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Adapting aid to end poverty

Delivering the commitment to leave no
one behind in the context of Covid-19

report

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Executive summary

The Covid-19 pandemic is having a devastating impact on human development around the world. In the short term, millions of people have lost their lives, livelihoods, incomes and months of education. But the impacts are likely to reverberate for years, including on the education, job prospects and the wellbeing of an entire generation. This is likely to impact the poorest people hardest – pushing some people even further behind. Official development assistance (ODA) is needed now more than ever, and it needs to support a recovery that is inclusive, sustained and resilient.

Our analysis of the data shows that despite warm words from donors and pledges to focus on the poorest people and places, patterns in ODA allocation have shifted little over time. Now is an opportune moment to reflect on how ODA might refocus to ensure it is most responsive to the immense harm caused by the Covid-19 pandemic, in both the short and long term, and reaches those that need it most.

The Covid-19 pandemic has increased the incidence of extreme income poverty in both low-income and middle-income countries. However, as the data shows, it is the poorest countries and fragile states that have fewer financial resources to emerge from this crisis quickly. ODA resources will be more important than ever before, and it is incumbent on the international donor community to ensure that ODA does not decline as a consequence of the crisis.

So how can ODA be most responsive to this new context? What does the data tell us? Addressing this crisis means addressing long-term challenges and imbalances in the allocation of ODA. Here we pose key questions and outline our recommendations for donors.

Recommendations

Where does ODA need to be strongly focused to leave no one behind?

The current pandemic, and the economic and social crises it has sparked, is exacerbating long-term challenges in development. The commitment to ‘leave no one behind’ is an ambitious one, but one that must be met. To do so, ODA needs to be refocused on the places and people that need it most, to close the gap between the poorest people and the rest of the world.

- In practical terms, this means **accelerating ODA growth to the poorest countries**, those facing the biggest financing challenges to meet the SDGs. Bilateral donors need to increase spending in these countries in line with historic commitments. While this is not a new recommendation, it remains an area where action is needed. Many of the countries identified as at risk of being left behind pre-Covid-19 are the same post-Covid-19; this is now even more urgent.

- International financial institutions (IFIs) and development finance institutions (DFIs) play an increasingly important role as providers of development finance and by channelling bilateral ODA resources, so it is important they **strengthen their focus on the poorest** and most marginalised.

Women have been particularly hard hit by the crisis and were already some of the people most at risk of being left behind. Strengthening gender-responsive ODA will have an outsized impact in the long and short term.

- Practically this means **focusing more ODA on women**, particularly those outside the formal economy.
- This is important for all actors, not just those in the ‘traditional’ aid community – IFIs, DFIs and other financial institutions should **strengthen support to sectors and interventions that will have a positive impact on women**.

What does ODA most need to focus on to leave no one behind?

Some investments will be particularly important not just to support human development but also to build the human capital and resilience to crises that will be key to sustained progress out of poverty. Over the medium term, investments in the core human capital areas of social protection, education, skills and jobs will become more important than ever.

While spending on health is experiencing a significant uptick at the moment, in the longer term underinvestment in critical human capital sectors that are central to economic development, such as education, skills and jobs, will undermine future economic growth potential, especially in the poorest countries and among the most disadvantaged populations. This is of particular concern in the context of high unemployment levels, especially among young people, and major demographic shifts in some of the world’s poorest countries.

Investments in the climate and environment have, to date, not been central in ODA allocations to the world’s poorest places. Yet these investments are central to economic development, the health and wellbeing of communities, and long-term resilience, and they will have a high development impact in the poorest communities. The Covid-19 crisis has also exposed some countries’ vulnerabilities to models of growth dependent on natural resource extraction.

- **Strengthening investments in education, skills and livelihoods and building resilience with effective social protection systems** are at the core of a smart, long-term aid strategy. Bilateral donors, alongside domestic government spending, often provide important support to these sectors in the poorest countries; increasing and better targeting that spending to the poorest countries will be vital.
- **There is a window of opportunity to use ODA to catalyse inclusive green growth and resilience**, and all donors should strengthen the focus on climate and the environment in ODA allocations to the poorest countries. This is an area where IFIs and other financial institutions could also play a significant role.

- While the current focus on health as a priority sector is both expected and appropriate, **a more balanced portfolio of ODA spending is needed in the medium to long term** with a particular focus on areas of underinvestment. This is also about coordination, particularly in a context of falling resources – with different institutions and actors playing to their respective strengths and working effectively together.

How does ODA need to be delivered to leave no one behind?

How aid is delivered is important and can strengthen countries' ability to respond to the crisis and fund effective development in the longer term. The Covid-19 pandemic has increased uncertainty for the next few years, and countries will need to be much more adaptive and responsive to quickly manage changing circumstances and mitigate negative impacts. In that context, pre-existing trends of declining levels of concessionality in ODA and indications of declining bilateral ODA volumes, especially in a context of rising debt vulnerabilities, are a cause for concern. The shift towards finance from IFIs in the context of the Covid-19 response will further accentuate the shift towards loans.

Practically, this means that:

- **Aid-delivery modalities that are flexible and allow for local decision-making on spending priorities** will be more important than ever. Increasing the use of budget support and other flexible funding mechanisms where appropriate will be a vital part of a sustainable, locally owned and effective recovery.
- Given that IFIs and other institutions will play a more important role, and that they will seek more resources to do so, they need to step up **in providing more concessional resources targeted to the poorest countries and people**. The major concerns about debt vulnerability strengthen the case for this step up.

Bilateral donors must reverse the trend of rising ODA loans, and less concessional forms of finance, particularly to the least developed countries (LDCs), to ensure that the risks of future debt crises are minimised. This is particularly important for the poorest countries and those that already have high debt burdens.

Introduction

The Covid-19 pandemic is causing immense hardship around the world. It threatens to reverse decades of progress in human development and has put at risk attainment of Agenda 2030 and the commitment to 'leave no one behind' by the 2030 deadline. Covid-19 has created a development disaster just as the UN had announced a 'Decade of Action' on the Sustainable Development Goals (SDGs).¹

While the crisis is unprecedented in its reach and has impacted countries at all income levels and stages of development, it is the poorest countries and communities that are least able to cope. As many countries turn inwards in their responses to the crisis, there is a risk that the poorest are left even further behind. The international community cannot let this happen.

This report explores the impact of the Covid-19 pandemic on the incidence of global poverty, with a particular focus on the poorest people and places. It looks at the extent to which this crisis is redrawing our understanding of poverty, where need is, and which people and places may be pushed even further behind.

At the same time, the Covid-19 pandemic has further exacerbated long-term challenges in financing for sustainable development, especially in the poorest countries. It has severely impacted national revenues, while other international public and private resource flows have also fallen. Financing the SDGs, in particular the commitment to leave no one behind, has become much more difficult, if not impossible. This is seen most in the poorest countries where financing gaps were already high, even prior to the crisis, and success in mobilising additional finance from a range of sources had been weak. National capacities to tackle poverty have been further reduced.

This report looks at the critical role of official development assistance (ODA) in this more challenging poverty and financing landscape and asks how the international community needs to refocus aid – itself set to decline – to both address the immediate crisis and drive sustained pathways out of poverty, particularly for the most vulnerable. The report ends with a series of recommendations for donors.

The final death toll may never be known and the long-term impacts of the crisis on income, health and educational outcomes will be felt for many years to come. Now, more than ever, the international community must redouble efforts to reach the furthest behind to ensure that the central promise of the SDGs – to leave no one behind – is realised.

A worsening poverty landscape with Covid-19

The Covid-19 pandemic has impacted health, income and education alike. The UN has warned that human development faces an unprecedented hit due to the pandemic. The impacts will be felt not only in the short term but also over the long term as people's life chances – especially among the poorest and most disadvantaged – are impacted by missed learning opportunities, widespread job losses and more insecure and lower-paid work. In the worst cases, this will affect basic food security and nutrition. Preliminary estimates from the UN suggest that the Covid-19 pandemic could increase the number of undernourished people by between 83 and 132 million people in 2020.² As a result, the crisis will undermine sustainable development progress for years to come.

Covid-19 has caused the world's deepest recession since the Great Depression³ and has impacted countries at all income and development levels.⁴ Growth is projected to decline by almost 5% globally in 2020 according to the International Monetary Fund (IMF), with some countries expected to experience output losses of more than 10% in 2020.⁵ As countries around the world struggle with second – or even third – outbreaks of the virus, as well as localised spikes in infection rates, the prospects of a swift economic recovery look increasingly unlikely.

The situation is of particular concern in developing countries, especially the least developed countries (LDCs) and fragile states where poverty and deprivation were widespread and macroeconomic positions were weak even prior to the crisis. With capacities to respond to the crisis unequal among countries, recovery will also be uneven, further exacerbating global inequalities.

Research by Development Initiatives (DI) and the Overseas Development Institute (ODI) highlights concerns that the poorest regions within countries are also not well targeted by domestic government resources or donor aid, adding to concerns that the poorest and most vulnerable regions (and the communities within them) will be left even further behind due to Covid-19.⁶

In this chapter we explore how the Covid-19 pandemic is impacting the landscape of global poverty and analyse what this means for aid financing looking forward.

