



Aid off course

How ODA reform has left the Global South behind

Briefing Paper • Matthew Simonds • January 2024

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

A decade-long ODA reform process, led by rich countries gathered at the OECD's Development Assistance Committee (OECD-DAC), changed ODA measurement, reshaping incentives, priorities and outcomes. This has significant consequences for the actual amounts of resources that Global South countries get, the legitimacy, effectiveness and the 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.

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 OECD-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, 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 least developed countries (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 (PSI), 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.

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 reassess 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 middle-income countries (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 review of the OECD-DAC's role and mandate – announced at the Fourth UN Financing for Development conference in 2025 – seems like a positive step on the face of it. But it is the OECD-DAC reviewing itself, leaving observers with a sense of scepticism as to whether the criticism levelled against the current system 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's 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.

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. Concessionality should be upheld as a defining feature of ODA. Commercial instruments, such as most private sector instruments, 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 concessionality 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 beyond, 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' contribution 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.



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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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