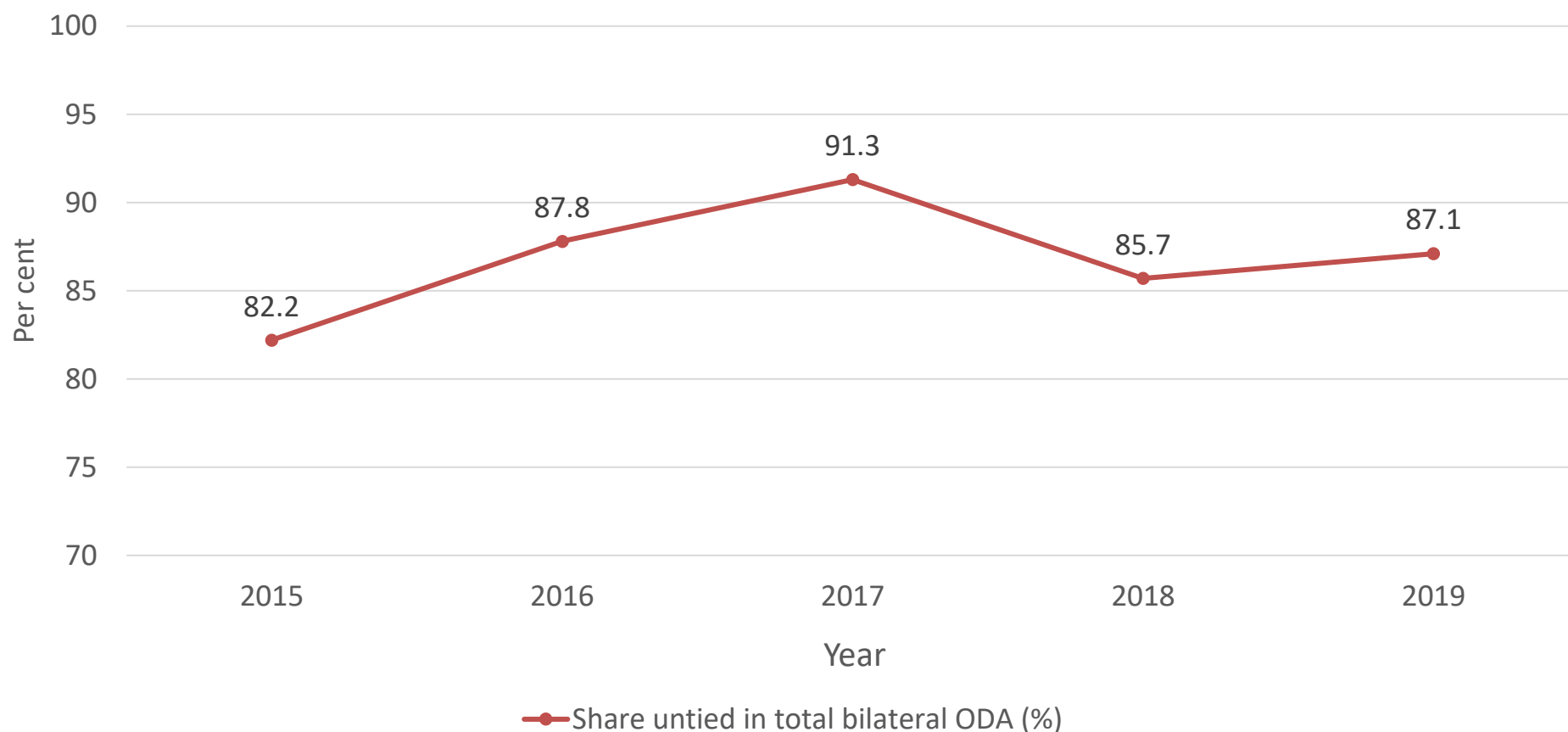
# The “How”: Characteristics of bilateral ODA loans to LDCs

	2015	2016	2017	2018	2019	2020
Average grant element - new (%)	78	75	75	73	70	
Average grant element - old (%)	81	78	78	77	73	
Maturity period (years)	35.7	33.4	32.6	32.0	28.3	
Interest rate (%)	0.34	0.49	0.59	0.67	0.80	