The eradication of extreme poverty is further out of reach

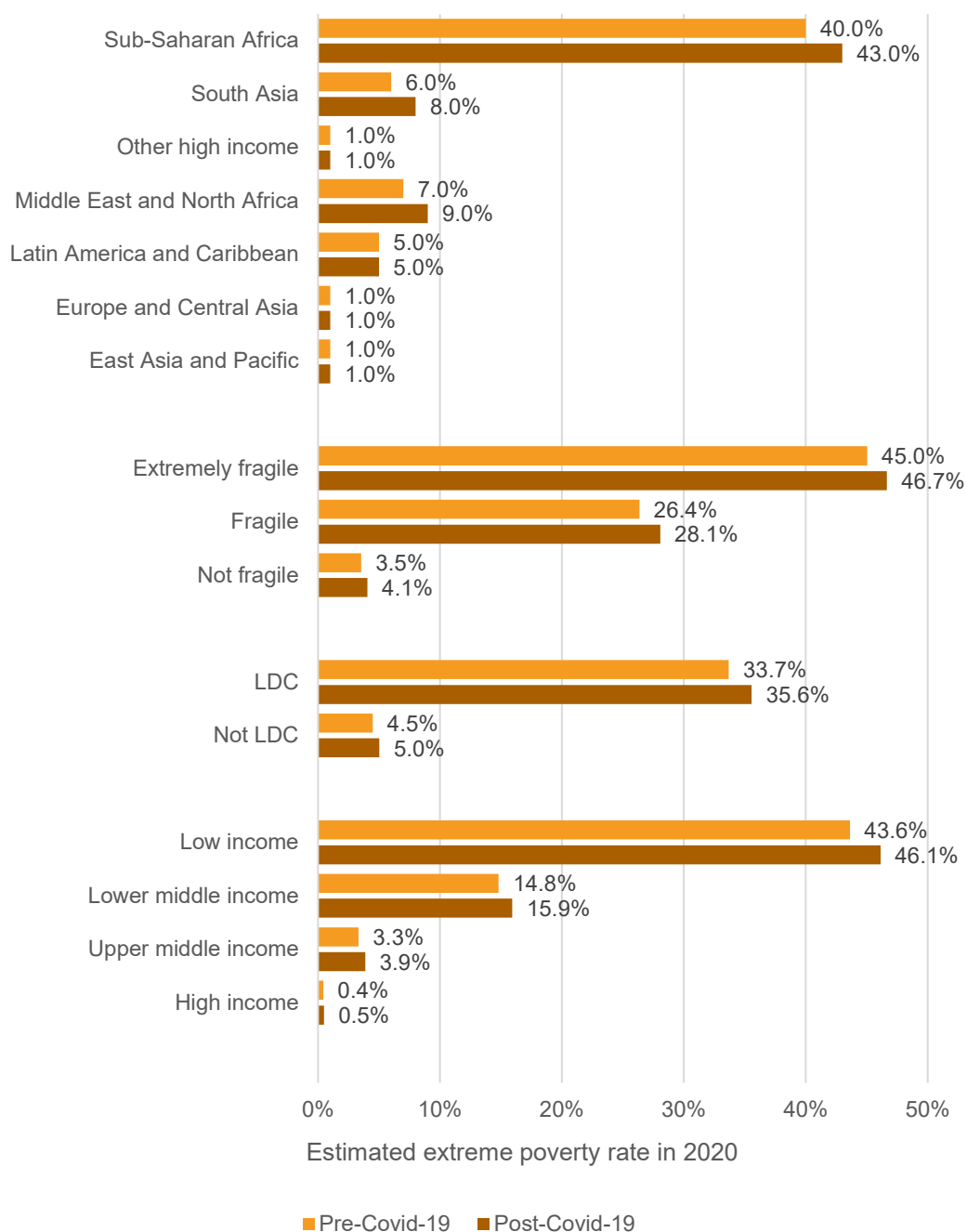
The Covid-19 pandemic has exacerbated long-standing challenges in tackling extreme poverty and deprivation around the world. Even prior to the pandemic, the world was not on track to meet SDG target 1.1 – to eradicate extreme poverty by 2030. In 2018, almost 10% of the global population was living in extreme poverty, defined as living on less than US\$1.90 per day (2011, PPP). Most of the extreme poor reside in South Asia and sub-Saharan Africa, with the latter having just over 40% of its population living in extreme poverty in 2020 (2011, PPP).⁷

Before Covid-19, baseline projections suggested that 6% of the global population would still be living in extreme poverty in 2030 (missing the SDG target date), and that the vast majority would be concentrated in fragile contexts in sub-Saharan Africa.⁸ Only 15% of LDCs' economies were growing at the level of 7% per annum needed to eradicate extreme poverty by 2030, according to the World Bank,⁹ and our models have drawn similar conclusions. However, the fallout from the pandemic threatens to rapidly increase the incidence of extreme poverty globally and undo decades of progress in the fight against poverty.

Our analysis shows that the average low-income country will see its extreme poverty headcount increase by 2.5% in 2020 due to Covid-19 (Figure 1). This compares with 1% for lower and upper middle-income countries combined. In sub-Saharan Africa, the number of people living in extreme poverty is expected to increase from 40% to 43%, and in South Asia from 6% to 8%. The Middle East and North Africa is also projected to experience a 2% increase in 2020, from 7% to 9%, largely driven by countries in the region affected by conflict and fragility. Countries experiencing protracted crises (not shown) are expected to see an average 2% increase in extreme poverty in 2020 due to Covid-19.¹⁰

Figure 1: Despite the pandemic driving increases in poverty, distribution remains similar pre- and post-Covid-19

Covid-19 impacts on extreme poverty by country grouping, baseline scenario, 2020



Source: Development Initiatives based on IMF World Economic Outlook and World Bank PovcalNet.
 Note: LDC: least developed country.

These projections are based on estimates that global GDP growth will contract by 5% in 2020, as per current IMF estimates. With this baseline scenario, it is estimated that 88 million people worldwide will be pushed into extreme poverty this year. With a

downside scenario, however, based on global growth contracting by 8% in 2020, the number increases to 115 million. South Asia will be the region hardest hit, with 49 million additional people (almost 57 million under the downside scenario) pushed into extreme poverty. Sub-Saharan Africa would be the next most affected region, with between 26 and 40 million additional people predicted to be pushed into extreme poverty.¹¹

At slightly higher poverty lines, the regional distribution of additional people falling into poverty changes markedly. World Bank data suggests that at a US\$3.20 poverty line (the international poverty line for lower middle-income countries) with the baseline scenario of a 5% global drop in GDP in 2020, an additional 177 million people are expected to be pushed into poverty worldwide, two-thirds of whom are in South Asia. This rises to 223 million people with the downside scenario.¹² At the US\$5.50 poverty line (the international poverty line for upper middle-income countries) a further 177 million people will become poor in 2020 due to Covid-19, mostly throughout East Asia and the Pacific.¹³

It is important to note that these slightly higher income levels reflect national poverty lines and show that poverty eradication is far from attained once the extreme poverty threshold of US\$1.90 a day has been reached. Indeed, in sub-Saharan Africa and South Asia, progress against the slightly higher international poverty lines has been much slower than at the extreme poverty line, suggesting that many people have barely progressed out of extreme poverty.

Beyond the headline numbers, some countries are forecast to be harder hit than others. For example, Zimbabwe is projected to see a 6% increase in the incidence of extreme poverty in 2020 due to Covid-19; Burkina Faso, Niger, Rwanda, São Tomé and Príncipe, and Sierra Leone are all forecast to see a 5% rise; Belize, Botswana, Guinea-Bissau, the Solomon Islands and Tanzania stand at a 4% increase.¹⁴

With the exception of Belize, these countries are all classified as LDCs with moderate-to-high extreme poverty rates. Most are also in sub-Saharan Africa. Poorer countries may be more vulnerable to higher increases in poverty because of the significant size of the poor population and the extent of the informal sector, which is characterised by low and variable income and wage levels and non-existent job protection. Low-income populations are also at greater risk because they lack the ability to provide emergency funds when a shock occurs; similarly, low-income governments lack the capacity and financing needed to mitigate the worst impacts of the crisis on those same populations (as shown in the next section).

Projecting what happens in 2021 and beyond comes with even more uncertainty. Recent forecasts from the World Bank suggest that the number of people in extreme poverty is expected to decrease in most world regions from 2021 to 2030. Sub-Saharan Africa is an exception, where the number of people in extreme poverty is expected to continue to increase until 2030, in part due to high population growth within the region. Extreme poverty is therefore predicted to become increasingly concentrated in the region, where people face multiple monetary and non-monetary deprivations. The data also shows the enduring negative effect of conflict and fragility on extreme poverty levels.

Under all scenarios, reaching the SDG target 1.1 of eradicating extreme poverty by 2030 appears increasingly out of reach. Reaching this target without the Covid-19 crisis would have required all countries to grow at 7% annually, which for the sub-Saharan African

countries represents more than a quadrupling of the growth rates observed between 2008 and 2018. Now, with the Covid-19 crisis, the outlook is even bleaker. With a baseline scenario in which growth contracts by 5% in 2020 and the same rates of growth are seen between 2021 and 2030 as between 2008 and 2018, the number of people living in extreme poverty globally will still stand at 573 million or 6.7% of the global population in 2030. With the downside scenario of an 8% drop in GDP combined with historical growth rates, the number will rise to 597 million or 7% of the world population.¹⁵

Covid-19 is exacerbating longstanding inequalities

The Covid-19 pandemic is also having a disproportionate impact on population groups within society, worsening poverty for some more than others and exacerbating inequalities within countries as well as between them. The impacts are felt most by women and girls who are comparatively earning less, saving less and holding more insecure jobs. Their capacity to absorb economic shocks is therefore less than that of men. The vast majority of women's employment – 70% according to UN Women – is in the informal economy with few protections against dismissal or for paid sick leave and limited access to social protection.¹⁶

Women have also been hard hit by the impacts on particular industries, such as manufacturing and tourism; the UN World Tourism Organisation estimates that more than half of tourism workers are women.¹⁷

The impacts of the Covid-19 global recession will result in a prolonged dip in women's incomes and could reverse recent gains in labour force participation, with compounded impacts for women already living in poverty. Unpaid care work has also increased, with children out of school and heightened care needs of older people putting an additional strain and demand on women and girls. Gender-based violence has increased as countries around the world have implemented lockdowns. The health of women may also be impacted by the reallocation of resources and priorities, including from sexual and reproductive health services. All of these impacts are further amplified in contexts of poverty, fragility and conflict. SDG 5 on gender equality has been put even further out of reach due to Covid-19.

At the same time, there are concerns about the impact of Covid-19 on the world's children and young people, especially from disadvantaged families, who have been affected by widespread school closures and loss of learning, and now an increasingly difficult labour market. The UN estimates that nine in ten children worldwide have been impacted by school closures, representing the largest ever change in the 'effective out-of-school' rate, opening new gaps in human development as children from poorer families are less able to access remote learning opportunities.¹⁸

The International Labour Organisation (ILO) estimates that 400 million jobs could be lost worldwide due to Covid-19. It estimates that global labour income has declined by 10.7% in the first three-quarters of 2020, amounting to income losses of US\$3.5 trillion worldwide. The biggest drop was in lower middle-income countries, where labour income losses reached 15.1%. In Africa, the total working-hour loss in the second quarter of 2020 is estimated at 12.1%, or 45 million full-time equivalent (FTE) jobs, up from the previous estimate of 9.5%.¹⁹

Crucially, the decline in income is due to an increase in inactivity rather than unemployment. This has important implications; experience from earlier crises shows that activating inactive people is even harder than re-employing the unemployed, so higher inactivity rates are likely to make the job recovery more difficult. Moreover, younger people have been hit particularly hard by the Covid-19 pandemic and even prior to the crisis experienced more elevated unemployment levels, especially in many developing countries. Global youth unemployment jumped after the 2008 global financial crisis and has yet to recover. There is a danger that they will face long-term labour market disadvantages. This is of particular concern in Africa where demographics are shifting steadily towards a younger population. By 2050, sub-Saharan Africa will be home to one-third of the world's young people (i.e. those under 24 years old).

Climate change disproportionately affects the poorest people

Other global challenges will also hinder the world's progress toward SDG 1. It is widely accepted that humans have created the conditions for diseases such as Covid-19 to emerge through relentless – and accelerated – pressure on ecosystems worldwide.²⁰ The UN reported recently that the world had failed to meet a single Aichi biodiversity target in full.²¹ These conditions threaten to worsen poverty and increasingly become a source of major conflict in, and migration from, the poorest countries.

In addition, climate change will have major impacts on the number of people living in extreme poverty around the world. Climate change disproportionately affects people in poverty, who have fewer resources to mitigate the negative impacts and less capacity to adapt. The poorest people are particularly dependent on the natural environment for their subsistence and livelihoods and are already being hard hit by more frequent and severe extreme weather events, such as droughts, storms and floods.²² People in poverty also have unequal access to environmental resources and derive a smaller share of the value obtained by the exploitation of those resources.

