

Aid off course

How ODA reform has left the Global South behind

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Executive summary

Aid – or Official Development Assistance (ODA) – is at a crossroads. A decade of changes to the rules governing aid, combined with deep cuts to government budgets in recent years, has fundamentally altered both what aid is and whose interests it prioritises. Rather than strengthening development cooperation, these far-reaching changes now pose an existential threat to ODA as a legitimate and effective tool for poverty reduction and global solidarity.

At a time of escalating global crises – including climate breakdown, conflict, debt distress and widening inequalities – these reductions to both the volume and purpose of aid are disastrous for the world's poorest and most marginalised communities.

This report is the first comprehensive civil society examination of how changes to the rules – known as the 'ODA modernisation' process – have reshaped international aid. It argues that the process has moved ODA away from its core purpose of supporting development in the Global South. A genuine overhaul of the aid system must take place now through an inclusive, transparent and democratic process that fully involves Global South countries, civil society and all development actors as equal partners. The report sets out a series of clear recommendations for a fundamental reimagining of how aid is governed, measured and delivered.

The ODA reform process and what it has meant

The 'ODA modernisation' process has suffered from serious gaps in legitimacy and participation. Key decisions have been taken behind closed doors and with limited transparency within the Organisation for Economic Co-operation and Development (OECD)'s Development Assistance Committee (DAC) – an exclusive group of rich countries. The exclusion of Global South countries is particularly concerning given that the consequences of recent changes are profound, with direct impacts on these countries' prospects to tackle poverty and inequalities in their most marginalised communities.

The reform process has, in effect, shifted the incentives that drive ODA delivery. The introduction of the grant equivalent system (which only counts the subsidy element of an ODA loan) has strengthened the statistical accuracy of reporting by improving measurement of the donors' true budgetary effort. However, it has also complicated assessments of concessionality – i.e. the favourable terms of a loan or grant compared to commercial finance – and developmental impact, while creating strong incentives for rich country governments (so called 'donors') to favour loans over grants. At a time of growing debt distress in the world's poorest countries, this shift has transferred financial risk onto governments in the Global South and end users, with women often bearing the greatest burden as they rely disproportionately on public services and social protection, which are often the first government provisions to be cut from budgets.

The use of ODA to pay for the cost of hosting refugees in wealthy countries has also skyrocketed. Counting these costs as overseas aid when the funds never even leave the rich country has artificially inflated the overall figures, masking the true volume of resources directed towards development in the Global South. This practice has negatively impacted the predictability of ODA flows that are available for long-term development cooperation.

At the same time, the expansion of what can be counted as aid – particularly through the use of private sector instruments (PSI) like guarantees that engage private businesses and investors – has diluted ODA's core developmental purpose. Reported aid volumes risk being inflated through the inclusion of non-concessional and commercially-oriented flows, without clear evidence that these resources align with the priorities of countries in the Global South or deliver meaningful development outcomes.

These changes have also coincided with a marked geographic shift in aid allocation. ODA is increasingly being directed towards middle-income countries, while the least developed countries are being left behind. This reinforces long-standing civil society concerns that an aid system increasingly oriented towards the private sector, mutual benefit and geopolitical interest cannot meet the needs of the poorest and most vulnerable communities in the world.

The cumulative effect has been a deterioration in the quality and effectiveness of aid. An emphasis on financial innovation, risk-sharing and transactional approaches has hindered long-term development outcomes, as well as undermining the principles of effective development cooperation that have underpinned decades of internationally agreed aid effectiveness commitments.

Re-imagining aid

Re-imagining development cooperation is becoming increasingly necessary and urgent. This must begin with restoring the core purpose of ODA: supporting economic development and wellbeing in Global South countries, grounded in country ownership, solidarity, justice and historical responsibility for the harm done in colonial times. This means countries should agree to specific targets for grant-based ODA and recommit to making more aid available to the least developed countries and those that rely on aid the most.

It also requires confronting the limits of the current governance model. The OECD-DAC has recently made a commitment to review itself in the context of the Fourth International Conference on Financing for Development (FfD4) – a United Nations (UN) conference on reforming global finance for development held in Sevilla, Spain in July 2025. While the offer may appear constructive, it cannot credibly address deep-seated legitimacy and accountability concerns on its own. Future reform to the ODA system must take place in a more democratic, inclusive and representative intergovernmental setting – under a UN-based framework – where Global South countries, civil society and affected communities have a meaningful voice. Strengthening the UN Development Cooperation Forum (UN-DCF) offers a clear starting point.

Without decisive political action, ODA risks becoming an increasingly hollow instrument – reshaped and reduced to serve the strategic and commercial interests of rich countries, while abandoning those who are most in need. Restoring integrity to aid requires more than technical fixes: it demands a shift in power and a recommitment to the reduction of poverty and inequalities.

Policy recommendations

1. Rebuild trust and deliver on commitments to fulfil countries' needs:

- a. ODA providers must meet their longstanding commitment to deliver 0.7 per cent of their Gross National Income (GNI) as ODA.
- b. ODA providers must deliver on commitments to the least developed countries, ensuring allocations target poverty and inequalities where needs are greatest.
- c. Explicit targets should be established for grant-based ODA, Country Programmable Aid (CPA) – the actual cross-border flows of aid that reach countries in the Global South – and budget support to help reverse current shifts in modalities and geographies.

2. Deliver ODA as grants for reducing poverty and inequalities

- a. Concessionalism should be upheld as a defining feature of ODA. Commercial instruments, such as most PSI, should be reported transparently but excluded from ODA statistics.
- b. Grants should remain the preferred modality, especially where debt risks are high.
- c. The grant equivalent system should be reviewed to ensure measures of concessionalism and developmental impact are clear, consistent and aligned with the original intent of ODA.
- d. A complementary metric should be developed to track the share of ODA specifically directed to reducing poverty and inequalities.

3. Strengthen independent oversight of ODA quality and effectiveness

- a. Effectiveness principles and commitments must be re-integrated into ODA provider policies. Providers should report more regularly on the effectiveness of their ODA, as enshrined in the Paris Declaration, the Busan Partnership Agreement and in other commitments, paying attention to alignment, ownership and use of country systems. This is particularly at risk today in the face of the transactional approach to ODA that has been gaining traction.
- b. Transparency should extend beyond reporting volumes to the Organisation for Economic Co-operation and Development (OECD)-Development Assistance Committee (DAC) to include evaluation of ODA providers' contributions to development outcomes.
- c. ODA providers should be subject to regular, independent assessments of ODA quality to ensure that aid contributes to genuine development impact.

4. Use ODA budgets for development; report other costs elsewhere

- a. ODA providers should use metrics other than ODA to count costs like PSI, in-donor refugee costs and other 'in-donor expenditures'. These costs have their place in public budgets but calling them ODA should be disallowed.

5. Make the governance of ODA democratic

- a. ODA reform should be handled in a more democratic and inclusive intergovernmental setting. ODA governance should ultimately take place under a universal or UN-based framework to enhance democratic legitimacy and global trust. For this, strengthening the Development Cooperation Forum is a crucial first step.
- b. The ongoing OECD-DAC self-review is insufficient to address broader legitimacy and accountability concerns. Any future reforms should institutionalise full participation by recipient countries, civil society and non-DAC ODA providers, ensuring that decision-making reflects a diversity of perspectives. This is not something the OECD-DAC can deliver.

The world will not benefit in the long term from an aid system that rewards geopolitical advantage over global solidarity. To tackle poverty effectively and promote true international solidarity, ODA must be used to build a more just and equal future.

Introduction

Development cooperation is going through a major period of change and uncertainty. A process known as 'ODA modernisation', which was launched in 2012, has changed the way aid is counted and reported. Instead of strengthening a system that guided ODA providers for more than 60 years, this process has weakened it.

At the same time, government budgets have been squeezed by wars, rising geopolitical tensions and the growing climate emergency and priorities have been reshaped accordingly, upending where and how aid is allocated. Together, these forces have pushed aid away from its original purpose: poverty reduction and the fight against inequalities in Global South countries. Increasingly, aid is being used to serve the commercial, political and security interests of rich countries.

Following successive years of record aid spending, driven largely by the cost of housing refugees fleeing war zones – first Syria and more recently Ukraine – 2024 saw a significant drop in ODA for the first time in five years. Looking ahead, aid budgets are likely to shrink further. The closure of the United States' main aid agency, USAID, combined with planned cutbacks in France, Germany and the UK, has led the OECD to forecast aid volumes shrinking by 10-18 per cent in 2025.¹

Public opinion in donor countries has also played a role in these changes. The supposed need to demonstrate to taxpayers in rich countries that ODA provides a mutual benefit, whether real or perceived, is changing the discourse around ODA, with a knock-on effect on decision-making.²

What began as a slow drift away from ODA's original purpose has now accelerated. In some cases, the idea of what counts as aid is being fundamentally reshaped.

What was 'ODA modernisation'?

The so-called modernisation process began in 2012, when the OECD's DAC launched a review of its statistical system to produce a more accurate picture of ODA flows. Over the next decade, major decisions changed the ODA rules. These included a significant shift away from the long-standing requirement that aid should be concessional – in other words, offered on more generous terms than commercial finance.

The reforms were presented as a way to reflect 'donor budgetary effort' and 'recipient benefit' more effectively by updating how ODA is measured and reported. Supporters of these changes argued that modernisation would improve the quality and impact of ODA and allow new types of financial tools to be counted, that could not be captured in the past. However, civil society organisations (CSOs) in particular have strongly criticised this shift, arguing it has led to the erosion of the quality of aid and reduced the quantity of aid the goes to the Global South.

Shifting landscape

Amid growing calls to re-imagine aid – particularly in the wake of FfD4– 2026 is a timely moment to revisit the changes introduced by the ODA reform process and assess its outcomes and impact. This report takes into account how the development cooperation landscape has shifted since the process began. Renewed calls to overhaul the international development cooperation system, most recently at FfD4 (see calls from the Group of 77 countries and China on page 13 and 29), have pushed the OECD-DAC to reassess their role and how they are governed, which they have committed to do through a self-review of their ways of working and how they make decisions.³

The report finds that rich countries have reshaped what counts as ODA to advance their own domestic priorities, with minimal input from the Global South. This has led to far-reaching consequences for how and where aid is delivered, meaning that those who are most in need are being left behind. As financial risks are increasingly being shifted onto public budgets and end users, it is women who often bear the greatest burden as they rely disproportionately on public services and social protection, which are government provisions that are often the first to be cut from budgets.

Ultimately, ODA is shifting towards the interests of rich countries. The findings of this report highlight that, to re-imagine aid for a new era, it must return to its core purpose of ending poverty, reducing inequalities and supporting global public goods such as environmental protection, peace and stability.

