

Development finance for socioeconomic programming in response to Covid-19

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Question

How did donors and multilaterals adapt socioeconomic programming and funding to better understand and tackle the impact of Covid-19? For example, what evidence is there, ideally from Covid Collective countries, of how they adapted programme design, programme funding/grants, and approaches to partnerships and leadership with grantees?

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The Covid Collective helpdesk service provides brief summaries of current research, evidence, and lessons learned. Helpdesk reports are not rigorous or systematic reviews; they are intended to provide an introduction to the most important evidence related to a research question. They draw on a rapid desk-based review of published literature and consultation with subject specialists.

This Helpdesk report was commissioned through the Covid Collective based at the Institute of Development Studies (IDS) and is funded by the UK Foreign Commonwealth and Development Office (FCDO) The Collective brings together the expertise of, UK and Southern based research partner organisations and offers a rapid social science research response to inform decision-making on some of the most pressing Covid-19 related development challenges. The views and opinions expressed do not necessarily reflect those of FCDO, the UK Government, or any other contributing organisation. For further information, please contact covidcollective@ids.ac.uk

1. Summary

The Covid-19 crisis led multilateral and bilateral donors to revise their funding strategies to respond to the crisis and to adapt existing programming to the new context it created. This resulted in changes to overall allocations, with some countries increasing aid commitments and institutions like the World Bank scaling up lending to low- and middle-income countries while others have cut aid budgets due to low economic growth and demands on domestic resources at home. Changes in aid volumes and disbursement mechanisms are anticipated to have significant impacts on low- and middle-income countries' abilities to cope with the crisis in the short term, and the targeting of these investments are likely to have a lingering effect on recoveries for years to come. Although aid makes up a small proportion of countries' available finance to tackle the Covid-19 crisis, "other financing options such as foreign direct investment, workers' remittances, and taxes – have fallen and are slow to recover" (Prizzon, 2021). Aid finance will therefore be critical to many countries' short-term responses to Covid-19 and capacities to abate longer-term negative impacts on social and economic outcomes as countries begin to recover.

This report gives a broad overview of trends in bilateral, multilateral, and private foundations' funding strategies over the course of the pandemic to highlight observable shifts in practice. The review is based on a rapid search of funding announcements from a selection of bilateral donors, a selection of multilateral institutions, and overall trends reported by foundations. The report also includes evidence reported by secondary literature on finance for development over the course of the Covid-19 crisis.

Key findings:

- Anticipated drops in aid to low- and middle-income countries have not occurred despite low growth rates in donor countries. However, observers caution optimism as many aid commitments have been front-loaded and growth rates are expected to remain low, with the possibility of a lag in aid decreases.
- There are conflicting findings on the extent to which donors are funding socioeconomic programming in response to the Covid-19 crisis. While isolating this funding across donors and funding modalities (e.g. loans versus grants) is difficult, three pictures emerge:
 - Analysis of funding announcements on the Devex website (which appear closely related to announcements on donor websites) suggests responses to the economic impacts of the pandemic make up a large proportion of overall announced funding, followed by funding to the health response.
 - The proportion of funding secured by the UN for responses to the socioeconomic impacts of Covid-19 are far lower than funding secured for immediate health responses (5% of USD 1 billion requested versus 59% of USD 1.74 billion requested respectively).

- Despite health funding featuring high among donor priorities, access to vaccines remains a challenge for most low- and middle-income countries.
- The latest round of large loans to low- and middle-income countries in response to Covid-19 has many observers concerned about an impending debt crisis as the balance of ODA in the form of loans versus grants continues to shift. Currency fluctuations and outflows of currency from highly indebted countries to purchase USD also leaves these countries economically vulnerable.
- Some donors appear to have adapted their ways of working with recipients to address bottlenecks getting resources to where they are needed efficiently and effectively. However, these changes appear limited and have evolved over the pandemic, with no clear indication of overall trends or the medium- to long-term impacts of these changes.
- Disbursing funds directly to international and national non-government organisations (NGOs) and civil society organisations (CSOs) appears to be an area that some donors are exploring as an adaptation of their ways of working.
- Alongside the impacts of Covid-19, other humanitarian crises are taking place – such as conflict and natural disasters – which place additional pressures on donor resources and have introduced more complex challenges that interact with the socioeconomic impacts of the pandemic.