People in poverty spend a larger share of their incomes on food and are therefore particularly vulnerable to fluctuations in the prices and availability of key food staples, which can be impacted by changing climate conditions. According to World Bank forecasts on the impacts of climate change on poverty, fluctuations in food prices will play the largest role in pushing people into extreme poverty in sub-Saharan Africa and South Asia over the next decade, where the largest populations of people in extreme poverty reside. Indeed, they will play larger role than natural disasters.²³

'Build back better' must focus on the poorest people and places

Some analysts have pointed to low overall infection and death rates from Covid-19 in some of the world's poorest countries as evidence that they have been spared the worst impacts of the virus.²⁴ The reality is, however, that due to lower testing and administrative capacities, the prevalence of Covid-19 in many developing countries remains uncertain. In addition, it may be too early to say where some countries are on the infection curve. Because our world is so interconnected, the poorest countries and most disadvantaged communities have not been spared the immense social and economic impact of the virus. Sharp falls in demand in high- and middle-income countries for commodities, certain manufactured products and tourism services have impacted income, livelihoods and job

opportunities in countries with comparatively lower infection and death rates. Indeed, proportionally, many have been harder hit.

Our analysis shows that the poorest people and places are at heightened risk of being left behind due to Covid-19, which will have a devastating long-term impact on human development. In terms of increases in the percentage of people in extreme poverty, these are most concentrated in countries with moderate-to-high extreme poverty rates, predominantly in sub-Saharan Africa. In terms of the number of people living in extreme poverty, as well as those at the slightly higher poverty line of US\$3.20 per day, the increases are particularly notable in high-population countries in South Asia.

As discussed in the next chapter, countries have different capacities to respond to – and recover from – the crisis, for example their ability to mobilise and deploy financing to support the most vulnerable. While countries in South Asia can be expected to experience a quicker economic rebound from the Covid-19 crisis, recovery will be even more challenging across the LDCs and fragile states where SDG financing gaps were already severe prior to the crisis. This risks further exacerbating inequalities between the poorest and the richest countries. In this context, the ‘build back better’ message of the international community must put the poorest people and places at the centre.

Covid-19 and its impact on the financing landscape

The Covid-19 pandemic has further weakened an already difficult financing landscape for the SDGs. Even before the pandemic, weak global growth, heightened debt risks, a retreat from multilateralism and more frequent and severe climate shocks had made conditions more unfavourable to mobilising financing for the SDGs and achieving the promise to leave no one behind.

With disruptions to trade and investment flows caused by Covid-19, a drop in commodity prices, pressure on aid, a fall in remittances and a decline in income from tourism and other sources, the development finance picture has become even more challenging. Added to this is the need for countries to mobilise additional resources quickly and at scale for emergency responses in healthcare, jobs, support to businesses, financial institutions and multiple other areas.

This section explores how Covid-19 has impacted development financing and looks at where financing challenges remain most acute. It looks at how well ODA targets those countries where financing 'leaving no one behind' remains the most challenging and asks how aid can be made more responsive to both short- and long-term needs in light of the huge changes brought about by the pandemic.

How effectively do non-ODA resources target the poorest?

Domestic public revenues cannot meet sustainable development needs in the poorest countries

Domestic public resources are the most important source of long-term sustainable finance for the SDGs. Yet the data shows that even prior to the Covid-19 pandemic increases in these resources had failed to materialise and were insufficient to meet sustainable development needs, in particular in the poorest countries.

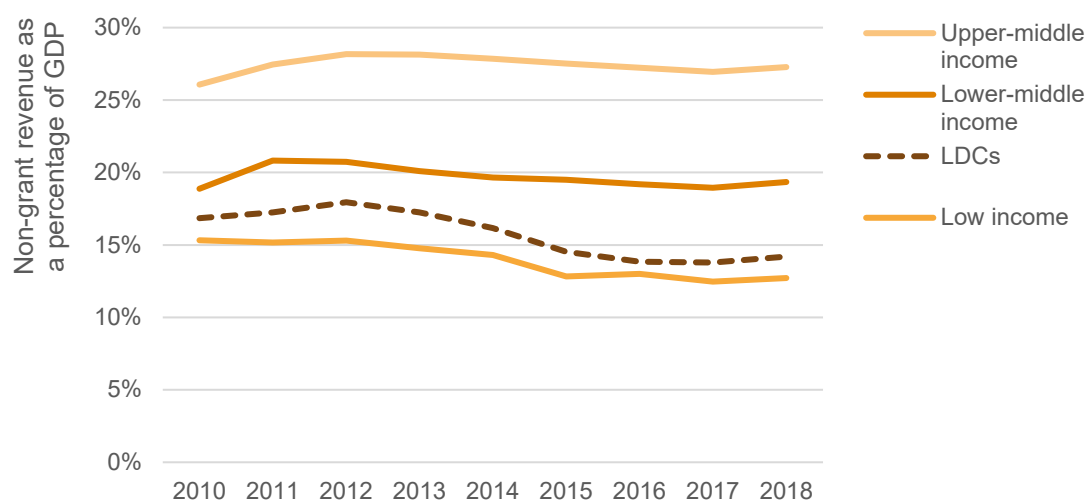
Our data shows that in the LDCs government revenues have in fact declined over the last decade from 17% of GDP in 2010 to 14% in 2018. Government revenues in lower middle-income countries have also flatlined at 19–20% of GDP over the last decade (Figure 2).²⁵

To put this data into context, revenues in LDCs amounted to just US\$152 per capita in 2018, down from US\$161 five years earlier; in upper middle-income countries, revenues per capita were US\$2,388 in 2018; and in high-income countries they amounted to US\$16,082 in the same year.²⁶ Particularly striking is the large – and growing – gap between the domestic revenue capacities of the world's higher income nations and its

poorest (Figure 3). Only about 40% of developing countries worldwide have been able to increase tax to GDP revenues over the last five years, with the accelerated digitalisation of economies, tax avoidance and tax evasion as major sources of pressure on domestic resource mobilisation efforts.²⁷

Figure 2: Even pre-Covid-19, revenues had fallen in the poorest countries

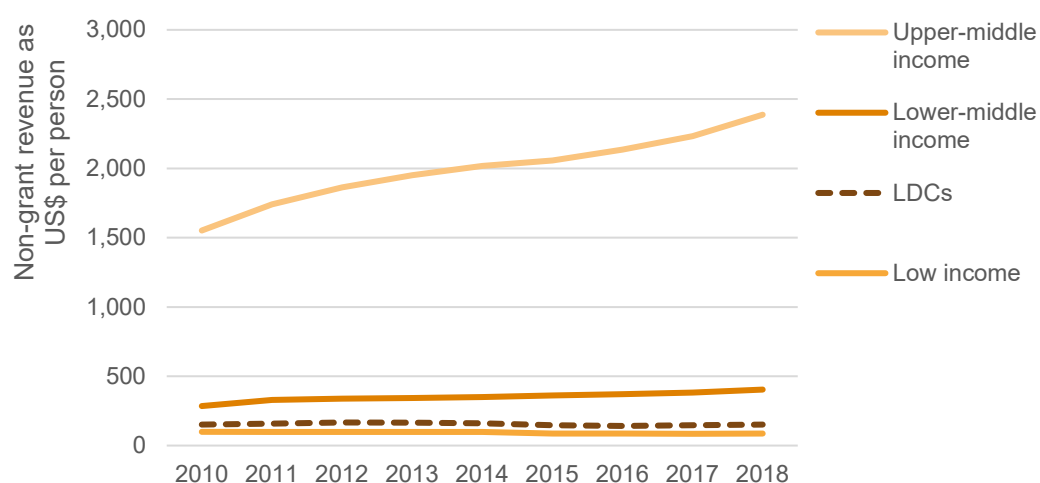
Non-grant government revenue as a percentage of GDP by country grouping, 2010–2018



Source: Development Initiatives based on International Monetary Fund (IMF) World Economic Outlook data, IMF Article IV Staff and programme review reports (various) and World Bank World Development Indicators. Note: LDC: least developed country.

Figure 3: There is a widening gap in revenue growth for the poorest countries

Non-grant government revenue per person by country grouping, 2010–2018



Source: Development Initiatives based on International Monetary Fund (IMF) World Economic Outlook data, IMF Article IV Staff and programme review reports (various) and World Bank World Development Indicators. Note: LDC: least developed country.

The Covid-19 pandemic is leading to a further deterioration in government revenues, as income from tourism, commodity exports or other important sources declines, with losses potentially sustained over an extended period of time. This challenge is compounded by the need to implement exceptional fiscal support measures in response to the crisis, including both revenue and expenditure measures as well as liquidity support to businesses. While both advanced economies and developing countries have implemented fiscal support packages, the ability of the poorest countries to do so is much more constrained. For example, low-income countries have implemented just 1.03% of GDP in fiscal support measures, such as increases in public expenditure, tax cuts or tax deferrals, whereas for advanced economies the figure is 8.85%, according to the IMF.²⁸

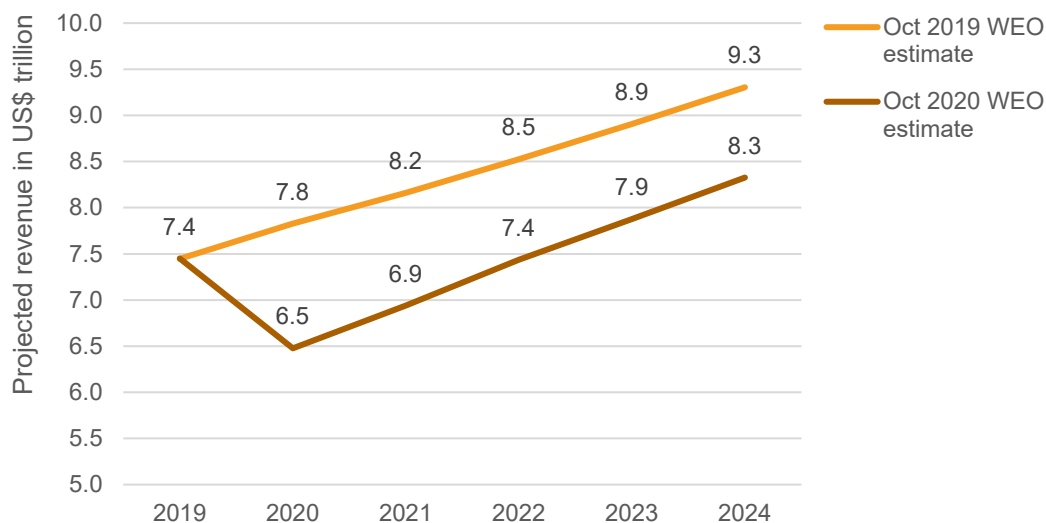
The 'fiscal stimulus gap' threatens to increase inequality between poorer and richer countries. It is even more concerning in the light of the social protection deficits in many developing countries. Low-income countries have only US\$7.34 per capita to spend on social protection in response to the Covid crisis, compared with US\$3,914 per capita in advanced economies (some 533 times higher). When combined with low or negative economic growth, these measures will further reduce public revenues in 2020 and beyond, with important implications for public spending over the next few years.