Objectives and methodology

This report answers two fundamental questions:

- What did the 'ODA modernisation' process address?
- How did it impact the allocations and quality of aid?

The report revisits the 'ODA modernisation' process itself, analysing the agreements, unpacking their rationale and reviewing the governance and decision-making processes. It seeks to open an informed and critical debate at a time when it is imperative to reimagine the future of development cooperation.

The analysis draws on desk-based research, combining 10 interviews with key stakeholders involved in the 'modernisation' process – including OECD-DAC members, technical experts and civil society representatives⁴ – with a review of publicly available documentation and reporting on the process.

It looks at ODA figures dating back to 2010, before the modernisation process began, and focuses on trends in ODA volumes through both a geographic lens (origin and destination) as well as delivery modalities, to determine whether there has been any significant impact of 'ODA modernisation' on the allocation of ODA. The report pays particular attention to the delivery modalities that are most directly affected by the reform process, such as grants vs loans, in-donor refugee costs (IDRC) and PSI. Changes have also been made to how debt relief and peace and security costs are measured, but the volumes associated with these modalities are comparatively negligible and are therefore not included in the analysis.

The quantitative analysis is based on data drawn directly from official sources over the period in question (2010-2024), depending on availability. The study assesses aggregate global trends, as well as the behaviour of the big six ODA providers by overall volumes: France, Germany, Japan, the UK, the US and the European Union (EU) institutions. These ODA providers also happened to be the most heavily invested in the ODA reform process.

The report also looks at how the quality and effectiveness of ODA may have been affected by ODA reform, especially given that this was one of its main stated objectives. By reviewing the effectiveness monitoring over the same period and looking at trends in aid tying, use of country systems and aid programmed at the country level and through budget support, there is ample information for an evidence-based analysis of the impact of ODA reform on the quality and effectiveness of ODA.

The qualitative analysis draws on the official monitoring and progress reporting conducted at periodic intervals by the Global Partnership for Effective Development Cooperation (GPEDC). However, because the most recent complete and official monitoring of OECD-DAC members only goes up to 2018, it is complemented by early results of the most recent effectiveness monitoring, and a quantitative analysis of more recent available data of aid modalities. Again, the analysis looks at aggregate trends, as well as brief spotlights on the big six ODA providers by overall volumes.

The report restricts its analysis to bilateral ODA and does not address multilateral aid. It also looks predominantly at outflows, from the ODA provider perspective. The findings illustrate the impact of the modernisation process on countries in the Global South by looking at the actual flows that Bangladesh, El Salvador and Tanzania received over the period under review. These countries were selected for their regional diversity, variation in income and as illustrative examples of how ODA has changed its delivery channels over time.

The report is structured in four sections:

- Section 1 looks at the negotiation and decision-making process itself;
- Section 2 looks at the trends in volumes;
- Section 3 looks at the impact on the quality of ODA;
- Section 4 articulates the report's main findings and provides a set of forward-looking recommendations.

1: The 'ODA modernisation' process: Examining the who, what, where, why and how

The so-called 'ODA modernisation' process has fundamentally changed how ODA is measured. It was initiated in reaction to the evolving nature of how OECD-DAC members were deploying their aid. While grant-based financing in traditional sectors like health, education and civil society – delivered through typical modalities like project financing – still accounted for the majority of overall ODA volumes, a growing portion of OECD-DAC member public resources was being deployed in ways that could not be captured as ODA under the existing reporting rules. This included private sector instruments such as credit guarantees. As a result, OECD-DAC members recognised that the reporting rules needed to evolve.⁵

In its 2012 Communiqué, the OECD-DAC High Level Meeting (HLM) agreed that “the OECD-DAC is well-placed to make a contribution to modernising the measuring and monitoring of external development finance provided by its members and can also provide substantive input to the global discussions on the post-2015 development finance framework” and that “[w]ith a view to ensuring that ODA is directed to where it is most needed and where it can catalyse other flows and promote accountability, the OECD-DAC will [...] investigate whether any resulting new measures of external development finance (including any new approaches to measurement of 'donor effort') suggest the need to modernise the ODA concept.”⁶

What then transpired was a more than decade-long process carried out under the leadership of five different Chairs of the OECD-DAC (see Figure 1). This lengthy process needed to overcome complex negotiations on complicated technical issues, as well as delicate political sensitivities. The modernisation was not intended to produce a single agreement or rule change. Instead, it involved a series of often incremental rule changes, each serving different purposes and covering different aspects of ODA use, resulting in a layered process.

This section looks at the drivers behind this process, the key players, whether external inputs were sought, the outcomes and the areas of tension that emerged throughout. The objective is to unpack the dynamics and influences behind the ODA changes.

1.1 A process stemming from geopolitics and commercial interests

The OECD-DAC High Level Meeting of 2012 provided the political endorsement to pursue the modernisation of ODA. It was a decision driven by a mixture of politics, policy and statistics. The complex interplay between the three meant that the process would extend until late 2023.

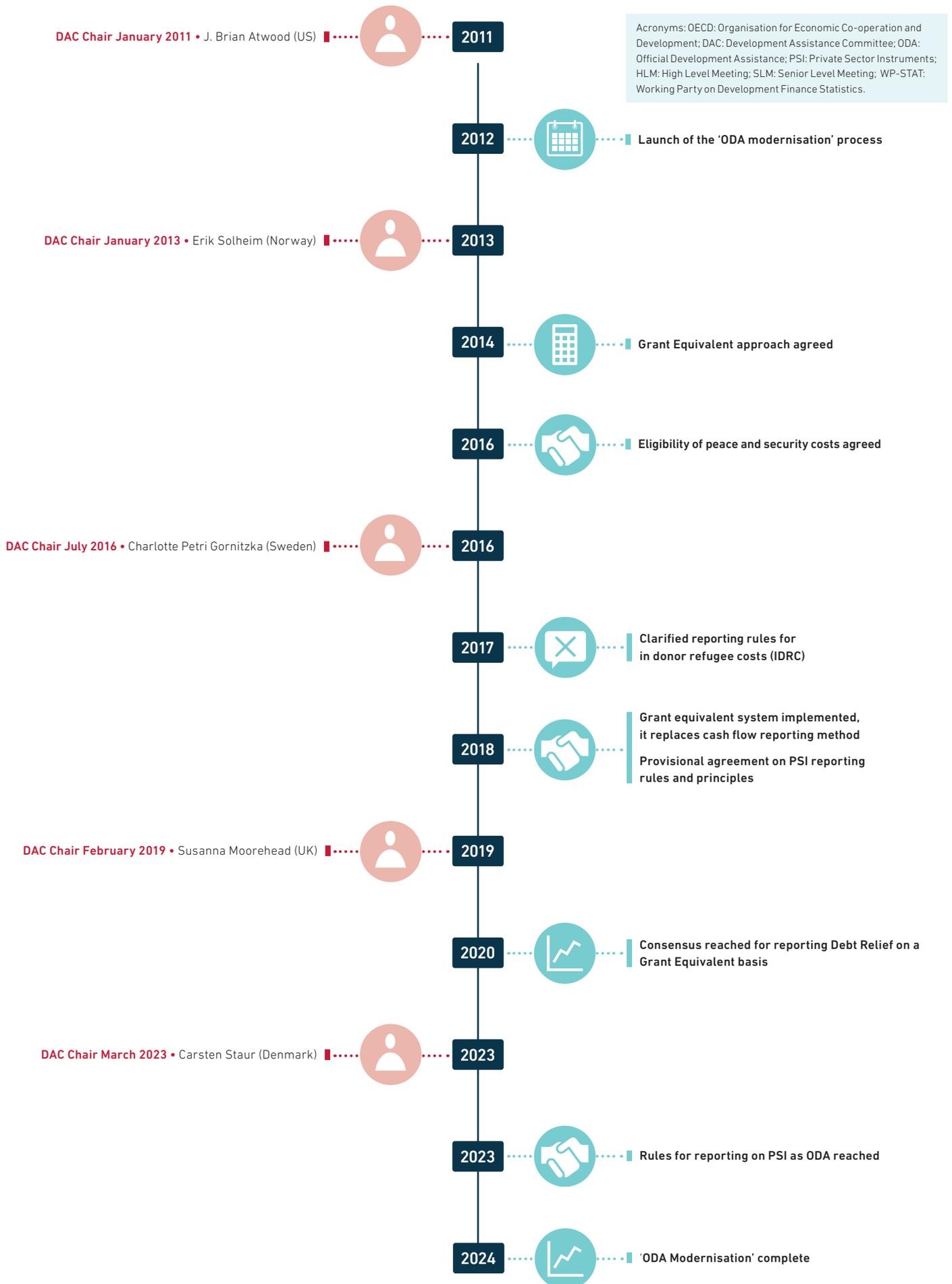
The politics and the policy that emerged from Busan in 2012

The political starting point – after which the OECD-DAC HLM decision was taken – was the Third High Level Forum on Aid Effectiveness and its Busan Partnership Agreement.⁷ This is noteworthy in part because the modernisation process was explicitly intended to improve the quality and effectiveness of ODA through more accurate measurement. Beyond this, there were also relevant connections between the wider political agendas that played out in Busan and what was eventually agreed in the OECD-DAC.

These political agendas were: courting the private sector and appealing to the emerging priorities of the BRICS countries (Brazil, Russia, India, China and South Africa) – principally China.

The Busan Partnership Agreement was praised by governments (and criticised by civil society) for carving out an explicit role for the private sector and private finance in development cooperation. No other stakeholder was mentioned as often as the private sector in the Busan outcome.⁸ This marked the beginning of a shift in the official narrative and focus from strictly public finance to support the development agenda to one where private finance would be a necessary and welcome partner to deliver on the collective ambition of global development, at the time enshrined in the Millennium Development Goals (MDGs), the series of eight goals that preceded the 2030 Agenda and its 17 Sustainable Development Goals (SDGs).⁹ With such an explicit and concerted effort to court private finance, would it be necessary to recalibrate how ODA providers accounted for financial flows not easily measured as ODA?

Figure 1: Milestones and agreements of the OECD-DAC's 'ODA modernisation' process



Source: Author through a combination of sources.

Also notable from Busan were the efforts to bring Chinese aid under the ambit of the traditional OECD-DAC provider agenda. The Chinese government participated in the negotiations of the Busan Partnership Agreement through to the end but ultimately declined to endorse it. Did the Chinese approach to foreign aid – which “blur[s] the boundaries between aid and commercial investment, undermin[es] the hard-won consensus that aid should be devoted exclusively to reducing poverty” – force OECD-DAC members to rethink how they measure and allocate their own aid?¹⁰

There is a strong case that the political shifts visible during the Busan negotiations pushed the OECD-DAC to reassess its tools and create an ODA measure that better reflects ‘donor effort’. The aim was to accommodate new instruments that fell outside existing reporting rules and to create a system that allowed DAC members to compete more easily with providers that do not rely primarily on grant-based development cooperation.¹¹ In other words, it was political and pursued in the ODA providers’ own interests. The dark irony is that the impacts of ‘ODA modernisation’ would go on to undermine many of the commitments made in Busan, including on country ownership, alignment with country development strategies and use of country systems.