Wide variation in donor approaches to aid disbursement and inconsistency of reporting which has always made cross-donor analysis challenging has been exacerbated over the course of the Covid-19 pandemic. Questions surrounding volumes of aid, when it is being disbursed, the extent to which funds are being repurposed from earlier commitments and the extent to which funding decisions relate to the socioeconomic impacts of Covid-19 specifically are very difficult to answer in any systematic way (Anderson, 2020). Funding commitments to socioeconomic programming are difficult to isolate from broader Covid-19 response funding, but there is evidence to suggest that donors are targeting socioeconomic issues as part of their response and focusing on cross-cutting areas such as gender and climate. Questions remain though as to the longer-term impacts of changes in donor strategies resulting from the crisis, such as whether easing of funding restrictions will be pursued to allow more expedient and efficient release of funds, whether direct funding to NGOs who are seen as responsive to local needs will increase, and whether the looming debt crisis exacerbated by shifts towards loans in place of grants can be averted.

2. Overall trends in finance for socioeconomic programming

Based on analyses of past crises, it has been anticipated that donor commitments to aid would fall through the Covid-19 crisis given that aid budgets tend to be pro-cyclical – meaning they increase as donor economies grow and

decrease when donor economies contract (Carson et al., 2021, p.8). “Official development assistance (ODA) may be one of the first items axed from donor government budgets. Bilateral cooperation does not bring immediate, visible benefits to domestic taxpayers, and certain elements of the general public challenge the rationale for aid” (Carson et al., 2021, p.8). Analyses of aid flows in years before and after past financial crises by Frot (2009) found economic recessions to be associated with an average 13% fall in aid disbursements immediately following the crisis and decrease 5% on average in years following the crisis. Dang et al. (2013) estimate a 3% elasticity of GDP per capita to aid, suggesting a 1% fall in GDP is associated with a 3% fall in aid. The 2008/9 global financial crisis proved to oppose these trends however, with aid disbursements increasing by 2.1% over the crisis period (2008-12), despite early predictions that aid could fall by as much as 25% due to the fiscal and credit crunch (Carson et. al., 2021). “Total aid flows rose by over 10% in three of the largest donor countries by volume – France, the United Kingdom and the United States – in spite of the pressure on their government budgets at that time” (Carson et al., 2021, p.8)