Estimates of the scale of potential revenue losses depend on the scenario modelled. The IMF projects that revenues for all developing countries could decline by US\$2.27 trillion over the next two years under an optimistic scenario; if there is a longer outbreak, a fall of US\$2.57 trillion is possible over the same period. While most of these losses will be sustained in middle-income countries due to higher overall revenues in volume terms, losses to poorer countries are substantial when measured as a proportion of overall revenues. For example, the LDCs are projected to experience a 17% decline in public revenues in 2020 under a (probable) longer outbreak scenario.

Sub-Saharan African countries will see a 15.7% revenue loss in 2020 and a projected 14% revenue loss in 2021, equivalent to US\$97.6 billion in revenue losses over two years under the same scenario. These losses are particularly harmful in a context in which domestic revenues were already low and need is substantial. With current economic projections, the pandemic will likely cause a sustained hit to developing countries' finances such that even when economies and revenues begin to grow again, the effect of the crisis will continue to be felt years into the future (Figures 4 and 5).

Figure 4: Covid-19 will have a long-term negative effect on developing country revenue

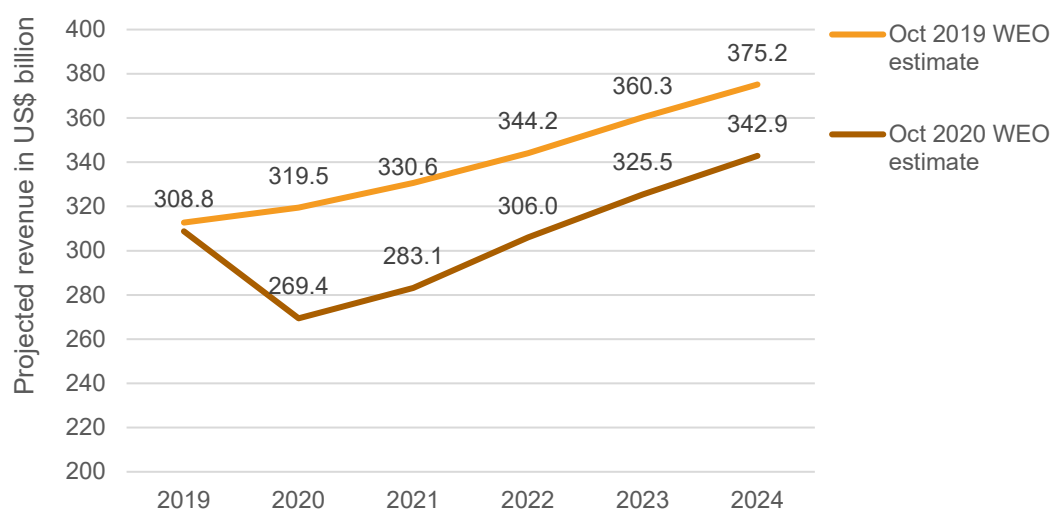
Projected revenue declines due to Covid-19 (all developing countries under a prolonged outbreak scenario), 2019–2024



Source: Development Initiatives based on International Monetary Fund World Economic Outlook (WEO) data.

Figure 5: Covid-19 will depress revenue in sub-Saharan Africa for many years to come

Projected revenue declines due to Covid-19 (sub-Saharan Africa under a prolonged outbreak scenario), 2019–2024

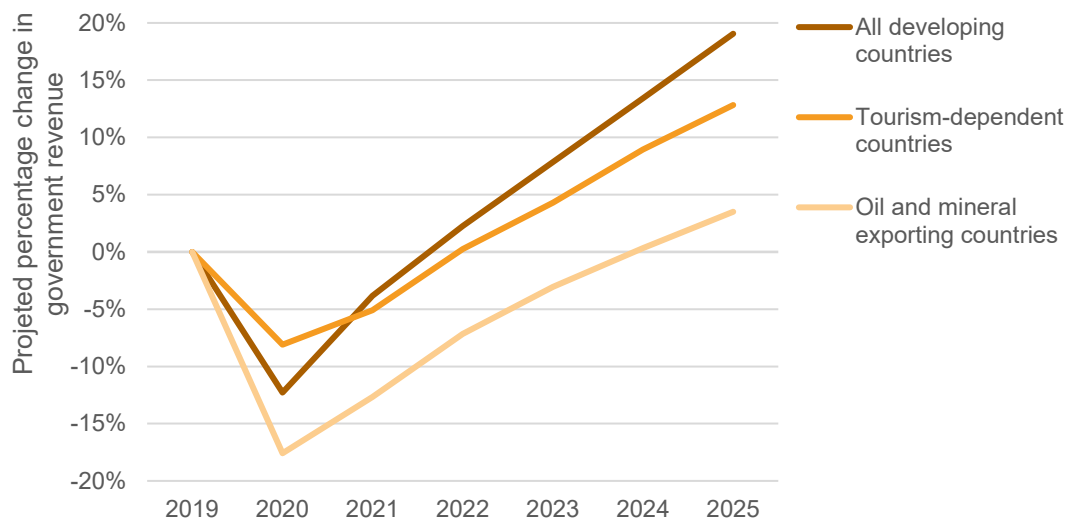


Source: Development Initiatives based on International Monetary Fund World Economic Outlook (WEO) data.

For some countries, such as those that are highly dependent on tourism or commodity exports, the impact on revenues will be even more acute (Figure 6).

Figure 6: Revenues of countries dependent on commodity exports and tourism will be hard hit by the effects of the crisis and revenues will recover more slowly

Projected revenue impacts in commodity-exporting and tourism-dependent countries, 2019–2025



Source: Development Initiatives based on International Monetary Fund (IMF) World Economic Outlook and World Bank data.

Notes: Tourism-dependent countries are defined as those that receive 10% or more in tourism revenues as a percentage of GDP; our analysis includes 25 such countries. Oil and mineral exporting countries are defined as those holding 30% of their total exports (merchandise exports and service exports) as fuel and mineral exports and/or those marked as 'oil exporters' in IMF Regional Outlook and Fiscal Monitor publications; our analysis includes 48 countries.

Debt ratios are a cause for concern

Rapid debt accumulation caused alarm even prior to the Covid-19 crisis. In 2019, the World Bank warned that the previous decade had seen the “largest, fastest and most broad-based increase in debt” across the developing world in 50 years, and in particular private debt.²⁹ In 2018, gross government debt as a percentage of GDP was 82.2% across all countries, its highest level ever; private debt stood at 144.8% of GDP, also its highest ever level.³⁰ Now, with increased pressure on public finances due to additional spending needs and a collapse in revenues, in particular for commodity exporters and tourism-dependent countries, debt ratios will climb further. According to IMF data, 81 developing countries have requested some US\$102 billion in new loan financing from the institution in response to the pandemic, US\$4.6 billion of which from low-income countries; this new borrowing will also further increase debt ratios.³¹

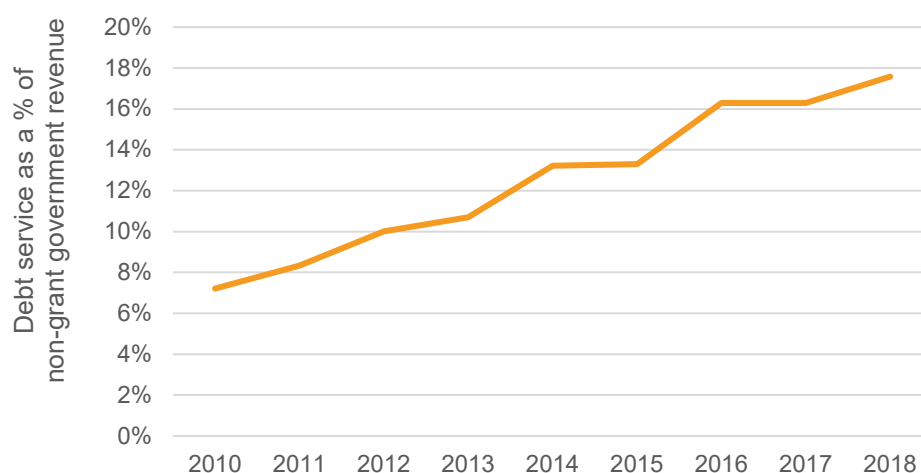
While debt ratios are lower overall in developing countries than in advanced economies, the speed of recent increases in debt has caused unease, in particular in lower income countries. For example, in the LDCs, gross government debt climbed from 39% of GDP in 2008 to over 52% in 2018; across sub-Saharan Africa, debt levels increased by 26

percentage points over the last decade, from 26% in 2008 to 51% in 2018.³² Moreover, LDCs have increasingly accessed non-traditional and non-concessional sources of credit over recent years, such as bond issuance. As such, debt service ratios had risen sharply even prior to the pandemic; from 1.4% of GNI in 2008 to almost 2.5% in 2018. Debt service as a proportion of non-grant revenues in the LDCs has more than doubled over the last decade, from 7.2% of government revenues in 2010 to 17.6% in 2018 (Figure 7).

At the end of September 2020, the IMF reported that eight developing countries were already classified as 'in debt distress', 27 were 'at high-risk' of debt distress and a further 23 at 'moderate risk'.³³ Within these three at-risk categories, the data shows that 24 countries are low income, 24 are lower middle income and just 10 are upper middle income.³⁴

Figure 7: Debt service for LDCs has more than doubled in the last decade

Debt service as a percentage of non-grant government revenue in LDCs, 2010–2018

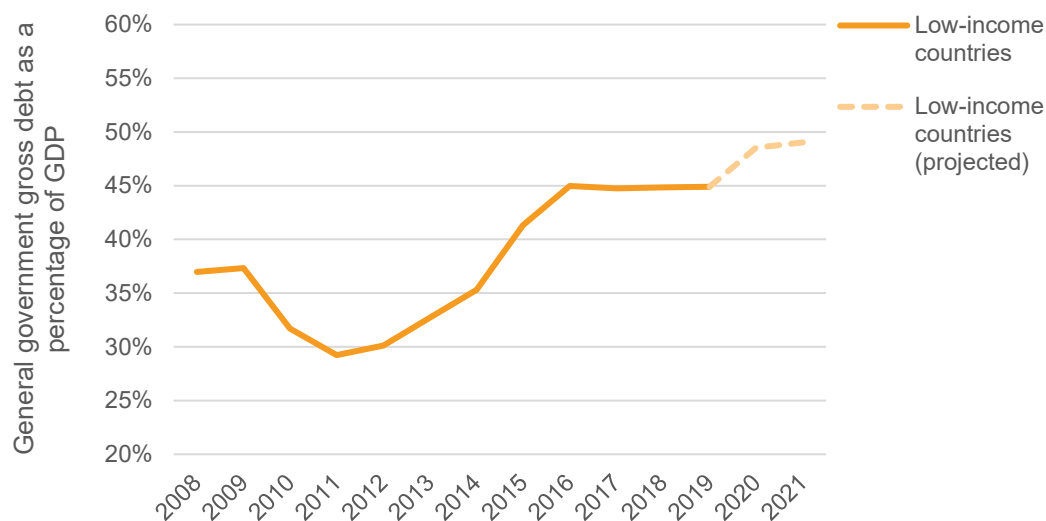


Source: Development Initiatives based on International Monetary Fund (IMF) World Economic Outlook data, IMF Article IV Staff and programme review reports (various) and World Bank World Development Indicators.
Note: LDC: least developed country.