The statistical argument behind the process was to provide more reliable, accurate, consistent and comparable data across OECD-DAC members, including harmonising reporting rules for costs incurred in ODA-provider countries related to hosting refugees from abroad and recalibrating how members calculate the concessional part of ODA delivered through loans.

At the time, there was a shared desire across constituencies to have better and more accurate measurements on both fronts, mostly independent of the wider political dynamics at play.¹² However, at the end of the day, it was the political motivations that saw the process to its conclusion.

1.2 A process by rich countries, for rich countries

Members of the OECD-DAC are not homogeneous and have different interests in the field of development cooperation (see Box 1). They deliver ODA in different ways and through various channels. For example, countries like Japan and France have large loan portfolios, while countries like the UK and US primarily issue grants. Some members stood to benefit or lose more than others from the outcomes of the ‘ODA modernisation’ process. Naturally, those governments most impacted by the changes tended to also be the most invested in the process. And it is probably not simply a coincidence that the most influential governments and the ones most invested were by and large the big six ODA providers, namely France, Germany, Japan, the UK, the US and the EU institutions.

Box 1: What is the OECD-DAC?

The OECD’s Development Assistance Committee, or OECD-DAC, is a permanent committee consisting of 34 members. It was established in 1960, with 10 founding members, even before the creation of the OECD itself, as a space for its members to monitor their aid flows to countries in the Global South and to consult on how to expand and improve resources for assisting countries in their economic development.

Although its membership has expanded significantly since the committee’s origins, it is still comprised entirely of rich nations that are providers of traditional development cooperation, or ODA.¹³

It takes decisions at periodic High Level Meetings (every two to three years), which are convened at ministerial level.

Its work is supported by six subsidiary networks and three communities of practices that have their own thematic focus.¹⁴ Unlike the permanent committee, these bodies allow for ad hoc participation of governments from the Global South, civil society representatives and other non-DAC constituents.

The DAC’s secretariat and technical functions are carried out by the Development Cooperation Directorate (DCD).

Even within OECD-DAC member governments themselves, there were different spheres of influence and internal competition among arms of government. Throughout the process, it became more evident that these different forces were concerned with different outcomes. The emerging dynamic appeared to be that development ministries were largely committed to their mandate to support the economic development and welfare of countries in the Global South, while finance ministries were more concerned with maximising different activities and modalities reportable as ODA (see quote from the former OECD-DAC Chair below).¹⁵

The OECD as an institution also played an important role throughout the process. The officials and experts who guide the intergovernmental process needed to be conscious of the institutional mandate to collect and maintain credible data and statistics, as well as the institutional obligation to ensure that any agreements and rule changes its committees take are fully compliant with the OECD's own legal instruments and, more generally, do not fall foul of international law. In this respect, the OECD itself acted as a guardrail of established norms and, in some ways, shielded the process from some of the riskier outcomes that could have played out otherwise.¹⁶

Civil society organisations (CSOs) closely monitored the negotiations throughout the process and helped draw attention to its implications. In hindsight, there is recognition that civil society influenced the outcome of the process, which included strong transparency and accountability provisions. An important unintended consequence of the modernisation effort was that it mobilised civil society and ultimately led to improved access to the OECD-DAC through the creation of the Framework for Dialogue between CSOs and the OECD-DAC.¹⁷

Despite this, there was very limited scope for external consultation. This limitation undermines the notion that Global South countries are partners in development cooperation.¹⁸ The exception was that, during the early stages of the process, an "Expert Reference Group of practitioners and experts from OECD countries, multilateral institutions, think tanks, and civil society organisations" was brought together and acted as an external sounding board.¹⁹ However, once the negotiations began, the scope for consultation and input was limited. A final observation from those involved in the process was that the technical complexity of the issues under discussion effectively limited engagement. Those stakeholders with less capacity to follow the discussions, or who had less perceived stake in the outcomes, were less likely to be involved. This was true even among the OECD-DAC's membership.

More recently, if the negotiations that produced the FfD4 outcome, the *Compromiso de Sevilla*, are any indication, there remains a strong demand from non-OECD-DAC stakeholders in 2026 to have a voice in how ODA is measured, including in setting the rules on what can and cannot be counted as aid (see the quote from the Group of 77 countries and China on page 13).²⁰ The outcome document reflected this by agreeing to launch an "inclusive multilateral dialogue on the parameters and objectives of international development cooperation".²¹

These past and the present perspectives show that there was a clear failure of the process to consider perspectives from beyond the OECD-DAC's membership. It is hard to believe that the exclusion was a matter of oversight in the design of the process or because of the technical complexity of the negotiations.

"It is encouraging OECD finance ministries to get away with murder as they seek to massage reported aid upwards at minimum cost. If the OECD cannot do a professional job on this, the UN should take over the reporting for international aid flows."

Richard Manning, former OECD-DAC Chair, 9 April 2013, as the 'ODA modernisation' process kicked off.²²

1.3 Ten+ years later, five new ways to count ODA

The 'ODA modernisation' process produced five significant agreements that changed how ODA is measured and, either as a direct or indirect consequence, deployed. This section presents each of the rule changes in the order in which an agreement was reached (see Figure 1), with some reflections on how the changes might impact ODA volumes.

For the purpose of this analysis, the rule changes can be grouped into two categories:²³

1. Changes directly impacted by the grant equivalent measure
 - a. Grant equivalent (loans)
 - b. Debt relief
 - c. PSI
2. Changes unrelated to the grant equivalent measure
 - a. Peace and security costs
 - b. IDRC

Table 1 offers a brief summary of what changed as well as an assessment of the potential impact and implications.

Table 1: A summary of the 'ODA modernisation' process

Modality	Change	Our assessment
Grant equivalent system	Shift from cash flow accounting to grant equivalent accounting for loans. Only the concessional or favourable/ below commercial rate part of a loan counts as ODA and repayments no longer reduce ODA in later years. Discount rates determine the value of the grant element.	A more realistic reflection of 'donor effort', but introduces incentives to expand ODA lending rather than grants. Fixed discount rates and generous assumptions can inflate ODA and open the door to non-concessional instruments, especially under PSI.
Peace and security costs	Rules updated to allow certain developmental activities conducted by military personnel to be counted as ODA.	Expands ODA eligibility into a politically sensitive space and risks blurring the line between development and military objectives. May indirectly support security spending unrelated to development outcomes.
In-donor refugee costs	Clarified rules for counting hosting costs for asylum seekers and recognised refugees, including a 12-month limit and guidance on eligible cost items.	Remains highly contentious because it diverts resources that should flow to partner countries. Civil society continues to view this as a missed opportunity to reduce or eliminate these costs from ODA accounting.
Debt relief	New rules adapted to the grant equivalent system. Providers may count rescheduled or forgiven amounts up to the nominal value of the original loan, with safeguards to prevent double counting.	Less controversial due to its small share of ODA, but it still creates indirect incentives to rely on loans, since rescheduling can generate ODA credit. Safeguards are welcome but not foolproof.
Private sector instruments	Seven-year negotiation produced detailed rules covering loans to private actors, guarantees, equities, mezzanine finance, reimbursable grants, additionality tests that attempt to assess the added value of using aid to attract private investment to a particular sector or country, disclosure requirements and institutional versus instrument approaches. Non-concessional instruments can now qualify as ODA under certain conditions.	The most contentious reform. Rules stretch the concept of ODA and risk using public finance to support private profit. Additionality testing is difficult to verify, and incentives now favour reporting PSI under the instrument approach, which is more generous in ODA terms.

Review process – embedding an honest assessment on the impact of 'ODA modernisation'

The 'ODA modernisation' agreements include a range of built-in review mechanisms intended to assess how the changes affect reported ODA volumes and their composition over time. Several of the agreements explicitly provide for periodic reviews, although the scope and depth of these assessments vary considerably. In some cases, such as the agreements on PSI, review clauses are more clearly articulated, reflecting the recognition that these instruments raise particular concerns around additionality, concessionality and developmental impact. However, even where reviews are mandated, they have tended to focus narrowly on technical implementation and reporting practices rather than on broader development outcomes or alignment with ODA's core purpose.

Alongside these agreement-specific reviews, the OECD-DAC regularly produces analytical work comparing ODA volumes calculated under the grant equivalent methodology with those measured under the previous cash flow system. While this analysis provides useful insights into how methodological changes affect headline aid figures and cross-donor comparability, it remains largely confined to statistical effects. It does not sufficiently interrogate how these changes have altered ODA provider behaviour, incentives or the balance between grants, loans and private sector instruments. Neither does it assess their implications for Global South countries, particularly those that are most dependent on concessional finance.

“We support strengthening and reinforcing the UN’s leading role as the most inclusive organization in norm-setting and monitoring of development cooperation.”

Statement on behalf of the Group of 77 countries and China on 1 May 2025.²⁴



Aleena Majeed, Second Secretary in the Permanent Mission of Pakistan to the UN at Fourth Preparatory Committee for the FfD4 Conference, 1 May 2025. UN Web TV

Finally, the broader review of the OECD-DAC itself (see Box 2) – including its mandate, priorities and ways of working – offers a potential entry point for a more holistic reflection on ‘ODA modernisation’. However, as it is currently structured, this process remains largely internal and self-referential, raising questions about its capacity to deliver a genuinely inclusive, independent and critical assessment. Embedding an honest evaluation of the reform process would require these review processes to go beyond volume effects and technical compliance and instead systematically examine impacts on aid quality, effectiveness and legitimacy. It would also require meaningful participation from Global South countries, civil society and non-DAC providers of development cooperation.

Box 2: The OECD-DAC Review

The outcome document of the Fourth International Conference on Financing for Development, the *Compromiso de Sevilla*, includes a reference to a commitment made by the OECD DAC to undertake a review of its ways of working and decision making. Paragraph 40(d)(ii) of the *Compromiso* states:

“Through a revitalized Development Cooperation Forum we [UN Member States]: Look forward to the review process of the Development Assistance Committee of the Organisation for Economic Co-operation and Development and invite them to provide updates to Member States and receive feedback on their review process.”²⁵

This commitment follows mounting pressure internally and externally to respond to major developments in international development cooperation. Notably the drastic changes to the role of the US in international arenas, the significant cutbacks in aid in recent years, and serious questions about the transparency and legitimacy of DAC’s decision-making.²⁶

Some months later, the DAC has suggested, in different venues, that the review will aim to:²⁷

- make international development co-operation more effective and impactful
- renew trust, legitimacy and purpose in development co-operation
- improve transparency, data quality and accountability
- adapt ODA to a changing financing landscape
- make the DAC more inclusive and representative.