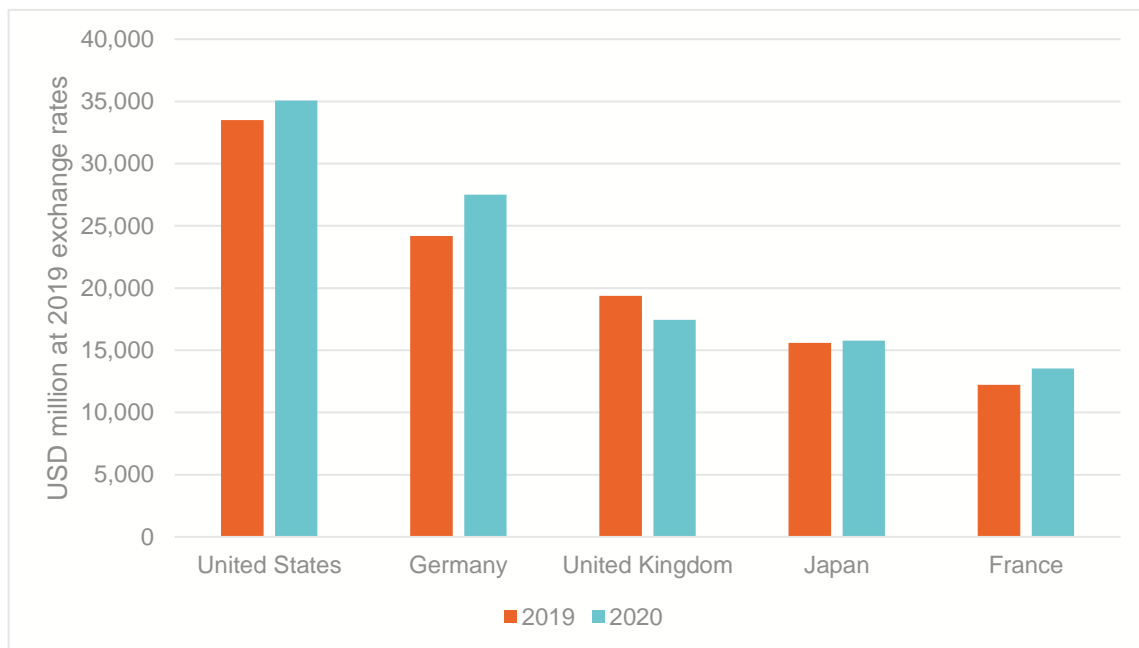
Bilateral donors

Early predictions that bilateral aid commitments would sharply fall due to economic downturn triggered by the pandemic and de-prioritisation of aid in donor countries have so far not transpired, with estimates for 2020 and projections for 2021 being less dire than predicted (Carson et al., 2020; Gavas, 2020; Prizzon, 2021). Figure 1 shows OCED estimates for changes in bilateral overseas development assistance (ODA) between 2019 and 2020 among the five largest bilateral donors, revealing minimal changes and some increases. “Almost all of the top-10 DAC members have committed new aid funding for the Covid-19 response and largely maintained their existing budgets. The UK is the only donor to date that has announced sharp cuts in its development aid in 2020 and 2021”. (Carson, 2020, p.9). The French Foreign Affairs Minister, for example, announced that France remained committed to its ODA budget for 2020 and planned to increase ODA for 2021. The Italian budget proposal submitted in November 2020 also indicated a rise in the country’s ODA budget from 2020 to 2021 (Carson et al., 2021, p.21-22).

“As was the case with the 2008-2009 global financial crisis (GFC), grim predictions of a sharp decline in aid in 2020 proved wrong. In 2020, most bilateral donors kept their budgets at least constant. Despite a second wave of infections, actual economic growth figures were far better than initially forecast. One notable exception is the United Kingdom, which announced a 30% cut of its overall official development assistance (ODA) budget in 2021 compared with 2019.”

(Prizzon, 2021)

Figure 1: Top 5 bilateral donor's total ODA 2019-2020 on a grant equivalent basis



Source: Author's own. Created using data from OECD, 2021, p.8

Despite early estimates of aid flows outperforming expectations by avoiding sharp decreases, observers remain cautious about projections into the medium term given that the scale of the likely economic impact of the current crisis is expected to be far worse than that experienced in 2008/9 (Carson et al., 2021, p.30) “IMF and OECD forecasts for 2020 and 2021 estimate a much deeper decline in economic growth than occurred in the [global financial crisis] on average across 23 members of the DAC” (Carson et al., 2021, p. 30). While real GDP fell by an average of 1.2% among the 10 largest donor countries between 2008-2010, the drop in real GDP between the end of 2019 and 2021 is expected to be twice as much (2.6% - 2.7%) (Carson et al., 2021, p.30).

“Bilateral donors cannot be complacent ... Despite an initial increase, aid began to fall a couple of years after the [global financial crisis]. We estimate the fall in ODA would be moderate (about 2.5%) between 2019 and 2021 if donors had aimed to keep their ODA/gross national income (GNI) ratio constant back in 2019 and beyond. In other words, ODA cuts should not exceed the fall in GNI. We predict the decline in ODA could go up to 9.5% should past relations between growth and aid flows hold constant.”