As a consequence of the Covid-19 crisis, debt ratios are projected to rise sharply across all developing countries over the next two years (Figure 8). In low-income countries, debt is expected to rise from 44.9% of GDP in 2019 to 48.5% in 2020 and 49% in 2021.³⁵ Debt service levels will also rise as borrowing needs and costs have increased in response to the crisis. This will further constrain the poorest countries' abilities to meet essential public expenditures while need is on the rise.

Figure 8: Debt ratios in low-income countries have risen sharply in the last decade and are projected to continue to grow due to the crisis

Projected increases in general government gross debt as a percentage of GDP, 2008–2021



Source: Development Initiatives based on International Monetary Fund World Economic Outlook data and World Bank World Development Indicators.

These projections, however, remain subject to continued uncertainty; if a more adverse scenario were to materialise, debt levels could climb even higher and debt dynamics become even more unfavourable. Debt vulnerabilities are spread across both low- and middle-income countries, however they are of particular concern when they impact countries' abilities to meet the basic needs of their populations. In countries where poverty rates are particularly high, this is of even greater concern.

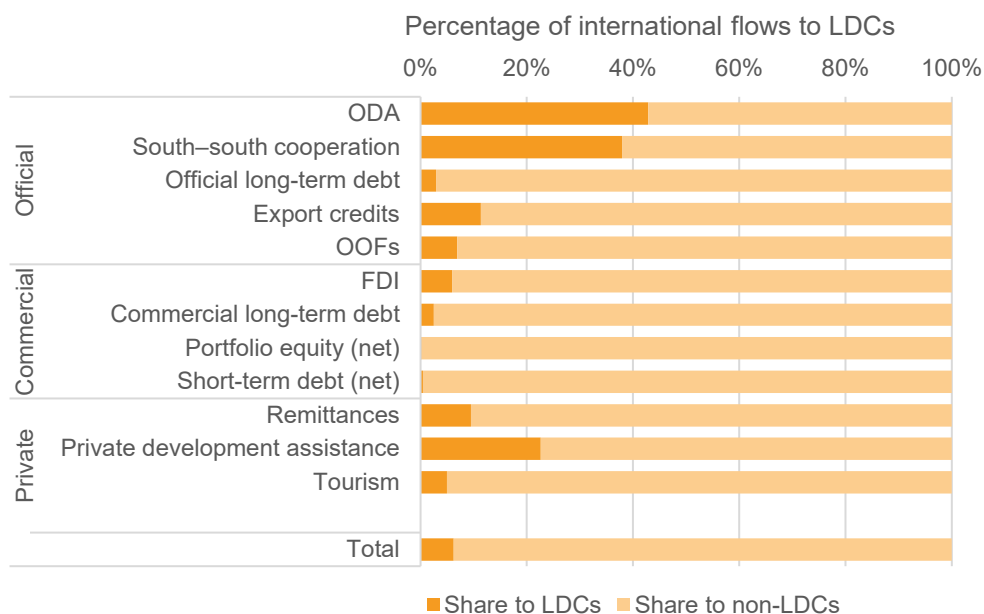
International private finance is in retreat

In addition to the considerable impact on domestic revenues, critical sources of international private finance are also in retreat. These include foreign direct investment (FDI), commercial debt, tourism revenues and migrant remittances. While private flows are procyclical in nature, never before have all these flows experienced such a large simultaneous hit, with the impact being felt across all countries.

LDCs capture low shares of international private flows overall (Figure 9a). For example, LDCs captured just 6% of FDI to developing countries, 5% of tourism receipts and 9% of migrant remittance flows in 2018. Nevertheless, combined these resources represent important sources of finance for the LDCs (Figure 9b). Any impact on these flows therefore remains substantial at the national level.

Figure 9a: LDCs capture very small proportions of international financial flows

Share of international financial flows to LDCs, 2018

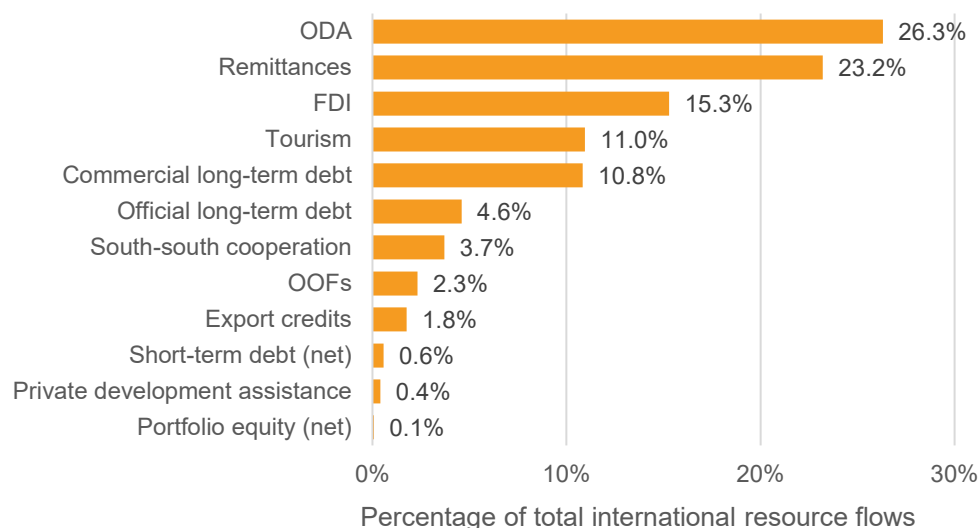


Source: Development Initiatives based on World Bank, United Nations Conference on Trade and Development and OECD data.

Notes: FDI: foreign direct investment; LDC: least developed country; ODA: official development assistance; OOF: other official flow.

Figure 9b: LDCs are highly reliant on a small number of international flows

International flows received by LDCs, as percentages of the total, 2018



Source: Development Initiatives based on World Bank, United Nations Conference on Trade and Development and OECD data.

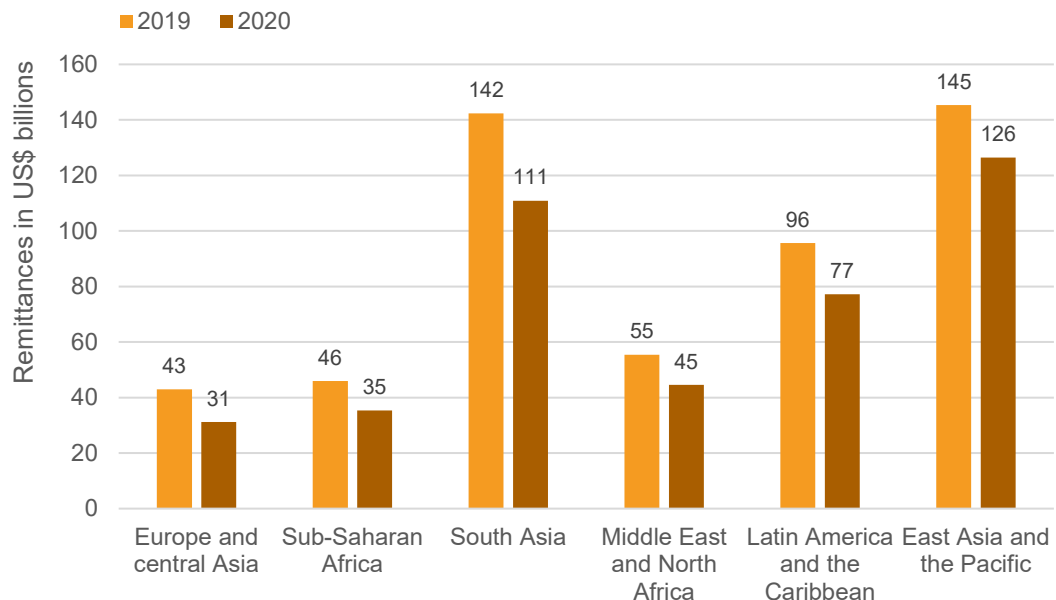
Notes: FDI: foreign direct investment; LDC: least developed country; ODA: official development assistance; OOF: other official flow.

These flows are now all in retreat due to the Covid-19 pandemic, and the crisis could accentuate the poorest countries' marginalisation from international trade and investment even further.

Even prior to the crisis, several low-income African countries had experienced a significant decline in FDI inflows, such as the Democratic Republic of the Congo and Ethiopia. The United Nations Conference on Trade and Development reports that FDI flows to Africa are forecast to contract between 25% and 40% in 2020, with a further 5% to 10% decrease possible in 2021 before a recovery is initiated in 2022.³⁶

Figure 10: Remittances are projected to fall sharply with large declines to the poorest regions

Projected decline in volumes of remittances by region, 2019–2020

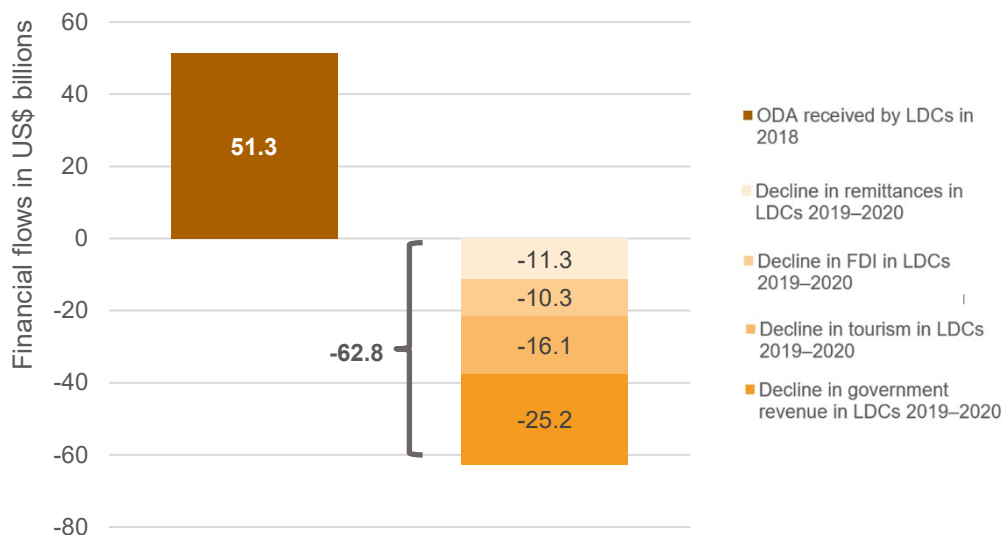


Source: Development Initiatives based on World Bank data.