**Source:** Ahmad and Carey, 2021.

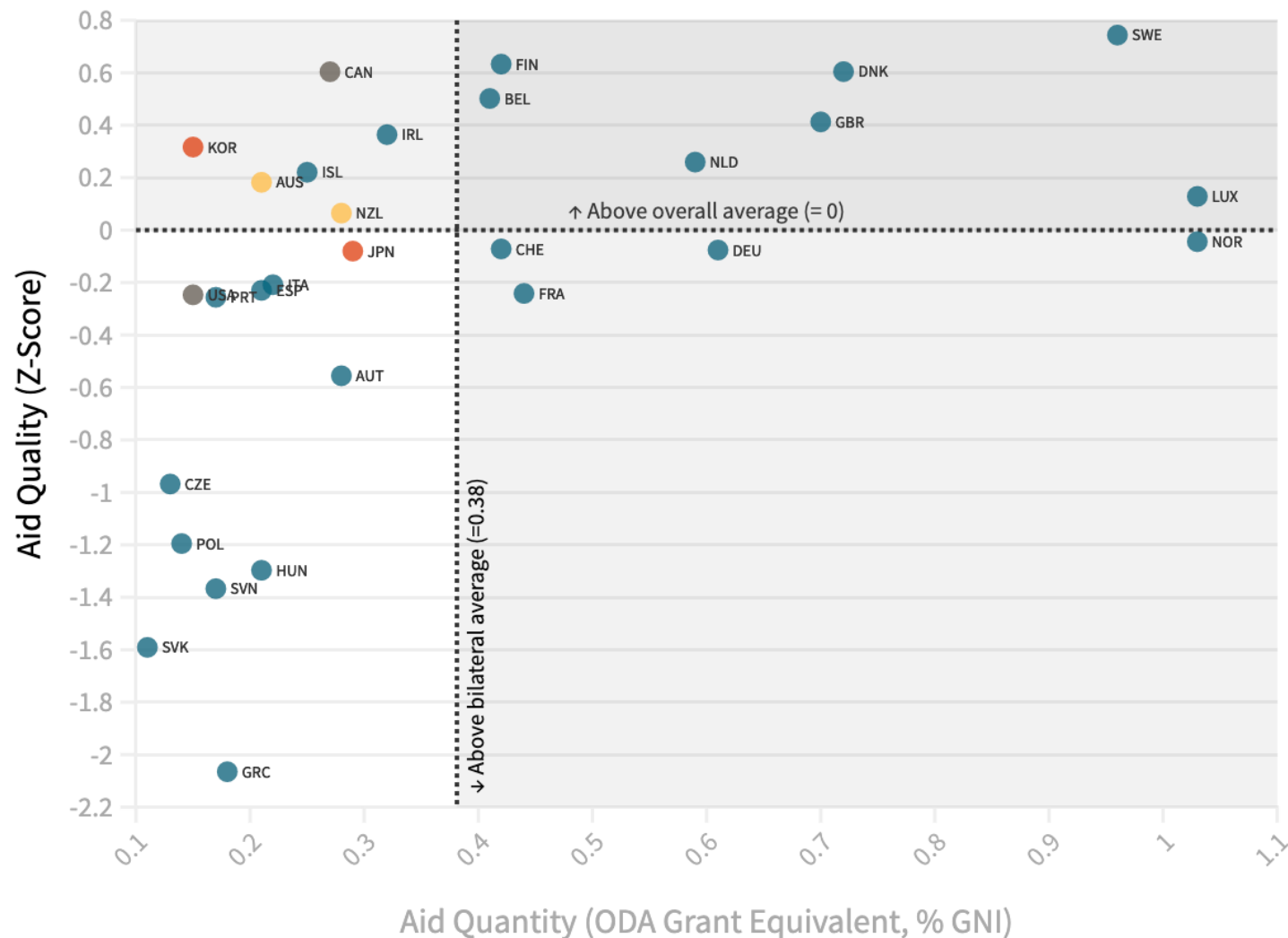
**Note:** Calculated using a 10 per cent discount rate (“old” cash-flow method) and discount rates differentiated by income group (9, 7 and 6 per cent—“new” grant equivalent method).

## The “How”: Share of bilateral untied ODA



Source: OECD DAC statistics.

# The How: Aid Quality vs Quantity



Source: <https://www.cgdev.org/blog/quoda-2021-aid-effectiveness-isnt-dead-yet>

# Conclusion

- Empirical evidence on ODA poverty link limited but most studies see a positive correlation
- Focus on the WHO, WHAT and HOW of ODA shows room for improvement of ODA poverty focus
  - ODA can target the poor more directly and effectively
  - Donors have increased focus on poverty and resilience sectors but not ex ante but ex post and with significant trade-offs among sectors
  - ODA effectiveness likely to be negatively affected by unfavorable loan terms and recently increasing share of tied aid