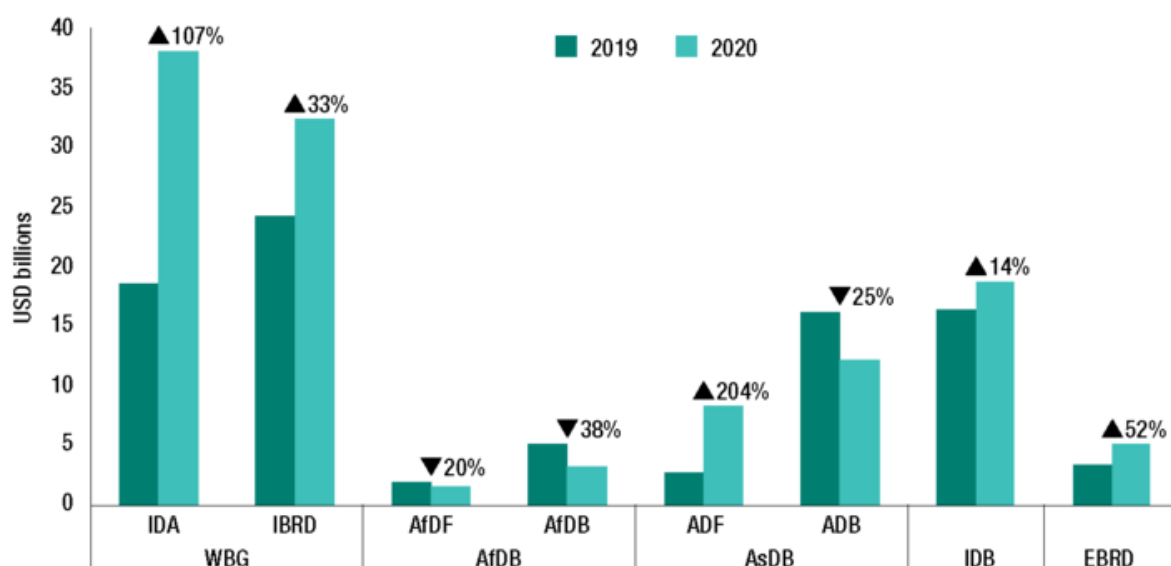
(Prizzon, 2021)

Multilateral donors

Aid funding from multilateral donors has increased significantly between 2019 and 2020. “Overall, projects approved at the World Bank and regional development

banks increased by 35% between 2019 and 2020, and even more so at the International Development Association (IDA) and Asian Development Fund” (Prizzon, 2021). In the early phase of the pandemic the World Bank announced USD 104 billion in financing to low- and middle-income countries to support Covid-19 responses, an increase of 118% year on year (Duggan et al., 2020).

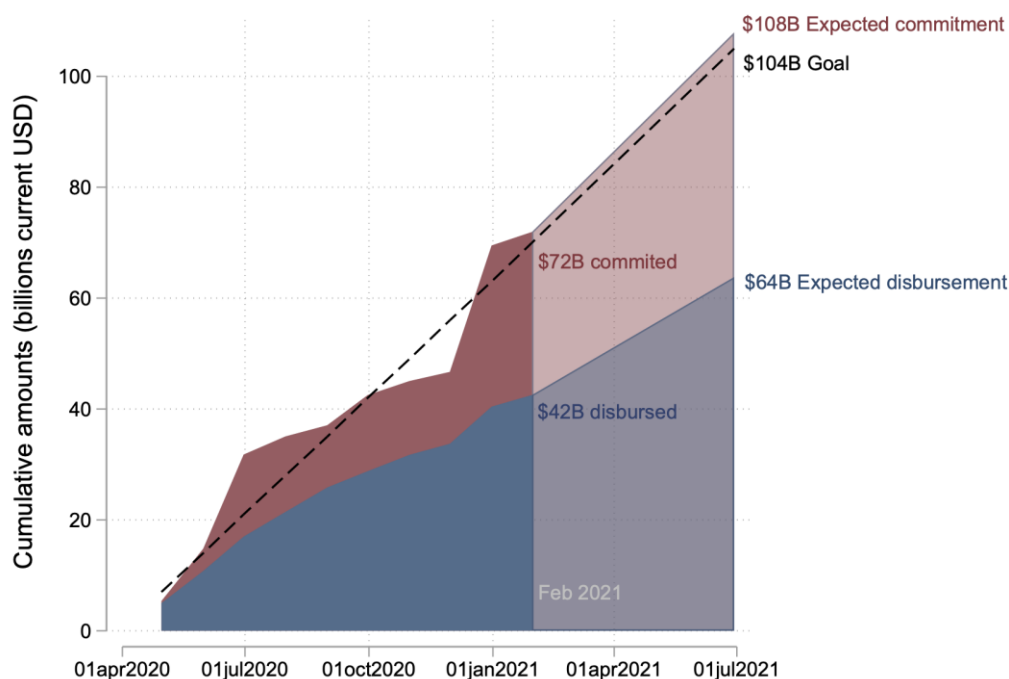
Figure 2: Multilateral development bank project approvals 2019 vs 2020