Remittance flows, which are often less volatile than other sources of external finance and a lifeline to poor households, are also projected to decline sharply as migrants are impacted by job losses, wage reductions and even repatriation. In the LDCs, remittance inflows amounted to US\$45.3 billion in 2018. The World Bank estimates that remittances will fall by 19.7% in 2020 overall with South Asia expected to see a 22% decline, Latin America and the Caribbean a 19.3% decline and sub-Saharan Africa a 23% decline (Figure 10).³⁷ The LDCs hardest hit include Haiti, Kyrgyzstan, Nepal, South Sudan and Tajikistan where remittances were between 25% and 36% of GDP in 2019.

Figure 11: Combined projected falls in commercial international flows and government revenue to LDCs are larger than the volume of ODA received in 2018

Expected losses in revenue in LDCs 2019–2020, compared with ODA to LDCs in 2018



Source: Development Initiatives based on OECD DAC, International Monetary Fund World Economic Outlook, United Nations Conference on Trade and Development and World Bank data.

Note: FDI: foreign direct investment; LDC: least developed country; ODA: official development assistance; OOF: other official flow.

The impact on tourism, meanwhile, has been unprecedented. In 2018, tourism receipts accounted for 11% of total external financial flows to the LDCs, or US\$21.4 billion. Their importance is far higher in some countries, such as the Solomon Islands, Vanuatu and Cambodia. The UN World Tourism Organisation reports that international tourist numbers are down 65% in the first half of 2020, with recovery expected to take anywhere between 2.5 to 4 years.³⁸ Combined, lost domestic resources, remittances, foreign direct investment and receipts from tourism to LDCs in 2019–2020 will surpass the aid they received in 2018 (Figure 11).

ODA is a vital resource to leave no one behind but needs to be better targeted

ODA and its record on reaching the furthest behind

The Covid-19 pandemic is leading to a serious deterioration in all the non-ODA flows available to the poorest countries to invest in the SDGs. While they may account for lower revenue losses or lower declines in private financing flows in absolute terms, proportionally they will be harder hit since they have higher numbers of people living in poverty and deprivation and fewer resources to help kick-start – and sustain – recovery. Debt levels can be expected to further rise, increasing debt vulnerabilities. These challenges reinforce the critical role of ODA.

ODA is the only international resource that has development and human welfare as its core aims. It also tends to be less procyclical than many private finance flows.

ODA remains the most important source of external finance in many of the world's poorest countries. In 2018, ODA represented 26.3% of total external financial flows to the LDCs and 17.3% of flows to fragile states.³⁹ ODA is therefore central to international efforts to support these countries to both contain and respond to the pandemic, as well as ensure public health systems are not overwhelmed and can meet broader healthcare needs. This is critical to minimise the potential long-term damage of the crisis.

Despite the critical importance of ODA, the economic recession in major donor nations is likely to drive significant reductions in ODA over the next few years, just as they are needed most. This may undermine one of ODA's key attributes, namely its relative stability compared with more volatile procyclical private finance flows.

Even prior to the crisis, ODA levels fell far short of the UN target of 0.7% of GNI to ODA; Organisation for Economic Co-Operation Development Assistance Committee (OECD DAC) donors provided just 0.3% of their combined GNI in ODA in 2019, a ratio that has remained broadly consistent over the last decade.⁴⁰

Considerable uncertainty remains as to the length and severity of the Covid-19 pandemic and the extent to which donors may reduce aid in response to domestic economic pressures. While the crisis has so far seen unprecedented resource pledges and commitments from the international community, our near real-time analysis shows that most of the new resource commitments are from international financial institutions (IFIs) and that bilateral aid resources have declined compared with the same period last year. While this analysis can only look at the donors and institutions that provide sufficient timely data, this does cover a critical mass of the aid landscape and as such it provides useful indications about the current direction of travel.

For example, in the first seven months of 2020, bilateral commitments – ODA and other official flows (OOFs) – reported to the International Aid Transparency Initiative (IATI) were 11% lower than the same period in 2019. ODA alone has fallen by 5%. Commitments from IFIs, on the other hand, have increased by 31%, driven by a 139% increase in ODA commitments compared with the same period in 2019.⁴¹

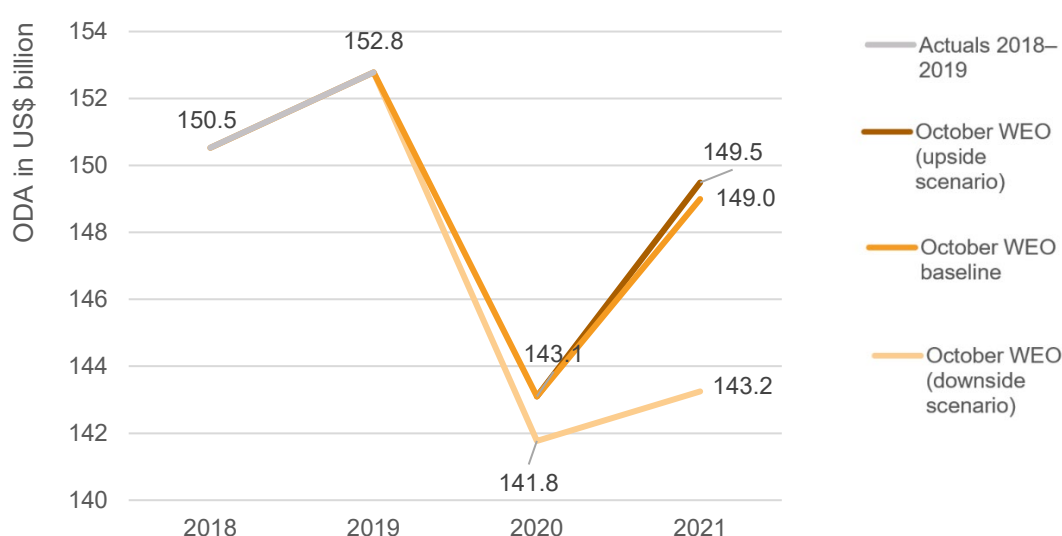
This represents an important shift in the official financing landscape since more of the finance provided by IFIs is in the form of loans rather than grants, including to low-income countries. Additionally, IFIs provide proportionally less of their finance to low-income countries (11% from January to July 2020) than middle-income countries (83%), with the latter having stronger resource mobilisation capacities from a range of sources. Countries with high extreme poverty rates, over 20%, are receiving just 21% of IFI commitments in the first seven months of this year, a slight increase from 16% in the same period in 2019. By comparison, 43% of bilateral aid commitments this year are targeted to low-income countries and 49% to countries with high rates of poverty.⁴²

Several aid scenarios are possible over the next few years; all forecast a decline in overall ODA volumes (Figure 12). On the basis of economic projections in donor countries, in 2020 a US\$10–11 billion fall in ODA is possible. Beyond this, under a more optimistic scenario, which sees a strong recovery in 2021 (increasingly unlikely as

countries are hit by second and third waves and localised outbreaks contribute to a challenging economic picture), ODA could recover to US\$149.5 billion by 2021 (still below its 2019 level). In a downside scenario, ODA could fall to below US\$142 billion. If these cuts are shared equally across all ODA-eligible countries, the LDCs would see a fall in ODA of US\$2.9 billion under a better-case scenario and US\$3.3 billion under a downside scenario. It is important to consider, however, that the deeper and more prolonged the crisis becomes, the larger the potential negative impact on ODA for several years to come.

Figure 12: ODA levels are likely to decline due to the effects of the pandemic in donor countries

Total ODA scenarios based on October 2020 WEO, 2018–2021



Source: Development Initiatives based on OECD DAC and International Monetary Fund (IMF) World Economic Outlook (WEO) data.

Notes: Data are from October 2020. The three scenarios are based on the application of 2019 ODA to projected GDP growth rates. The downside and upside scenarios represent a deviation from the baseline in the application of GDP growth in the IMF's Alternative Evolutions in the Fight against the COVID-19 Virus. ODA: official development assistance; WEO: World Economic Outlook.

Falls in ODA are of particular concern to the world's poorest countries, which are more reliant on aid resources than other countries. Even prior to the crisis, ODA was not well targeted to the poorest countries or to those that have a high proportion of the population living in extreme poverty. In 2018, the 47 LDCs received US\$51.3 billion in ODA, or 29.4% of total bilateral and multilateral ODA.⁴³ Bilateral OECD DAC donors provided US\$28.9 billion in ODA to the LDCs in 2019. The proportion of total ODA allocated to the LDCs has changed little over the last decade.⁴⁴

Overall, ODA to the LDCs represents 0.09% of donor GNI, well below the UN target of 0.15–0.2%. Had OECD DAC donors met the lower bound of this target, bilateral ODA to the LDCs would have reached US\$75.5 billion in 2018; if OECD DAC donors had met the more ambitious upper bound of the target, ODA to the LDCs could have reached US\$100.6 billion.⁴⁵ Given high population increases in the LDCs, ODA per capita has

also failed to increase over the last decade and stands at approximately US\$50 per capita.

This data, however, hides wide variations across countries. ODA concentration remains a significant problem; in 2018, the top 10 ODA recipients received 32% of total ODA and the top 20 over 50% (Table 1). Again, these ratios have remained broadly consistent over the last decade.

Table 1: 50% of all ODA goes to the top 20 recipient countries

Top 20 ODA recipients (% ODA received), 2018

Recipient	US\$ billions	Percentage of ODA
India	5.7	4.7%
Ethiopia	5.1	4.2%
Bangladesh	5.0	4.1%
Afghanistan	3.8	3.2%
Nigeria	3.5	2.9%
Turkey	3.2	2.7%
Indonesia	3.2	2.7%
Syrian Arab Republic	3.2	2.6%
Kenya	2.9	2.5%
Viet Nam	2.7	2.3%
Democratic Republic of the Congo	2.7	2.2%
Tanzania	2.6	2.2%
Jordan	2.5	2.1%

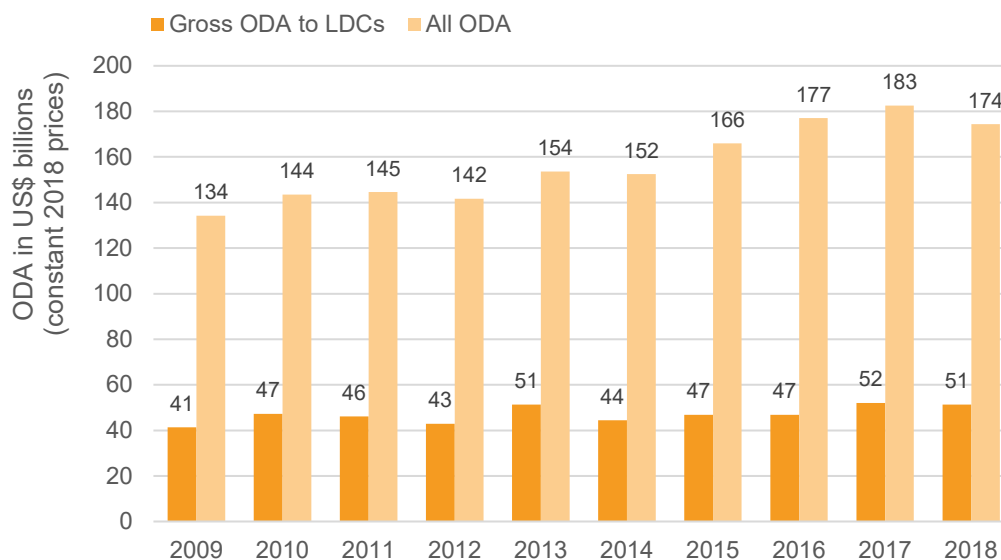
Pakistan	2.4	2.0%
Iraq	2.3	2.0%
Uganda	2.0	1.7%
Yemen	2.0	1.7%
Mozambique	1.9	1.6%
Egypt	1.9	1.6%
Colombia	1.9	1.6%
Top 20 total	60.6	50.6%

Source: Development Initiatives based on OECD DAC data.
Note: ODA: official development assistance.