The outcome of the review is intended to be the DAC’s offer for a revitalised and strengthened UN DCF.

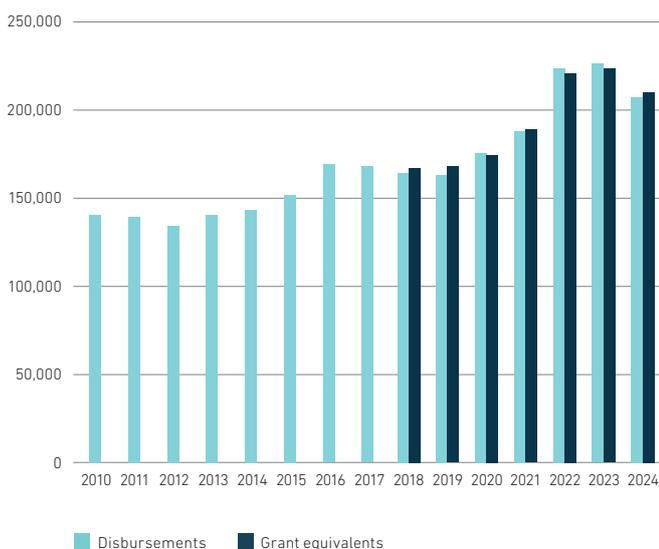
2: Volumes shifting away from those who are furthest behind

The 'modernisation' process changed the incentive structures around how ODA providers allocate their ODA. This report shows that the changes in how ODA is measured fundamentally changed how ODA is delivered and where it is delivered to.

2.1 ODA aggregate figures – a steady climb driven by generous accounting

As shown in Figure 2, ODA figures were on an overall upward trend until 2023, with negligible variation between the grant equivalent and cash flow calculations. That said, this is likely to change in the future as cash flow accounting of ODA loans becomes obsolete. The OECD itself acknowledges that: "The introduction of the grant equivalent system will, by construction, increase ODA figures in the long term in comparison with a cash flow system. This is because reflows on loans are no longer deducted."²⁸ In other words, because loan repayments will never be counted as 'negative ODA', it is a fair assumption that the grant equivalent system will generate less fluctuation in overall ODA volumes (see Table 1).

Figure 2: Cash flow vs grant equivalent DAC countries USD\$ Millions, 2024



Source: OECD Data Explorer, dataset titled DAC1, Flows by provider.

As far as aggregate volumes are concerned, the grant equivalent changes to the ODA measure had a negligible impact, at least in comparison to volumes reported on a cash flow basis.

On the other hand, the areas that saw significant increases in ODA volumes over the period were also linked to the recent changes to the ODA measure. These included in-donor refugee costs (IDRC) and to a lesser degree the controversial decision to count excess Covid-19 vaccine donations as ODA (not officially part of the 'ODA modernisation' process).²⁹

More specifically, the increases in 2020 and 2021 can be attributed to the Covid-19 pandemic and driven at least in part by the counting of excess vaccine donations as ODA, while the significant spikes in 2022 and 2023 were driven by considerable increases in IDRC and aid to Ukraine. These increases led many CSOs to suggest that ODA was being inflated.³⁰

With some of these costs levelling off (or no longer inflating aid) in 2024, ODA volumes dropped considerably for the first time in five years. Estimates are that ODA will continue to slide in the foreseeable future.³¹ The decades-old commitment agreed by ODA providers at the UN General Assembly in 1970 to allocate 0.7 per cent of Gross National Income (GNI) to ODA, already a long way away, is totally implausible in the current context.³² When we remove costs like IDRC, imputed student costs, Covid-19 vaccines and debt relief, or items that 'inflate' ODA, the share is even lower (see Figure 3).

Figure 3: ODA as % of GNI vs 'real' ODA as % of GNI



Source: OECD Data Explorer, dataset titled Creditor Reporting System (CRS).

A look beyond the overall volumes should tell a more complete story.

2.2 ODA as grants vs loans – a shift towards lending

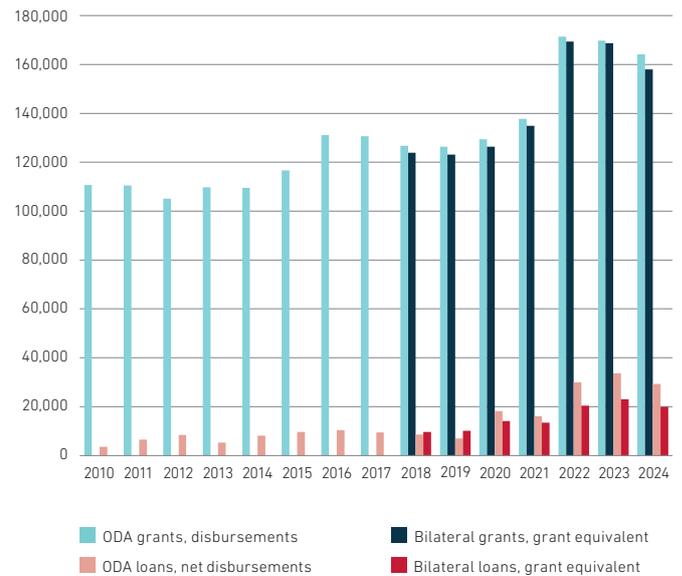
The grant equivalent approach has introduced notable fluctuations in the reported figures for ODA loans. The OECD's regular backward-looking analyses of the impact of the new system reveal considerable variances in reported ODA levels – particularly for ODA providers with large lending programmes. As the OECD notes, "in 2022, the grant equivalent method had a significant impact on a number of members with a substantial loan programme: EU institutions (-17 per cent), Canada (-16 per cent), France (-9 per cent), Portugal (19 per cent). According to the preliminary figures, this was also the case in 2023: EU institutions (-29 per cent), Canada (-12 per cent), France (-8 per cent), Portugal (17 per cent)."³³ These figures detail how ODA loan figures for certain ODA providers change when the grant equivalent method is applied to their loan disbursements.

Figure 4 explores how ODA has been deployed as grants versus loans since 2010, covering both the pre- and post-grant equivalent periods. Although there are year-on-year variations, there is no clear linear trend in overall volumes prior to the reform. However, from 2018 onwards, a more consistent pattern of lending as a delivery modality among DAC members emerges.

"We reiterate that international development cooperation, especially North-South cooperation, remains a fundamental catalyst for sustainable development. North-South cooperation is the main channel of development financing. We emphasize the need for binding timeframes for ODA commitments and call for reversing the trend of concessional loans replacing grants. We call for the fulfilment of existing commitments, including ODA by developed countries, as well as the announcement of new commitments. The role of the United Nations in development cooperation must be reinforced, including through a strengthened Development Cooperation Forum."

Statement on behalf of the Group of 77 countries and China on 22 January 2025.³⁴

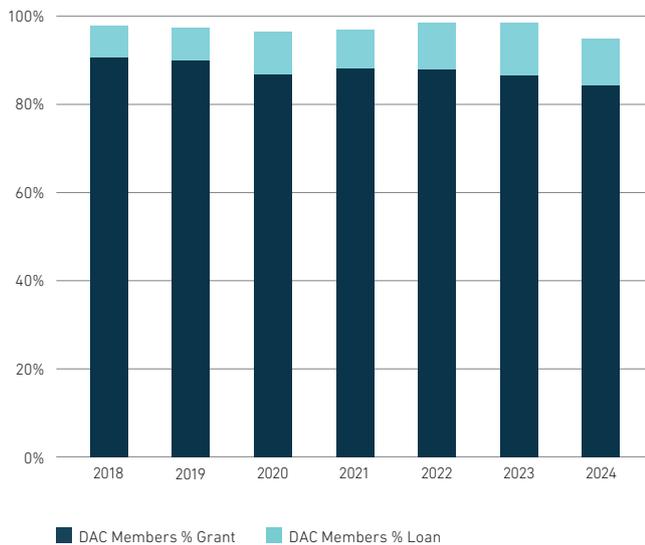
Figure 4: ODA delivered as grants vs loans (net disbursements and grant equivalent), 2010-2024 (US\$ millions, 2024)



Source: OECD Data Explorer, dataset titled DAC1, Flows by provider.

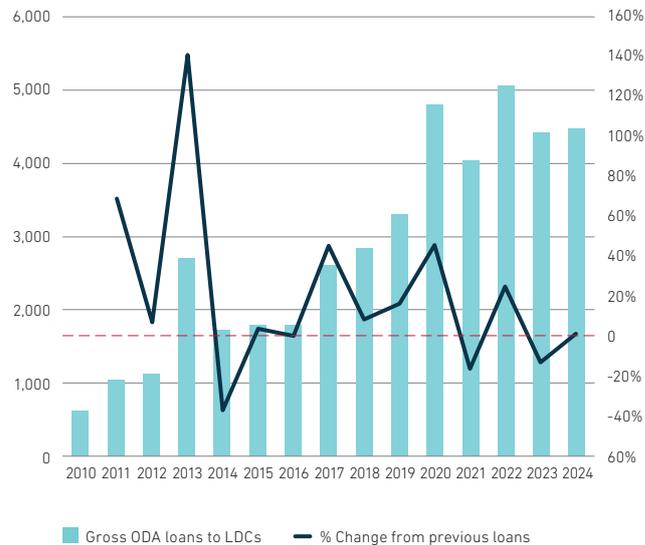
Even when looking only at the share of loans captured in the grant equivalent measure, it is possible to see an increase in the use of loans by DAC members since 2018. This peaked in 2023 at nearly 12 per cent of total ODA, up from 7 per cent when the measure was first introduced (see Figure 5).

Figure 5: Share of grants vs loans since grant equivalent



Source: OECD Data Explorer, dataset titled DAC1, Flows by provider.

Figure 6: Gross ODA loans to LDCs (US\$ millions, 2024)



Source: OECD Data Explorer, dataset titled DAC2A, Aid (ODA) disbursements to countries and regions.

Looking further back to 2010 (and the volumes expressed in Figure 3), the shift becomes more pronounced as the use of loans more than doubled between 2010 and 2018, without a commensurate increase in grant-based ODA.

Among the big six ODA providers, patterns diverge significantly. The US and UK remain almost exclusively grant-giving ODA providers. France and Germany have both fluctuated somewhat between grant and loan modalities – although ultimately lending is far more central to France’s ODA portfolio, whereas Germany channels the majority of its assistance through grants. Japan stands out as the most loan-oriented ODA provider, with loans accounting for more than two-thirds of its ODA in recent years. Meanwhile, the EU institutions have undergone a sharp transformation since 2022, becoming a predominantly lending ODA provider by 2023.