Source: Carson et al., 2021, p.27 (CC BY-NC-ND 4.0)

However, one year on from the announcement of these commitments it was estimated that only 60% of those funds would be disbursed by the deadline set (see Figure 3) (Morris et al., 2021). Furthermore, the volume of financial support provided has been deemed inadequate, with an average GDP decline of 6% in low-income countries and 10% in lower-middle income countries being met by World Bank loan commitments of around 1.3% and 0.3% respectively and actual disbursements significantly lower than commitments (Duggan et al., 2020). Prizzon (2021) also cautions that “in the absence of increased capital or additional resources for the concessional windows, lending from multilateral development banks could slow down in 2021 and 2022 [given that many] have frontloaded much of their resources in response to the crisis”.

Figure 3: Total World Bank commitments and disbursements (real & projected)



Source: Morris et al., 2021 (CC BY-NC 4.0)

Foundations

Charitable giving through foundations is reported to have increased year-on-year from 2019 to 2020 by 5.1% according to Giving USA (Candid, 2021). According to analysis by the OECD (2020), “financial contributions by these institutions mainly targeted the health and other social sectors – either for specific projects or as core (or softly earmarked) support to grantee organisations (mainly CSOs) to help them overcome imminent financial shortfalls” (p.5). The Bill and Melinda Gates Foundation, for example, have committed USD 1.8 billion to support Covid-19 -response efforts to date, a large proportion of which has been allocated to disease prevention, vaccines, and treatments, though also including socioeconomic programming (Bill & Melinda Gates Foundation, 2021). Some new private philanthropists have also emerged, such as Mackenzie Scott, who are seeking to disrupt existing aid modalities (Economist, 2021).

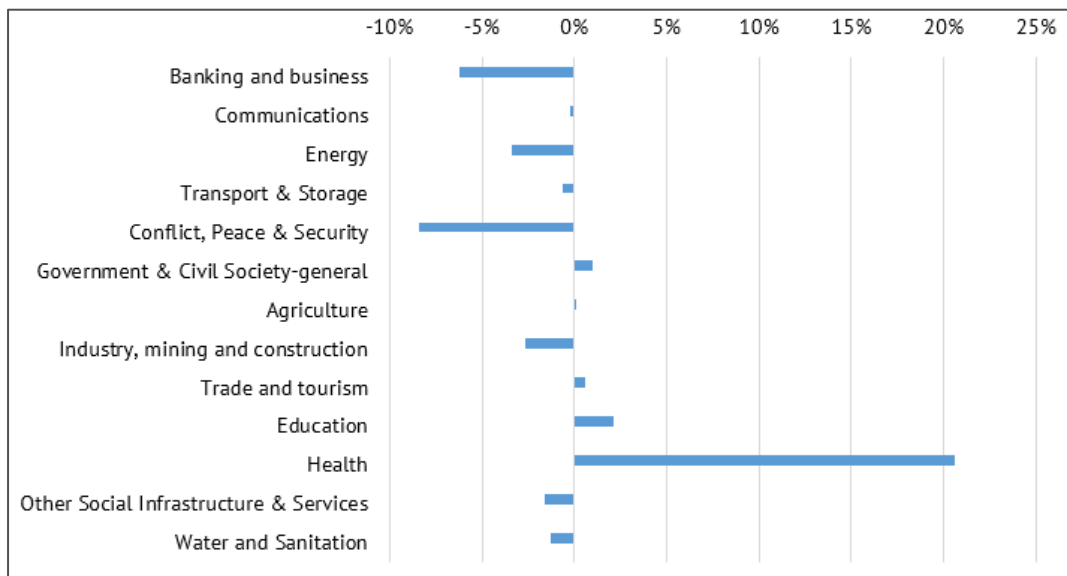
3. Funding priorities by socioeconomic sector

Limitations in aggregating funding announcements across different platforms means it is difficult to categorise funding trends across donors by focus area. However, there are indications that funding to support health and economic activities impacted by Covid-19 dominate donor funding allocations. Analysis of IATI data by Development Initiatives, covering bilateral aid commitments in the first nine months of 2020, found that commitments to health increased 20% over 2019 at

the cost of commitments in other areas such as conflict, peace, and security (see figure 5).