The data also shows that growth in ODA to non-LDCs outpaces growth in ODA to LDCs (Figure 13). In 2018, aid to non-LDC countries was 16% higher than in 2010, while ODA to LDCs rose by only 8.6% over the same period. The data also shows that while more ODA in volume terms is allocated to those countries with a higher extreme poverty headcount (US\$1.90 per day, 2011 PPP), large populations of people in poverty in these countries mean that this translates into relatively small amounts of ODA per person in poverty. A significant amount of ODA also continues to be channelled to countries with relatively low extreme poverty rates (Figure 14).

Figure 13: Growth in ODA to the poorest countries has lagged behind

Total ODA volumes and ODA volumes going to LDCs, 2009–2018

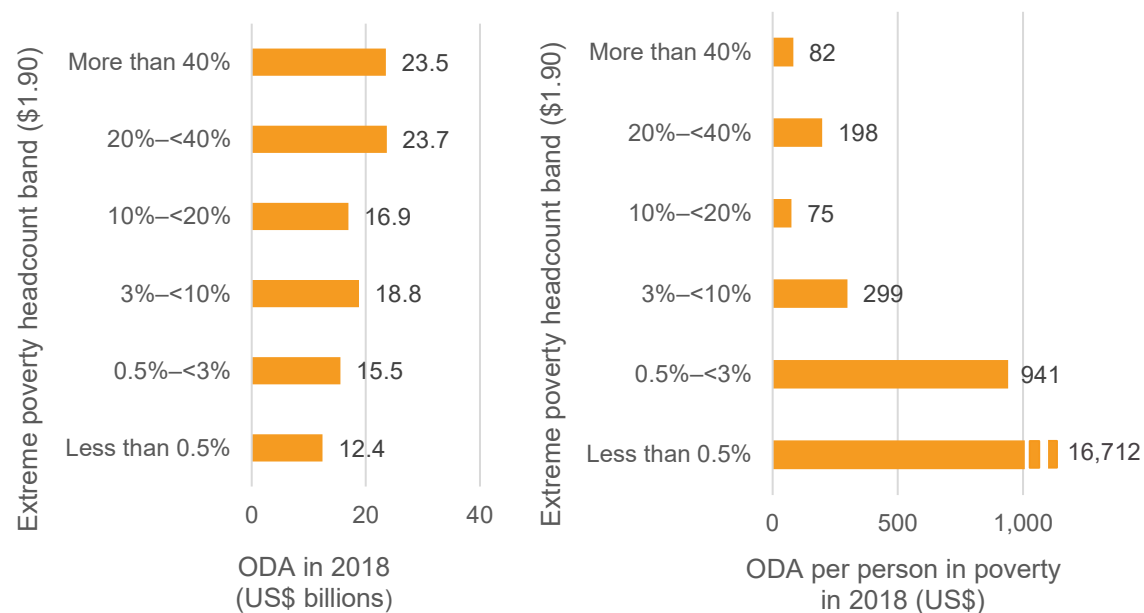


Source: Development Initiatives based on OECD DAC data.

Notes: LDC: least developed country; ODA: official development assistance.

Figure 14: Significant proportions of ODA are targeted to countries with lower poverty levels

ODA allocations according to extreme poverty headcount, 2018



Source: Development Initiatives based on OECD DAC, PovcalNet and World Bank World Development Indicators

Notes: ODA: official development assistance.

The trend towards blended finance instruments and increasing levels of ODA allocated to private sector investments and channelled through bilateral and multilateral development finance institutions (DFIs) also impacts aid allocation patterns. They risk reinforcing the marginalisation of the poorest countries and communities, which are not well served or targeted by such approaches. Between 2012 and 2015, just 7% of total blended finance operations benefited the LDCs.⁴⁶

The data shows a high degree of concentration in DFI-supported investments. For example, in 2019 just five African countries accounted for 71% of European bilateral DFIs' combined direct investments in the continent in 2019, and these represent the larger and faster growing economies in the region (Kenya, Nigeria, South Africa, Uganda and Ghana). In fragile states, just two countries – Côte d'Ivoire and Myanmar – account for over half of European DFIs' combined fragile states' portfolios.⁴⁷

OECD DAC ODA to private sector instruments was US\$2.7 billion in 2018 and increased to US\$3.4 billion in 2019. It can be expected to rise further in light of the Covid-19 crisis, which has prompted many DFIs to announce fresh commitments to support the private sector in developing nations to respond to – and recover from – the crisis. Many donors are also committed to supporting the role of the private sector in development. While this is important, careful attention must also be paid to how ODA deployed in this way actually benefits the poorest and most disadvantaged people and places, and the impact it has on poverty reduction and inclusion in line with the core values and principles of ODA.

Declining concessionality of ODA, especially to the poorest

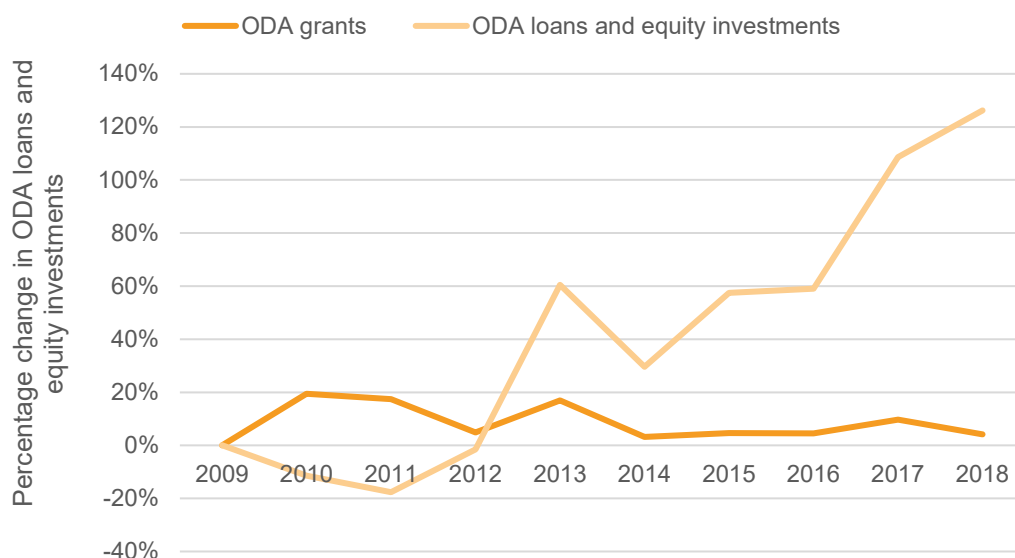
In addition, the proportion of ODA provided as loans has increased considerably over recent years. This includes a significant rise in bilateral concessional loans to the poorest countries, despite an increase in their debt vulnerabilities, and reflects a broader donor trend towards a reliance on loan instruments in ODA. The rise in multilateral financial commitments in the wake of Covid-19 relative to bilateral aid will further accentuate the trend towards larger volumes of official finance supplied as loans.

Our analysis shows that in 2018, of the US\$51.3 billion provided in ODA to the LDCs, US\$36 billion was in the form of grants and US\$15.4 billion was in the form of loans (equity investments remain marginal in LDCs). ODA loans to the LDCs have grown over 126% during the last decade (Figure 15). This represents a much faster rate of increase than for developing countries as a whole, which have seen ODA loans rise by 69.7% over the same period.⁴⁸

As indicated earlier in this report, a prolonged outbreak scenario will further increase debt levels and debt vulnerabilities and underscores the need for donors to provide as much finance as possible in the form of grants, especially to the poorest countries where SDG financing gaps remain the most acute.

Figure 15: ODA loans to the LDCs are on the rise

Growth in ODA loans and equity to LDCs vs grants, 2009–2018



Source: Development Initiatives based on OECD DAC data

Notes: LDC: least developed country; ODA: official development assistance.

How might Covid-19 affect sectoral priorities for ODA?

The Covid-19 pandemic has impacted some sectors particularly hard. These include healthcare, social protection, education, business and the private sector as well as critical areas such as gender equality. Scientists have emphasised that the Covid-19 pandemic is connected to the dangerous decline in biodiversity and accelerated natural habitat loss globally.⁴⁹ Here, we look at the sectoral distribution of ODA and ask how ODA might need to refocus in light of the pressures caused by the Covid-19 crisis so that it can support both immediate recovery and long-term resilience and development.

With falling domestic revenues, and considerable uncertainty looking forward, flexibility in aid funding will be more important than ever. Yet ODA data shows that donors consistently fail to provide large volumes of aid as direct budget support, by far the most flexible funding modality. In 2018 just 2% of total ODA was delivered as general budget support, which was 3% when looking at ODA to LDCs only.⁵⁰

The Covid-19 pandemic has also underscored the critical importance of ODA for health and social protection to both contain and respond to the pandemic and ensure that social protection programmes are in place to protect the most vulnerable. Prior to the crisis, the data shows that ODA remained a critical source of finance for these sectors in the poorest countries, where domestic public resources are a fraction of what they are in high-income nations. For example, in LDCs, domestic government expenditure on health was just US\$29 per capita in PPP terms in 2017, more than 100 times lower than in high-income countries (at PPP\$3,692 in 2017).⁵¹

Recent data from key donors who have reported their 2020 aid commitments to IATI shows an overall increase in ODA for health in 2020, much of which can be considered a probable response to the Covid-19 crisis. While data is not available for all donors, this near real-time analysis shows, for example, that in the first seven months of 2020 commitments to health increased by 80.6% (to a total of US\$14.0 billion) compared with the same period in 2019 (US\$4.2 billion).⁵² Prior to this, however, most LDCs saw a decline in ODA for health in volume terms.⁵³

With respect to the social sectors more broadly, the data shows an increase in commitments from IFIs and bilateral donors in response to the crisis, led predominantly by health spending. For bilateral donors, most sectors (beyond health and small increases in education spending) see falls in commitments in 2020. While IFIs are also investing heavily in health (with commitments in 2020 going up 156%) and some other social sectors, commitments to critical sectors such as water and sanitation, which are also vital to tackle Covid-19, and to long-term development are falling (30%).⁵⁴ Even prior to the crisis, ODA levels to water, sanitation and hygiene (WASH) interventions were low. In 2018, just 5% of total ODA was allocated to WASH interventions in the LDCs; the figure is even lower to non-LDC developing countries at 4%.⁵⁵

Strengthening ODA commitments to these sectors in the poorest countries over the short term will be critical to efforts to tackle the virus and prevent people from falling into poverty. With IFIs playing a more significant role in financing these vital areas of social spending, a refocusing of both the targeting and concessionality is needed to ensure the poorest countries receive adequate support.