More troublingly, OECD analysis indicates that “while the new system was meant to incentivise concessionality, evidence shows that the terms of loans to the least developed countries (LDCs) hardened”.³⁵ When combined with data showing a rising share of loans to LDCs (see Figure 6), this suggests that the modernisation process is weakening developmental rationale that underpins ODA. Global South countries, and LDCs in particular, have consistently called for greater access to grant-based finance (see quote on page 15), as they are increasingly receiving more of their ODA as loans and on tougher terms.³⁶

This is a deeply concerning trend. In 2024, LDCs spent more on debt service (US\$49 billion) than they received in ODA (US\$29 billion) which is a striking indicator of the growing imbalance between flows going in and out of the country (see Figure 7). In 2024, the total external debt stock of low- and middle-income countries hit a new record: US\$8.9 trillion, of which US\$1.2 trillion – also a record – was owed by the 78 most vulnerable countries.³⁷ The convergence of an aid crisis and a growing debt crisis in Global South countries is likely to precipitate a fiscal crisis, compelling governments to make public spending trade-offs, typically through budget tightening in sectors such as health and education.

“Grant-to-loan substitution shrinks fiscal space in developing countries and pushes them deeper into debt. It’s as simple as that.”

Vitalice Meja, Executive Director, Reality of Aid Africa.³⁸

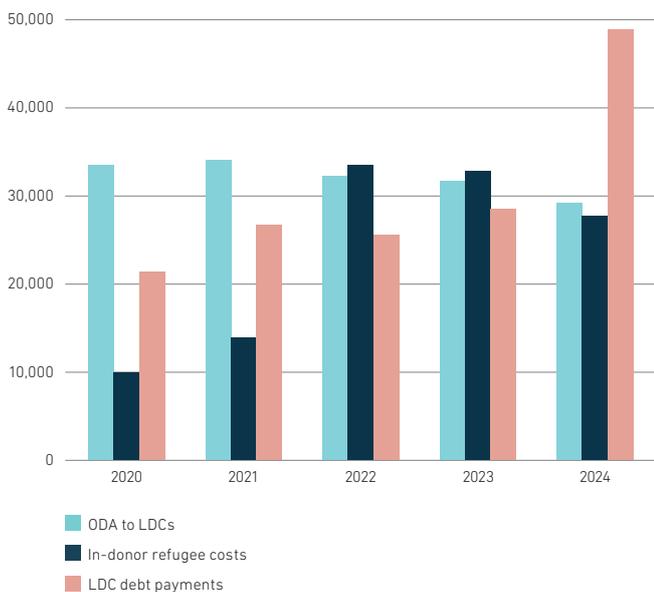


Credit: Reality of Aid Africa

A shift from grants to loans places an additional burden on the fiscal space for Global South countries at a time when national budgets are only just recovering from the Covid-19 pandemic. If this trajectory continues, the shift towards loans risks exacerbating debt vulnerabilities and eroding the concessional nature of aid that is foundational to the ODA concept.³⁹ Debt distress arising from loans constrains fiscal space, forces difficult trade-offs in public policy and leaves public services under resourced. Moreover, when these services are not adequately funded, there is increased reliance on unpaid care work, which disproportionately falls on women.⁴⁰ As the Chief Economist of the World Bank notes in the Bank’s 2025 International Debt Report “between 2022 and 2024, about US\$741 billion more flowed out of developing economies in debt repayments and interest than flowed into them in the form of new financing. It was the largest debt-related outflow in more than 50 years. The human toll has been steep: among the 22 most highly indebted countries, one out of every two people today cannot afford the minimum daily diet necessary for lasting health.”⁴¹

The convergence of an aid crisis and a growing debt crisis in Global South countries is likely to precipitate a fiscal crisis

Figure 7: Comparison of ODA to LDCs, LDC debt payments and in-donor refugee costs (US\$ millions)

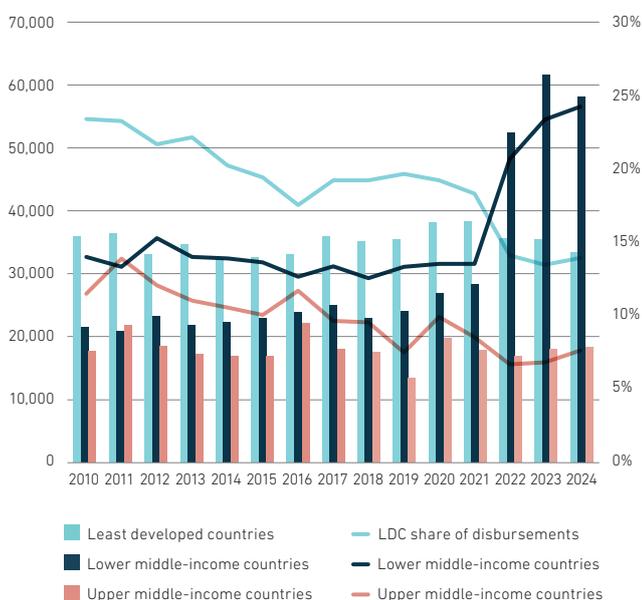


Source: OECD and World Bank data.

2.3 ODA to country groups – leaving the most marginalised behind

Since 2010, ODA to LDCs has decreased substantially as a share of net ODA disbursements (see Figure 8). This decline has remained in place even as overall ODA volumes have remained relatively stable or increased substantially in recent years.

Figure 8: DAC member ODA to income groups (US\$ millions, 2024)



Source: OECD Data Explorer, dataset titled DAC2A, Aid (ODA) disbursements to countries and regions.

In 2010, LDCs received over 20 per cent of total ODA disbursements. However, by 2021 their share had fallen below 13 per cent. This represents a steady diversion of ODA away from LDCs, which are heavily dependent on concessional finance to support their financing of public services. By contrast, ODA allocations to lower middle-income countries (LMICs) have increased in both absolute and relative terms, reflecting a gradual rebalancing of ODA providers’ priorities. This is a significant observable shift in ODA allocations, and it coincides directly with the modernisation process.

The different (dis)incentives it introduced appear to be driving ODA providers away from delivering grant-based financing in LDCs and towards using ODA for their own domestic interests.

This trend became particularly pronounced following the Russian invasion of Ukraine in 2022. That year marked a striking inversion in the distribution of ODA between LDCs and LMICs, as ODA providers reallocated resources to address humanitarian and reconstruction needs in Ukraine – itself an LMIC – and to mitigate the secondary effects of the war, such as hosting refugees. However, it is important to note that the downward trajectory in the share of ODA going to LDCs predates 2022. This earlier decline suggests that the war merely accelerated or crystallised pre-existing shifts in the behaviour of ODA providers, rather than catalysing them. These shifts likely reflect a combination of factors, including a growing emphasis on migration management, climate finance and domestic economic interests, all of which tend to channel ODA toward middle-income countries (MICs), rather than directly to the countries most in need. Furthermore, increased ODA to LMICs says more about the priorities and profit-seeking behaviours of ODA providers than it does about the needs of LMICs.

“When MICs/LMICs receive more ODA due to rich countries seeking profit or to extract wealth it can hardly be described as ‘mutual interest’ and is antithetical to the principle of country ownership, a fundamental pillar of the effectiveness agenda.”

Jennifer Malonzo, Executive Director, IBON International.⁴²



Credit: Ibon International

For LDCs, this reorientation carries significant implications. ODA remains a vital and, in many cases, irreplaceable source of external finance: in some countries, it accounts for up to two-thirds of total external development resources. Unlike other developing economies, LDCs have limited access to private capital markets and often face higher borrowing costs, making concessional finance a critical component of fiscal stability and development planning (see Box 3).

A sustained decline in ODA allocations to these countries therefore risks undermining their ability to meet budgetary commitments, fund social services and invest in long-term development goals, particularly in the context of overlapping crises, like health, climate and debt.⁴³ Among the big six, only the UK has consistently maintained a predominant allocation to LDCs. For ODA providers like the EU institutions, the shift away from LDCs has been particularly extreme.

Box 3: From grants to loans – what ‘ODA modernisation’ has meant for the Global South

The experience of Bangladesh, El Salvador and Tanzania provides clear evidence that the ODA reform process has incentivised ODA providers to increasingly use loans as opposed to grants. These cases were selected for their regional and income diversity, but also because they are clear illustrations of a general shift towards lending over grant-based ODA, since the grant equivalent measure was agreed.

In **Bangladesh**, both loan volumes and the share of loans in total ODA have risen sharply over time. Between 2010 and 2023, the country experienced a major shift from grants to loans, with ODA loan volumes increasing from well under US\$500 million in 2010 to around US\$2.2-2.4 billion by 2023. Over the same period, the share of loans rose from below 10 per cent to between 60-70 per cent in 2022-2024 (see Figure 9). This trajectory makes Bangladesh one of the clearest cases of the way the incentives associated with the ‘ODA modernisation’ process have pushed ODA providers toward loan-based ODA.

In **El Salvador**, there has been a rapid increase in the loan share since the mid-2010s. Grants have gradually declined while loan volumes have increased, especially after 2018. Although loan volumes were close to zero in the early 2010s, they reached more than US\$150 million by 2023. Correspondingly, the share of loans rose from around 1-3 per cent in earlier years to nearly 40 per cent in 2023 before dropping back down to 13 per cent in 2024 (see Figure 9). This trend illustrates how even smaller ODA recipients are now receiving a substantial proportion of their ODA in loan form, consistent with the incentives embedded in the modernised ODA framework.

Tanzania shows a more modest but still notable increase in both loan volumes and the share of loans. Historically, almost all ODA to Tanzania was provided as grants, but ODA loan volumes began rising after 2013, demonstrating that even countries previously receiving primarily grant-based finance are now receiving a growing portion of ODA as loans. ODA loans have increased from near zero in 2010

to around US\$200 million in several recent years. The loan share has similarly grown, from nearly 0 per cent in 2010 to approximately 15-17 per cent in 2022, before stabilising at around 13 per cent in 2024 (see Figure 9).