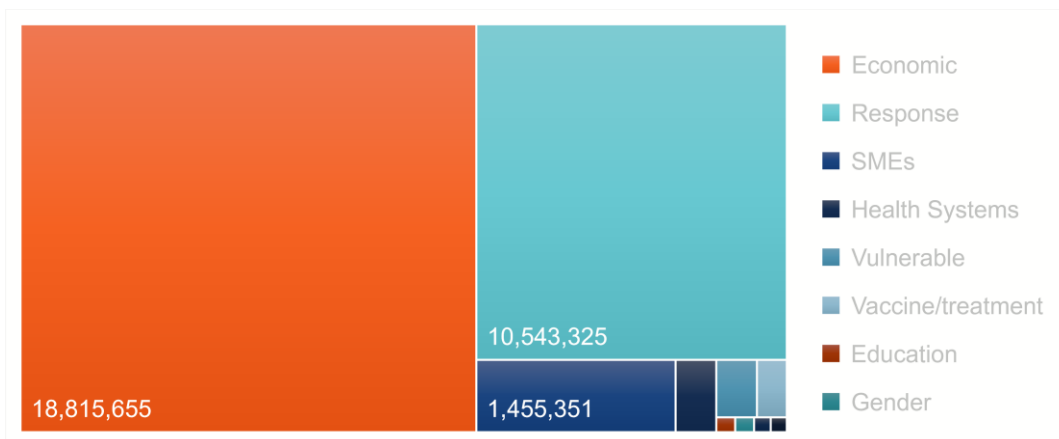
Devex has compiled all Covid-19 funding opportunities announced by bilateral, multilateral, foundation and the private sector listed on their website between 1 January 2020 and 27 June 2021 and categorised these by sector to show how financial commitments have been targeted. Their analysis found that the majority of funding for the Covid-19 response across donors has been to support economic activities, followed by Covid-19 response, small and medium enterprise (SME) support, support to health systems and support to vulnerable communities (Figure 6). “Although Covid-19 began as a health crisis, its rapid and ongoing global spread saw it become an economic crisis first and foremost for many economies” (Cornish, 2021).

Figure 4: Sector percentage change in share of total bilateral ODI (January-September 2020)



Source: Gavas (2020) (CC BY-NC 4.0)

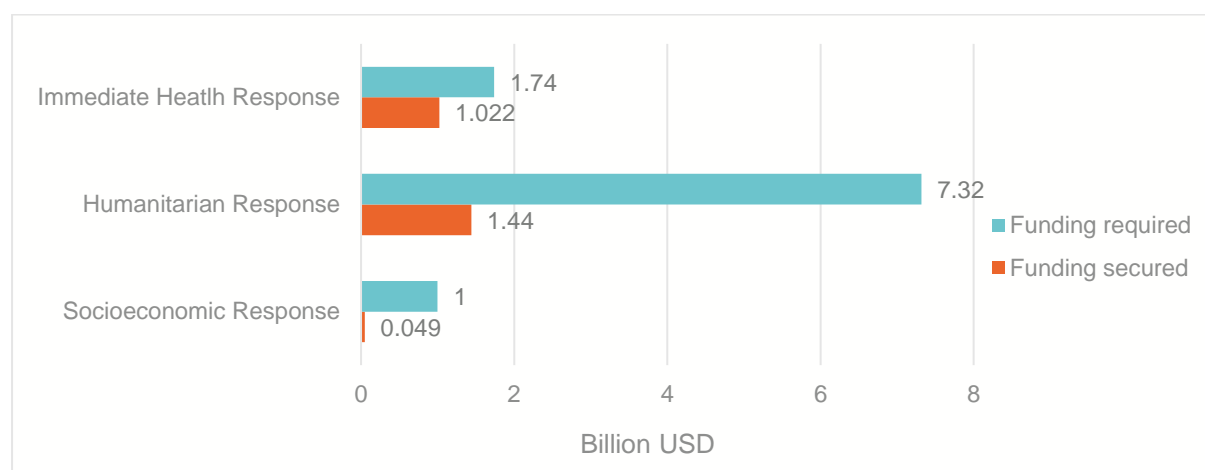
Figure 5: Funding by Covid-19 Focus area (Millions of USD)