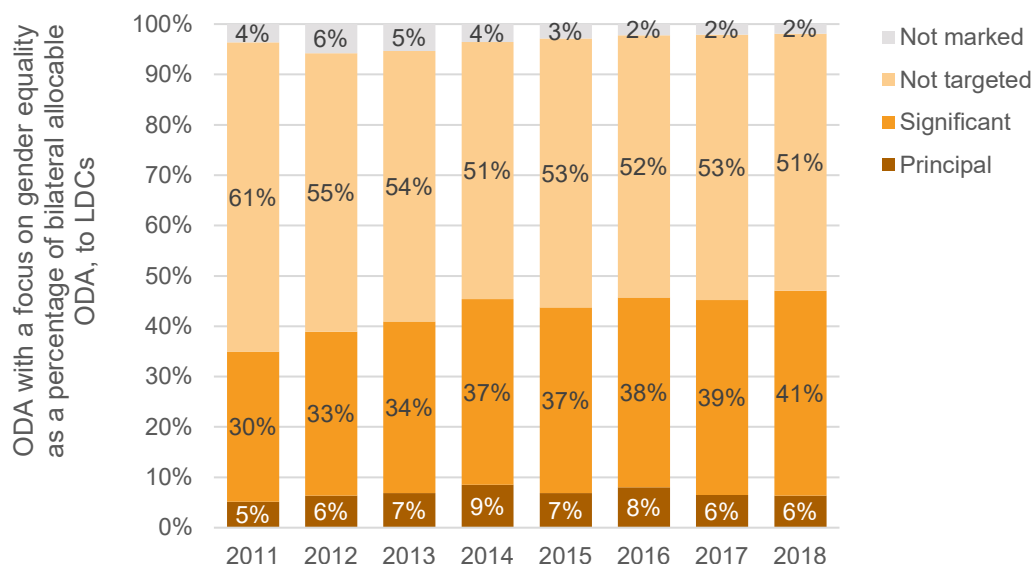
The data also shows overall low levels of ODA allocated to other sectors that have been critically impacted by the Covid-19 pandemic, particularly education, and business and industry. Indeed, education has received consistently low levels of ODA over the last decade; just 8% of total ODA to the LDCs went to education in 2018, and 7% for non-LDCs, a share that has changed little since 2009. Meanwhile, just 4% of ODA was allocated to business and industry in the LDCs in 2018, a figure that has functionally stagnated since 2009.⁵⁶

Given the huge impact of the crisis on the learning, wellbeing and life chances of young people, strengthening ODA to these critical human capital sectors over the medium term will be central to a sustainable inclusive recovery. This is especially important in the context of high population growth across many low-income African nations, many of which were already experiencing high unemployment levels coupled with low-skilled workforces.

As outlined earlier in this report, women have been disproportionately impacted by the Covid-19 crisis. Yet little ODA is expressly targeted at the advancement of SDG 5 (to promote gender equality), which is significantly off-track (Figure 16). Just 5% of total ODA flows in 2018 were tagged as having gender equality as a 'principal' outcome; a further 34% tagged gender equality as a 'significant' outcome. In the LDCs, these ratios were only marginally higher: 6% of ODA was tagged as having gender equality as its principal outcome and a further 41% as a significant outcome.⁵⁷ Strengthening the gender focus of ODA will be critical to an inclusive recovery and ensure that inequalities between women and men are not further worsened by the crisis.

Figure 16: Gender responsiveness of ODA to LDCs has not improved markedly despite commitments to promote gender equality

ODA to LDCs with a focus on gender equality, 2011–2018



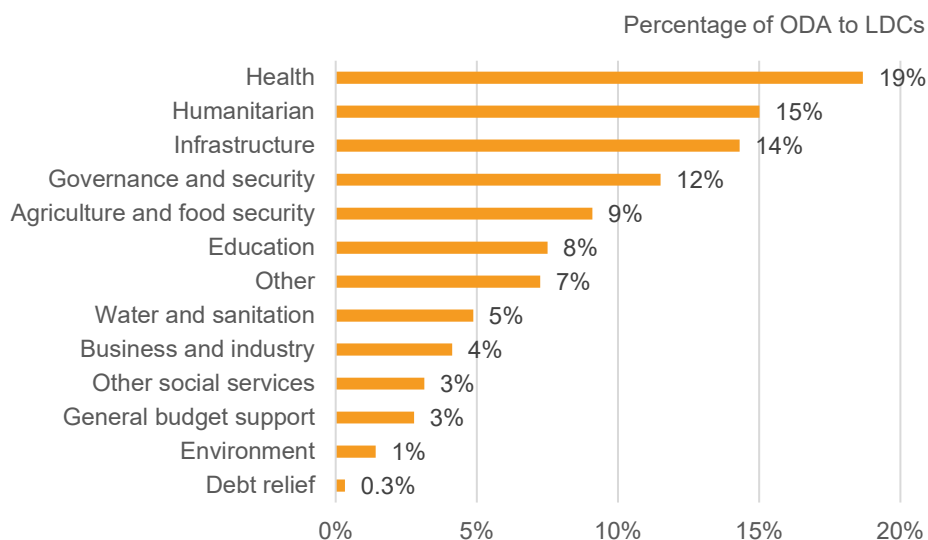
Source: Development Initiatives based on OECD DAC data.

Notes: LDC: least developed country; ODA: official development assistance.

Covid-19 and its links to environmental degradation have further intensified calls for urgent action on climate change, the biodiversity crisis and the need for financing from all sources to be used strategically to support a green recovery. The data shows that, despite increased political and public concern with these issues, the environment and climate receive very little attention in ODA. Projects that directly target environmental protection as the main outcome received just 1% of total ODA in the LDCs in 2018; in non-LDC developing countries, the figure is only slightly higher at 3% of total ODA (Figure 17).⁵⁸

Figure 17: Certain sectors dominate ODA spending in LDCs

Sector breakdown of ODA to LDCs, 2018



Source: Development Initiatives based on OECD DAC data. Investments to End Poverty sectoral classification. Note: 'Other' includes ODA that is reported as multi-sector, unallocated by sector, donor admin costs or refugees in donor countries. LDC: least developed country; ODA: official development assistance.

Humanitarian interventions continue to make up a large share of ODA to the poorest countries at 15% of ODA in 2018. Almost half (23) of the 47 LDCs in 2018 were facing a UN-coordinated plan to respond to humanitarian crises that year. And humanitarian need is continuing to grow; high demands in 2019 became even higher in 2020 when the pandemic compounded existing crises, resulting in record UN appeal requirements of US\$40 billion, a third higher than in 2019. The pressure to allocate more ODA to humanitarian responses is therefore as great if not greater than ever before. However, effectively meeting the needs of people in crisis requires more than just humanitarian assistance. Without effective cooperation and collaboration between humanitarian, development and peacebuilding actors, crises will persist and continue to impact the poorest and most vulnerable. Crises slow the rate of poverty reduction and the longer they persist the worse this impact is.⁵⁹ It is important that funding for long-term development is therefore targeted to countries and subnational locations experiencing crisis, wherever possible, to address the underlying causes.

Greater coherence between investments into peacekeeping efforts and humanitarian and development assistance is critical to ensure that the needs of populations furthest behind in crisis contexts are addressed in a sustainable manner. Collaboration across that nexus alongside sustained volumes of funding will be crucial to ensure development progress of previous decades is not lost, people in crises receive the urgent assistance they require, and sustainable development in the longer term is supported.⁶⁰

Conclusion

Even before Covid-19, and its devastating impact on economies and people's lives and livelihoods around the world, the poorest countries struggled to mobilise the resources needed to deliver the SDGs, end extreme poverty and leave no one behind. The effects of the pandemic – on economic, social and health indicators – are making this even more difficult as countries face a dual challenge of heightened need and fewer resources to meet those needs. Covid-19 has exacerbated existing challenges and strengthened barriers to progress.

Covid-19 will continue to push many millions more people into extreme poverty, particularly in the poorest places. In a context of rising poverty and increased challenges in mobilising finance, ODA becomes an even more vital resource for the poorest countries. But the data shows it is also at risk.

The world cannot afford a lost decade, and action must be taken now. Not only is this the right thing to do but the cost of not intervening now will be much higher later on in both human and economic terms.

Protecting past development gains and supporting an inclusive recovery means ODA must:

- Strongly focus on the poorest places and people – those most vulnerable to the crisis and already most at risk of being left behind
- Prioritise interventions and sectors that are most important to protect the lives and livelihoods of the poorest people, with a particular focus on women and girls
- Not further exacerbate existing challenges such as the debt crisis; more concessional and flexible finance will be vital for the poorest countries.

Notes

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- ¹ UN Sustainable Development Group, Decade of Action on the SDGs, <https://www.un.org/sustainabledevelopment/decade-of-action/>
- ² UN Food and Agriculture Organisation (FAO), 2020. The State of Food Security and Nutrition in the World. Available at: <http://www.fao.org/publications/sofi/2020/en/>
- ³ International Monetary Fund (IMF), April 2020. World Economic Outlook. Available at: <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>
- ⁴ World Bank, 2020. Global Economic Prospects, Pandemic, Recession: The Global Economy in Crisis. Available at: <https://www.worldbank.org/en/publication/global-economic-prospects>
- ⁵ IMF, June 2020. World Economic Outlook. Available at: <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>
- ⁶ Development Initiatives and Overseas Development Institute, 2019. Failing to reach the poorest: Subnational financing inequalities and health and education outcomes. Available at: <https://devinit.org/resources/subnational-investment-human-capital/>
- ⁷ Data from World Bank, PovcalNet. Based on US\$1.90 a day in 2011 prices. Accessed October 2020.
- ⁸ UN estimates, <https://www.un.org/sustainabledevelopment/poverty/>
- ⁹ World Bank, 2020. Poverty and Shared Prosperity. Available at: <https://www.worldbank.org/en/publication/poverty-and-shared-prosperity>
- ¹⁰ World Bank, PovcalNet. Based on US\$1.90 a day in 2011 prices. Accessed October 2020.
- ¹¹ World Bank, 2020. Poverty and Shared Prosperity. Available at: <https://www.worldbank.org/en/publication/poverty-and-shared-prosperity>
- ¹² World Bank, 2020. Poverty and Shared Prosperity. Available at: <https://www.worldbank.org/en/publication/poverty-and-shared-prosperity>
- ¹³ World Bank, Poverty and Shared Prosperity 2020. Available at: <https://www.worldbank.org/en/publication/poverty-and-shared-prosperity>
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Our vision is a world without poverty that invests in human security and where everyone shares the benefits of opportunity and growth.

We provide rigorous information to support better decisions, influence policy outcomes, increase accountability and strengthen the use of data to eradicate poverty.

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