The increase in debt service of bilateral loans from France and Japan has been noticeable, as reported by the International Monetary Fund (IMF).⁴⁴ With the risk of overall public debt distress assessed as moderate, CSO concerns have increased as this has a negative impact on the government’s ability to fulfil its delivery obligations, especially to the most vulnerable Tanzanians.⁴⁵

Figure 9: Share of loans to Bangladesh, El Salvador and Tanzania from 2010-2024



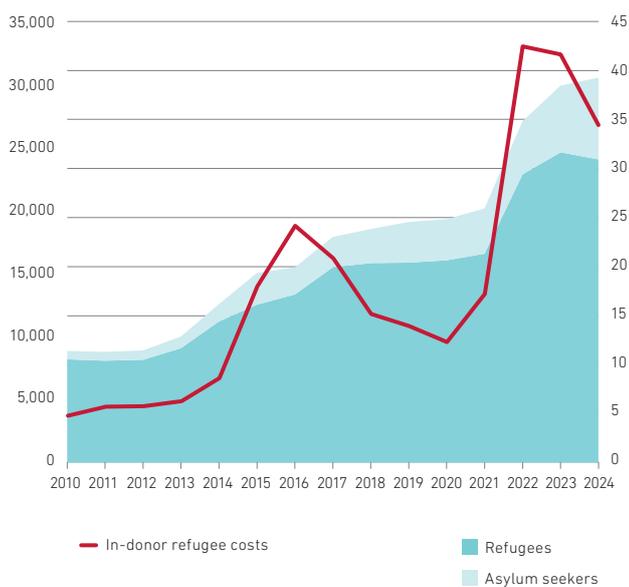
Source: OECD Data Explorer, dataset titled Creditor Reporting System (flows).

Taken together, the trajectories of Bangladesh, El Salvador and Tanzania clearly support the argument that the ‘ODA modernisation’ reforms have incentivised ODA providers to deliver a greater share of their ODA through loans, irrespective of geography or income classification.

2.4 In-donor refugee costs – ODA that never leaves home reaching all-time highs

The number of refugees and asylum seekers has risen dramatically over the past 15 years, first in the wake of the Syrian conflict and, more recently, following Russia’s invasion of Ukraine.⁴⁶ As a result, the costs borne by ODA providers to host refugees and asylum seekers have soared by nearly 775 per cent from their 2010 low to their 2022 peak. Figure 10 illustrates both the evolution of in-donor refugee costs (IDRC) ODA from 2010 to 2024 and the parallel trends in the global population of refugees and asylum seekers over the same period.

Figure 10: In-donor refugee costs (US\$ millions, 2024) and numbers of refugees and asylum seekers (millions)



Source: OECD, Data Explorer, dataset titled DAC1, Flows by provider and UNHCR, Refugee Statistics; UNHCR, Refugee Statistics.

Establishing a direct correlation between the number of refugees and asylum seekers and the amount of IDRC reported as ODA, however, proves challenging. While the major spikes clearly align with global crises, the magnitude of IDRC growth outpaces the increase in refugee numbers. For instance, between 2010 and 2016, IDRC rose fivefold, even though the refugee and asylum seeker population less than doubled. This disparity could indicate that changes in reporting practices or national cost structures have significantly influenced the reported figures, or more tellingly, that they have enabled ODA providers to claim these costs as ODA and boost volumes. A closer examination of the 2017 revision of the reporting rules, and its potential impact on IDRC volumes, would therefore be warranted.

Among the big six ODA providers the patterns are consistent with the aggregate trends. Germany and the US claim the most IDRC as ODA, although the UK is not far behind. France also saw spikes in recent years, but volumes are not of the same magnitude as Germany, the US and the UK. Japan IDRC costs are minimal and the EU institutions, by default, do not report IDRC. One thing to note: while the modernisation process was intended to harmonise reporting, there appears to be some significant variance in spending per refugee. For example, the UK reports very high costs per refugee.⁴⁷ Such inconsistencies in reporting are not confined to the big six. They contribute to a broader incoherence in the ODA statistical framework, with countries variously choosing to include or exclude IDRC, or to count IDRC for refugees from some countries but not others.⁴⁸ There is a need for further review of the rules to address this incoherence.

Regardless, counting IDRC as ODA artificially inflates overall aid figures, masking the true volume of resources directed towards development in the Global South. Recent data reinforce a major concern: while total ODA has reached record highs, a growing share of it remains within the borders of ODA providers.⁴⁹

Finally, these trends expose a deeper issue regarding the availability and unpredictability of ODA flows for long-term development cooperation. This unpredictability undermines the ability of Global South countries to plan and implement their own development strategies.

The end result is that an obvious paradox has emerged: while global aid volumes have recently reached their highest levels of all time, countries in the Global South countries have received proportionally less ODA.⁵⁰ This has raised serious concerns from Global South countries (see quote below), and calls into question not only the utility of aid statistics but also the quality and effectiveness of ODA since its 'modernisation'. Such a glaring mismatch calls into question not only the utility of aid statistics but also the quality and effectiveness of ODA since its modernisation.

“Donor countries have shifted more ODA resources to funds for hosting and processing refugees within donor countries themselves in recent years. This shift in ODA resources towards humanitarian and crisis situations is not consistent with long-term and sustainable approach to financing development needed to achieve 2030 Agenda targets.”

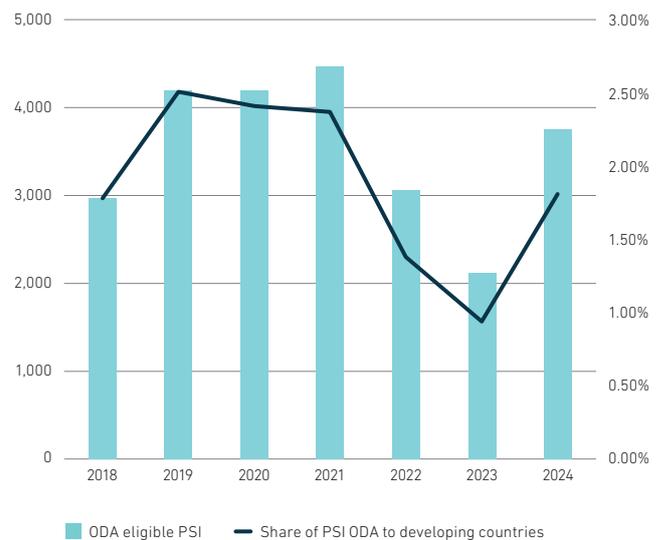
Group of 77 and China, Ministerial Declaration, Forty-Eighth Annual Meeting of Ministers for Foreign Affairs on 27 September 2024.⁵¹

2.5 Private Sector Instruments (PSI) – are the least developed countries 'bankable'?

The rules on how PSI can be reported as ODA were only finalised at the end of 2023. Between 2018 and 2022, the rules for reporting PSI were provisional, allowing some PSI to be counted as ODA using a cash flow approach. This created a mixed system whereby PSI was measured differently from the rest of ODA and left many issues unresolved.⁵² Currently, ODA providers are afforded a grace period to implement the new reporting standards into their internal systems. All of this means that getting complete, comparable data for a statistically significant period is challenging. The fact that there is currently so little data on PSI activities suggests a need for much greater transparency, especially in relation to development finance institutions (DFIs), which should be publicly accountable entities.

As Figure 11 shows, PSI trends remain relatively unremarkable, at least in terms of overall volumes reported. The expectation is that these volumes will increase as ODA providers implement the new rules. While this is somewhat speculative, it is not without justification, given how forcefully and consistently ODA providers have been championing PSI through instruments like guarantees.⁵³

Figure 11: Private sector instruments aggregate volumes, 2018-2024 (US\$ millions, 2024)



Source: OECD Data Explorer, dataset titled, Creditor Reporting System Grant Equivalent.

Counting in-donor refugee costs as ODA artificially inflates overall aid figures

On the other hand, examining where private finance is being mobilised reveals the destination of ODA deployed for this purpose. The latest OECD data show that very little of this mobilisation happens in countries that are most in need, which supports a key finding of this study. Instead, “Middle-income countries benefited from more than 50% of total private finance mobilised over 2020-23, in part because they are, on average, perceived as lower risk environments than LDCs”. In addition to this, “Over 2020-23, mobilised private finance mainly benefitted economic infrastructure and services sectors – such as banking and business services as well as energy – accounting for almost two-thirds (66 per cent) of the total mobilisation.”⁵⁴

These patterns highlight a deeper structural issue. The use of PSI to channel aid flows risks placing bankability (or profitability) centre stage rather than focusing on development needs. If the allocation of ODA increasingly follows market logic, it could divert scarce concessional resources towards commercially attractive projects in relatively better-off economies. This is precisely the opposite of ODA’s core purpose and diverts funds away from addressing poverty and inequalities.

PSI may hold potential for mobilising private capital but this is not what is most important in relation to ODA, especially if the developmental impact is inconsequential or relatively low. The current trajectory risks eroding both the quality and effectiveness of ODA by channelling funds away from the countries that are most in need, and obscuring the real volume of aid available for sustainable development.

The use of PSI to channel aid flows risks placing profitability centre stage rather than focusing on development needs

3: Has the ‘ODA modernisation’ improved ODA quality and effectiveness?

A core aim of the reform process was to improve the quality and effectiveness of aid. However, a review of effectiveness monitoring results from 2016, 2018 and the most recent data, together with trends in tied aid, budget support and Country Programmable Aid (CPA), offers little evidence that this goal has been met. Indeed, the emerging picture suggests the opposite – that the modernisation effort may have undermined key principles of the effectiveness agenda, including the use of country systems, aid predictability and alignment with country priorities and results frameworks.

The latest monitoring of OECD-DAC providers is only now becoming public, and even then, the information made available lacks the detail of the 2016 and 2018 assessments. The seven-year gap in comprehensive reporting is striking. In 2022, periodic global reports were replaced with a rolling system meant to provide more flexible and continuous monitoring. However, data delays since 2018 have made it increasingly difficult to track ODA provider performance over time. The lack of regular and comparable reporting limits transparency and weakens accountability for meeting aid effectiveness commitments.

The 2018 monitoring round had already shown that ODA providers were falling short of key effectiveness commitments. Compared to the previous round, ODA provider performance had declined across indicators.⁵⁵ For example, the use of country results frameworks and alignment with partner countries’ development strategies were both declining; ODA predictability was decreasing; and public financial management (PFM) systems in Global South countries, despite being strengthened domestically, were still not being used systematically by ODA providers. These findings raise serious concerns about the credibility of ODA provider pledges to support country ownership.

Preliminary results from the most recent performance assessments (2022-2024) show a more mixed picture, suggesting that some of these downward trends have partially reversed.⁵⁶ For instance, use of country results frameworks has improved, and there are signs of greater medium- and long-term predictability of ODA, indicating renewed efforts to align assistance with country priorities. However, the continued decline in the use of national public financial systems is troubling, as it implies that, even when Global South country institutions are capable, ODA providers still prefer to bypass them in favour of their own mechanisms. This persistent pattern undermines the very systems that ODA was meant to strengthen.

The uneven progress and prolonged monitoring gaps point to a deeper issue: without transparent, consistent and comparable reporting, it becomes nearly impossible to determine whether reforms are delivering on their promises. Moreover, the limited use of country systems reflects a growing tension between ODA provider preferences and the needs of countries in the Global South, including the need to strengthen democratic institutions for greater democratic ownership and accountability.