Source: Author’s own. Created using data from Devex (2021)

The United Nations has more clearly divided its funding requirements by response type (e.g. immediate health needs versus socioeconomic response), by sector and by targeted vulnerable group (UN, 2021). Three funding plans have been developed to distinguish response approaches – a strategic preparedness and response plan to address immediate health needs, a global humanitarian response plan to ease the impacts in the most 50 vulnerable countries, and the UN framework for the immediate socio-economic response to deliver rapid recovery (UN, 2021). Of these three, the last plan has the lowest funding requirement requested and the lowest proportion of funding secured to date (see figure 4). Although there may be overlap between humanitarian response programming and socioeconomic programming, this evidence suggests that investments in socioeconomic programming are lagging behind other priorities in the Covid-19 response.

Figure 6: UN Funding by response plan (required versus secured)



Source: Author's own. Created using data extracted from (UN 2021)

A limited review of funding commitments listed on donor websites reveals that gender programming has received a significant amount of focus in donors' Covid-19 responses.

Most donors reviewed have, for example, conducted reviews or needs assessments of the gendered impacts of the pandemic. The Government of Japan, for example, released a 'Gender Responsive Approach to Covid-19 Response and Recovery' (JICA, 2020). Donors including the UK, World Bank and UNICEF have also been raising awareness of gender-based violence as the 'shadow pandemic'. Gender had been rising many donor's agendas in the lead up to the pandemic and these priorities are indicative of a continuing trend towards more gender-responsive funding. "ODA to projects with gender equality as a purpose, either as a principal or significant focus, has increased in the last five years from 34% in 2015 to 42% in 2019. [However] IATI data shows a more mixed picture for gender 'in 2020, with ODA principally targeting gender equality rising from 8% in 2019 to 10% in 2020, but significant targeting dropping from 58% to 55%" (Dodd et al., 2021, p.5).

Another area receiving attention in donor funding announcements for Covid-19 response to socioeconomic sectors is climate change. In 2020, the European

Investment Bank announced EUR 5 billion in new public and private investment for climate action in Africa, 71% of which is targeted towards fragile states (EIB, 2021). The Government of Japan, supported by the UNFCCC, has launched an Online Platform for Sustainable and Resilient Recovery from Covid-19 that “showcases policies and actions taken by national governments toward sustainable and resilient recovery from Covid-19” (Ministry of the Environment, 2021). Like gender, commitments to climate change had been increasing in the lead up to the pandemic. “The proportion of ODA where climate change is considered grew from 20% in 2015 to 26% in 2019. [However], the proportion of ODA to projects with a significant focus on climate adaptation or mitigation fell from 25% in 2019 to 17% in 2020, while ODA to projects with climate as a principal objective fell from 18% to 14%” (Dodd et al., 2021, p.5).

Observing funding announcements over the course of the pandemic for this report, it also appears that large funding announcements targeting the socioeconomic impacts of Covid-19 have diminished from early peaks in the immediate months following March 2020. Most recently there are also indications that the connection between Covid-19 and pressures on socioeconomic sectors has been muted, particularly in the wake of other initiatives taking precedent such as COP26 and the recent Global Education summit where Covid-19 was recognised as a barrier to progress, but not necessarily a primary target for immediate policies and programming.

It should also be noted that changes to aid in response to Covid-19 have occurred at a time when many donors were moving towards greater emphasis on aid in donor’s ‘national interest’. The Principled Aid Index which measures the balance struck between donor’s efforts to advance global solidarity or protect their national interest, found that principled aid was growing scarcer in the lead up to 2020 (Gulrajani & Silcock, p.7).