3.1 Is it tied or untied?

Tied aid remains one of the most problematic practices in development cooperation. By requiring that goods and services financed through ODA are procured from the ODA provider country, tied aid effectively enriches the ODA provider at the expense of the Global South countries’ development. This practice undermines national systems, distorts local markets and weakens the principle of country ownership. Before the OECD-DAC adopted the Recommendation on Untying in 2001, it found that tied aid “can increase the costs of a development project by as much as 15 to 30 per cent”.⁵⁷

If ODA providers are serious about their international commitments to make aid more effective, they must completely end tied aid, both formally and informally, completely and instead align procurement practices with the principle of democratic ownership.⁵⁸ This would mean prioritising budget support and local procurement systems, allowing ODA to strengthen economies in the Global South, as opposed to funnelling public funds back into ODA provider economies.

While CSOs and countries in the Global South have insisted that all aid should be untied,⁵⁹ not all ODA is subject to the rules ODA providers have committed themselves to through the Recommendation on Untying ODA. For this reason, tied aid is assessed on two levels:

1. Against all bilateral ODA, meaning all ODA that the provider disburses, regardless of modality or region, and
2. Against ODA covered under the OECD-DAC Recommendation on Untying ODA, which primarily covers ODA delivered in certain geographies/income classifications.

The Recommendation on Untying ODA provides a strong framework that discourages members from tying their aid, particularly for LDCs and Heavily Indebted Poor Countries (HIPCs). It has been instrumental in reducing tied aid since its adoption, although its coverage remains partial and excludes certain types of flows and income classifications.

As Figure 12 shows, aggregate tied aid levels have remained relatively steady over the period analysed (figures on tied aid are only available up to 2023), which seems to indicate that the modernisation of ODA has neither positively or negatively impacted aid tying. Overall, tied aid volumes have hovered between 16 per cent and 19 per cent, with a low of 10.8 per cent in 2020 (reflecting the exceptional circumstances of the Covid-19 pandemic, which temporarily led to more untied ODA) and a high of 20.6 per cent in 2015. The stability of these figures over more than a decade suggests that, despite commitments to untying aid, progress has largely stagnated.

Figure 12: Percentage of tied aid of all bilateral ODA and percentage of tied ODA covered by untying recommendation (2010-2023)



Source: OECD, dataset titled Tying status of ODA by individual DAC member countries, coverage of the Recommendation on Untying ODA, 2010-2023.

However, the picture becomes more revealing when viewed at the level of individual ODA providers. Among the so-called big six, the US stands out as by far the largest culprit of tied aid, both for all bilateral ODA and for ODA covered by the Recommendation. Japan also ties a significant share of its bilateral ODA but is almost fully compliant with the Recommendation, meaning its tied practices fall outside the framework’s formal scope. France, meanwhile, has shown an upward trend in tied aid for both categories, a worrying reversal of earlier commitments. In contrast, Germany and the EU institutions have made steady progress in reducing tied aid, maintaining high levels of compliance with the Recommendation. The UK reports all of its ODA as untied, although previous analyses have observed that UK aid contracts remain heavily biased towards domestic firms. Greater transparency at the subcontract level would therefore be an important step to validate these claims and ensure genuine untying.⁶⁰

While the data on tied aid for the likes of the EU institutions and Germany looks promising over the last decade, there appears to be a shift in sentiment among these same providers in how they plan to approach this issue going forward. The EU’s Global Gateway – the strategy that aims to use EU development cooperation to “close the investment gap” by “mobilising public and private investments” in support of “sustainable development and economic growth worldwide”⁶¹ – has been widely criticised for using EU aid as a medium to promote European national industry abroad (see Box 4).⁶²

The European Commission, through the EU’s Global Gateway, also looks to enhance the use of export credits in development cooperation, which was a point of deep contention during the negotiations on PSI, and raises civil society concerns.⁶³ The EU goes so far as to propose “the possibility to provide support in the form of grants in a flexible and timely manner without the need for a call for proposals, including to private sector entities from Member States” through the Global Europe Instrument.⁶⁴ Meanwhile in Germany, politicians are pursuing a development cooperation strategy that prioritises national self-interest, either in reaction to public perception of ODA or under pressure from national industry.⁶⁵

Box 4: The European Union's Global Gateway: Donor effort, donor benefit

In 2021 the EU introduced the Global Gateway, which is a flagship strategy that uses ODA to subsidise private investments in infrastructure across the Global South, as a "sustainable, values-driven" approach to development cooperation. In reality, its underlying design, governance and development rationale are highly questionable when evaluated through an aid quality and effectiveness lens. The EU's Global Gateway appears to be the textbook example of how 'ODA modernisation' is being exploited to advance ODA providers' strategic and commercial interests rather than the development priorities of countries in the Global South. Here are four reasons why the Global Gateway, as a strategy to channel aid flows, is undermining ODA quality and effectiveness and abandoning its core mandate:

1. Strong orientation towards European commercial interests

Reviews of Global Gateway flagship projects indicate that a significant share of activities directly benefit European firms, raising concerns about the extent to which commercial considerations influence project selection. The establishment of business-led advisory structures has heightened apprehension that private European actors hold disproportionate influence over strategic choices, potentially sidelining the development priorities of partner countries.

2. Limited focus on poverty reduction and social sectors

A relatively small proportion of Global Gateway investments target core development sectors such as health, education and social protection. This stands in tension with the EU's long-standing development mandate,

which focuses on poverty eradication as the primary objective of its external assistance. The emphasis on commercially viable infrastructure and connectivity projects risks diverting resources away from areas with high developmental returns but limited profitability, such as social sectors including healthcare, education and social protection that benefit the most vulnerable, and particularly women.

3. Weak participatory governance and accountability

The design and rollout of the Global Gateway has been characterised by limited consultation with Global South country governments, parliaments or civil society organisations. Decision-making remains concentrated within EU institutions and affiliated development finance actors. This top-down approach contrasts with established development effectiveness principles of country ownership and inclusive development partnerships.

4. Heightened social, environmental and human rights risks

Several Global Gateway projects, particularly in the infrastructure and extractives sectors, carry significant social and environmental risks, including displacement, pressure on natural resources and potential rights violations. While the initiative promotes sustainability branding, implementation challenges in high-risk contexts reveal potential gaps between stated principles and operational practice. It also relies heavily on the due diligence and standards of DFIs implementing the projects. As a result, there is a shortage of support frameworks to ensure that impact assessments are carried out properly.

The persistence of tied aid undermines the quality and effectiveness of ODA. When ODA provider funds are channelled back to their own countries, the supposed benefits of ODA to developing economies are diluted. It also sends a contradictory message as ODA providers publicly endorse the principles of effectiveness while their practices perpetuate dependency and asymmetry.

3.2 Budget support – preferred by countries deferred by providers

Budget support – and particularly sector-wide budget support directed to government ministries – remains one of the most effective and preferred modalities of aid delivery from the perspective of Global South countries. It guarantees a degree of country ownership, a principle long recognised as central to development effectiveness, and ensures that ODA directly strengthens governments' capacity to meet their obligations to their citizens. By being channelled through national budgets, this form of support enhances alignment with domestic development plans and priorities, allowing governments to allocate and spend resources where they are most needed. It also promotes greater transparency and accountability, since funds appear within national budget processes and are subject to parliamentary and audit oversight.

As Figure 13 illustrates, budget support was an underutilised modality of ODA delivery even prior to 'ODA modernisation'. Volumes trended downward for much of the period under review, reflecting a broader ODA provider shift towards other funding mechanisms. This trend was temporarily reversed in 2020, when the Covid-19 pandemic and the resulting restrictions on movement necessitated more flexible aid delivery approaches. Another significant spike occurred in 2022, linked once again to the Russian invasion of Ukraine. In both 2022 and 2023, Ukraine accounted for 57 per cent and 77 per cent of total budget support, respectively, suggesting that, when ODA providers are inclined to provide budget support, they will do so. Notably, even before the war, Ukraine represented 11 per cent and 9 per cent of global budget support in 2020 and 2021, suggesting that this modality was already being used to support state resilience and institutional capacity there.

Figure 13: DAC members' budget support disbursements, net (US\$ millions, 2024)



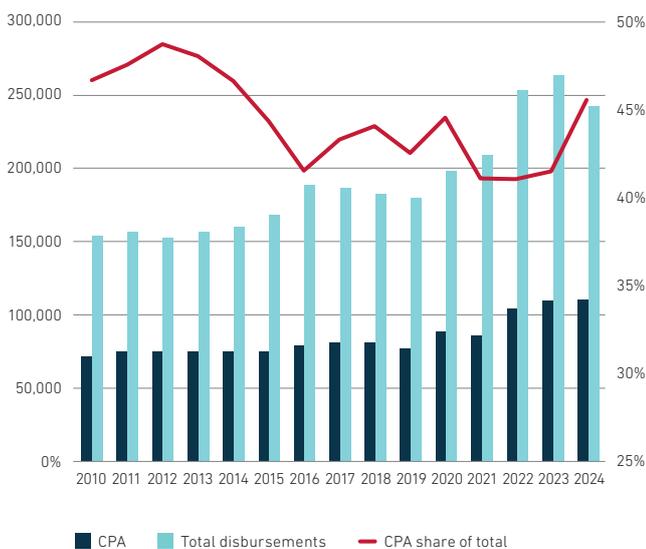
Source: OECD Data Explorer, dataset titled DAC1, Flows by provider.

Despite these short-term fluctuations, the overall decline in budget support raises important questions about the use of country systems, the direction of ODA policy more broadly and what role 'ODA modernisation' has played in all of it. Reinvigorating the use of budget support could significantly improve the quality and effectiveness of ODA. By providing predictable, on-budget financing, ODA providers can help to support domestic accountability, strengthen public financial management systems and build sustainable institutional capacity. It also ensures that ODA genuinely supports nationally determined priorities rather than ODA provider-driven initiatives. At a time when the integrity of ODA is increasingly being called into question, a renewed emphasis on budget support offers a practical way to realign aid with its original development mandate.

3.3 Deepening declines in Country Programmable Aid (CPA)

Country Programmable Aid (CPA) measures actual cross-border flows of ODA that reach countries in the Global South. Although it is imperfect, it provides a valuable complementary, if not an altogether more reliable, measure of 'donor effort'. Unfortunately, it has been on a downward trend over the period studied, even as the numbers have been propped up by EU institution support to Ukraine. As Figure 14 illustrates, CPA has been on an overall downward trajectory since the 2012 decision to modernise ODA, dropping to 41 per cent in 2021 through to 2023.

Figure 14: DAC Members Country Programmable Aid, 2010-2024, Disbursements, Net, USD Millions, 2023



Source: OECD Data Explorer, dataset titled Country Programmable Aid (CPA).

The data looks worse when the EU institutions (and their direct support to Ukraine) are removed from the analysis. In this scenario, country programmable aid is at a historically low level of 34 per cent of total disbursements.

As early as 2010, less than half of ODA was being disbursed at country level. In the years since then, it has declined further. If Global South governments had been meaningfully consulted in setting out the objectives of the 'ODA modernisation' process, they would likely have suggested prioritising a reversal, rather than a deepening, of this decline (see the quote below from the Group of 77 and China). Instead, the opposite has occurred. The modernisation of ODA has arguably contributed to an increased reliance on instruments and allocations that do not translate into predictable, programmable resources for partner countries. The resulting contraction of CPA volumes represents a tangible erosion in the quality of ODA and its purpose to support national development strategies and country ownership.

Today, CPA stands at its lowest point in over a decade, underscoring the extent to which the modernisation process has shifted incentives away from direct support to countries and their development priorities.⁶⁶

"A more crisis-prone world has put pressure on concessional financing, with country programmable aid declining as a share of total ODA compared to its peak in 2009" and we ask for the "Fulfilment of the ODA Commitment of 0.7% of GNI as well as a commitment to enhance the amount of ODA designated for country programmable aid."

Statement on behalf of the Group of 77 and China at the IMF-World Bank Spring Meeting 2024.⁶⁷

4: Conclusions and policy recommendations

A decade-long ODA reform process, led by rich countries, changed ODA measurement, reshaping incentives, priorities and outcomes. This has created significant consequences for the actual amounts of resources received by Global South countries, as well as the legitimacy, effectiveness and quality of aid.

This report analysed the ODA reform process and ODA patterns from 2010 to 2024 and found that:

- 1. The process suffered from major legitimacy and participation gaps.** Closed door negotiations excluded Global South countries, civil society and non-DAC providers, undermining the legitimacy of decisions that affect all development partners.

Despite the stated intentions of some members of the OECD-DAC, the way in which the 'ODA modernisation' process was designed and implemented has raised legitimate concerns. Conducting negotiations behind closed doors, with limited transparency and participation, has eroded confidence in the legitimacy of the outcomes. Given that these decisions have far-reaching implications beyond OECD-DAC membership, the lack of adequate consultation and meaningful contribution by Global South countries (which are meant to be treated as partners), civil society and non-DAC ODA providers is a serious procedural shortcoming.

- 2. The ODA reform process has pushed ODA providers towards lending.** The shift to the grant equivalent system improved statistical accuracy but also complicated concessionality assessments and encouraged greater use of loans over grants.

As this report shows, the use of loans more than doubled between 2010 and 2018, when the new rule was agreed, without a commensurate increase in grant-based ODA. After that, it is possible to see an increase in the use of loans by DAC members, peaking in 2023 at nearly 12 per cent of total ODA. Among the big six ODA providers, Japan stands out as the most loan-oriented ODA provider, with loans accounting for more than two-thirds of its ODA in recent years. Meanwhile, the EU institutions have undergone a sharp transformation since 2022, becoming a predominantly lending ODA provider by 2023. When combined with data showing a rising share of loans to LDCs, this suggests that the so-called 'modernisation process' has impacted negatively on the terms of the ODA received by LDCs, which have consistently called for greater access to grant-based finance. This is concerning, particularly in the context of a growing debt crisis. Debt distress arising from loans constrains fiscal space, forces difficult trade-offs in public policy and leaves public services under resourced.

- 3. Broader ODA eligibility criteria, including the reporting of in-donor refugee costs and private sector instruments, have diluted ODA's developmental purpose.**

The reporting of non-concessional instruments, in particular, has inflated aid volumes without ensuring that these flows align with Global South country priorities or generate meaningful developmental impact.

As this report shows, the costs borne by ODA providers to host refugees and asylum seekers have soared by nearly 775 per cent from their 2010 low to their 2022 peak. This is aid that never left rich countries' borders. Counting these costs as overseas aid has artificially inflated the overall figures, masking the true volume of resources directed towards development in the Global South.

Furthermore, ODA providers now have greater flexibility to report a wider range of financial instruments as ODA, which may have contributed to an inflation of reported aid volumes without corresponding improvements in impact or quality. These shifts underscore the need to reassert the principle of concessionality and to differentiate between developmentally oriented and commercially motivated flows. While ODA providers now disclose more detailed information on how ODA is allocated, including financial flows that leverage private capital, transparency alone does not ensure accountability or developmental impact and effectiveness. The increased incentive to channel ODA through PSI raises important questions about alignment with recipient countries' priorities and the extent to which such flows genuinely serve poverty reduction and sustainable development goals.

- 4. Aid has shifted away from the countries that are furthest behind.** As this report shows, ODA has increasingly flowed to MICs rather than to LDCs, which are most dependent on concessional support.

This trend coincides with the growing emphasis on leveraging private investment through ODA and a palpable shift in policy tone among traditional ODA providers, which now seems focused on ensuring a 'mutual benefit'. While this shift may reflect changing global realities and geopolitics, it risks leaving behind the most vulnerable countries that still rely heavily on traditional forms of aid. Here, it is important to recognise that the 'mutual benefit' narrative can be realised through solidarity, stability and sustainability in countries in the Global South, instead of a narrow perspective based on the economic or commercial interests of the ODA providers.

5. The quality and effectiveness of ODA have deteriorated.

Emphasis on financial innovation and risk-sharing has weakened commitments to country ownership, predictability and long-term developmental outcomes, contributing to a decline in overall aid effectiveness.

This suggests that the 'ODA modernisation' process, although it allegedly intended to make ODA more effective and impactful, it has undermined the core ODA developmental function.

Re-imagining development cooperation by restoring its core purpose

There is a need to both re-imagine ODA and to acknowledge the historical obligation of providers to support the development of countries in the Global South, from which immense wealth has been extracted. Achieving this requires restoring the core purpose of ODA within a more inclusive, representative and transparent intergovernmental setting, such as the UN.

The proposed review of the OECD-DAC's role and mandate on the surface seems like a positive step, but it is the OECD-DAC reviewing itself, leaving observers with a sense of scepticism as to whether this criticism will be addressed. There is a need to fundamentally re-examine the principles underlying ODA measurement and governance, and the OECD-DAC is unlikely to see it that way. The much-needed future reform should ensure that countries from the Global South have a meaningful voice in shaping decisions that affect them. A more democratic approach – under the auspices of a universal or UN-based framework – would enhance legitimacy, rebuild trust and strengthen the developmental integrity of ODA. The UN and its Development Cooperation Forum (DCF) offers a ready built space for this to happen.

Acting decisively to re-imagine the role of ODA requires political will grounded in the principles of democracy and inclusion. Civil society has a key role to play in this effort and in amplifying the voices of communities that are most directly impacted by these decisions.

“We require a recognition that North-South cooperation remains the main channel of international development cooperation, the fact that the target for developed countries to provide 0.7% of GNI in ODA has not been met once since its formal approval, recognition of the trillions owed to developing countries in terms of unmet ODA commitments and concern about the shift of ODA towards humanitarian and crisis situations. We also require a recognition that International Development Cooperation plays a unique, indispensable and transformative role in financing development.”

Statement on behalf of the Group of 77 and China on 12 February 2025.⁶⁸

Policy recommendations

1. Rebuild trust and deliver on commitments to fulfil country needs

- a. ODA providers must meet their longstanding commitment to deliver 0.7 per cent of their GNI as ODA.
- b. ODA providers must deliver on commitments to the least developed countries, ensuring allocations target poverty and inequalities where needs are greatest.
- c. Explicit targets should be established for grant-based ODA, country-programmable aid – the actual cross-border flows of aid that reach countries in the Global South – and budget support to help reverse current shifts in modalities and geographies.

2. Deliver ODA as grants for reducing poverty and inequalities

- a. Concessional should be upheld as a defining feature of ODA. Commercial instruments, such as most private sector instruments, should be reported transparently but should be excluded from ODA statistics.
- b. Grants should remain the preferred modality, especially where debt risks are high.
- c. The grant equivalent system should be reviewed to ensure measures of concessional and developmental impact are clear, consistent and aligned with the original intent of ODA.
- d. A complementary metric should be developed to track the share of ODA specifically directed to reducing poverty and inequalities.

3. Strengthen independent oversight of ODA quality and effectiveness

- a. Effectiveness principles and commitments must be re-integrated into ODA provider policies. Providers should report more regularly on the effectiveness of their ODA, as enshrined in the Paris Declaration, the Busan Partnership Agreement and in other commitments, paying attention to alignment, ownership and use of country systems. This is particularly at risk today in the face of the transactional approach to ODA that has been gaining traction.
- b. Transparency should extend beyond reporting volumes to the OECD-DAC to include evaluation of ODA providers' contributions to development outcomes.
- c. ODA providers should be subject to regular, independent assessments of ODA quality to ensure that aid contributes to genuine development impact.

4. Use ODA budgets for development; report other costs elsewhere

- a. ODA providers should use metrics other than ODA to count costs like PSI, in-donor refugee costs and other 'in-donor expenditures'. These costs have their place in public budgets but calling them ODA should be disallowed.

5. Make the governance of ODA democratic

- a. ODA reform should be handled in a more democratic and inclusive intergovernmental setting. ODA governance should ultimately take place under a universal or UN-based framework to enhance democratic legitimacy and global trust. For this, strengthening the Development Cooperation Forum is a crucial first step.
- b. The ongoing OECD-DAC self-review is insufficient to address broader legitimacy and accountability concerns. Any future reforms should institutionalise full participation by recipient countries, civil society and non-DAC ODA providers, ensuring that decision-making reflects a diversity of perspectives. This is not something the OECD-DAC can deliver.

Restoring integrity to ODA means more than fixing technical rules. It requires shifting power, giving an equal voice to countries in the Global South, and demanding transparency and accountability from those in rich countries who have benefited the most from this reform agenda. An aid system increasingly shaped by the strategic and commercial interests of rich countries will never deliver on its developmental purpose. Governance must be made genuinely inclusive, with countries in the Global South, civil society and affected communities shaping the rules and setting the priorities.

Transparency must be matched with accountability and allocations must return to the purpose of reducing poverty and tackling inequalities. The world cannot afford an aid system that rewards geopolitical advantage over global solidarity. If ODA is to matter in the decade ahead, it must be rebuilt as an engine of justice.

Restoring integrity to ODA means more than fixing technical rules

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About Eurodad

Eurodad (the European Network on Debt and Development) is a network of 61 European NGOs in 28 countries. We work to ensure that the financial system at the global and European levels is democratically controlled, environmentally sustainable, contributes to poverty eradication and delivers human rights for all.

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