“Higher-ranked donors are driving the fall in average principled aid scores, including Sweden, Canada, Ireland, Iceland, Denmark and Norway. Specifically, this overall decline is the result of falling public-spiritedness scores across most donors. Allocations are increasingly directed towards securing short-term transactional benefits. Across all donors on the Index, we find the worst-performing countries lag significantly behind the best performing ones. Nevertheless, the gap is closing as some inferior performers improve their aggregate scores.”

(Gulrajani & Silcock, p.7)

“Up until 2018, aid was increasingly allocated to secure direct short-term commercial and geostrategic objectives. All in all, donor responses to the crisis so far – a focus on domestic priorities, vaccine nationalism and export bans – have been reinforcing this trend” (Prizzon, 2021).

4. Change to lending and debt

The balance of ODA in the form of loans versus grants has been shifting in recent years, and the latest round of large loans to low- and middle-income countries in response to Covid-19 has many observers concerned about an impending debt crisis (Dodd et al., 2021; Elliot, 2021; Pathfinders, 2021; Smith, 2021; World Bank, 2020). A report by Pathfinders (2021) recently warned that “increased spending to protect populations from Covid-19 means already highly indebted countries face debt levels not seen for fifty years”, estimating that 100 countries will have to reduce budget deficits in the face of debt distress while continuing to combat the pandemic (p. 183). ODA provided in the form of loans had been increasing in the lead up to the pandemic, from 20% to 26% between 2010 and 2019, while ODA provided in the form of grants fell from 72% to 61% (Dodd et al., 2021, p. 4). Dodd et al. (2021) find that this trend strengthened in 2020 as IFIs [International Financial Institutions] played a more significant role (Dodd et al., 2021, p.4). The World Bank has warned that “low- and middle-income countries’ external debt-to-GNI ratio (excluding China) rose to 42% in 2020 from 37% in 2019 while their debt-to-export ratio increased to 154% in 2020 from 126% in 2019” (World Bank, 2020).

Calls for debt relief have been mounting as concerns over low- and middle-income countries’ debt risks have mounted, including among donors themselves.

The German Development Minister’s called for debt remission to low-income countries to free resources to combat the impacts of Covid-19 early in the pandemic in March 2020:

“While announcing his support for the G20 leaders’ recently approved Covid-19-response package of USD 5 billion to support the global economy, Müller [German Development Minister] emphasized the need to include a debt cut for the world’s poorest countries to ensure their ability to act. The G7 and G20 countries should, he said, bring forward a comprehensive stabilization package to mitigate the economic downturn in low-income countries.”

(Korbaki, 2020)

In March 2020, G20 countries agreed to defer debt repayments until the end of 2021, though this has reportedly had only a limited impact on suspending payments (Elliot, 2021). The Debt Service Suspension Initiative (DSSI) implemented by the World Bank and the IMF which took effect in May 2020 made 73 countries eligible for a temporary suspension of debt-service payments to allow countries to free up resources to respond to Covid-19. However, Smith (2020) raises the point that this relief does not apply to private lenders, including payments to the World Bank itself, meaning only 41% of debt payment owed by DSSI countries is eligible for relief.

5. Change in ways of working

Due to the widespread and rapidly changing nature of the Covid-19 crisis, it appears that some donors have adapted their ways of working with recipients to

address bottlenecks in getting resources to where they are needed efficiently and effectively. These changes vary by donor and have evolved over the pandemic, with no clear indication of overall trends or the medium- to long-term impacts of these changes. It is also not apparent whether these changes are being monitored by the agencies involved and whether new evidence on the effectiveness of these changes in ways of working will be reported and learnings documented.

Early in the pandemic some donors released immediate funds to existing partners who were able to quickly scale up their existing operations relevant to Covid-19. In March 2020 the Swedish International Development Cooperation Agency (Sida) allocated USD 11 million from its humanitarian reserve to Covid-19 efforts in 19 low-income countries, distributing this to “organisations within the UN system that have adequate logistical capacity and are able to rapidly scale up their operations” (Grossam, 2020). Sida’s ‘Rapid response mechanism’, in place before the pandemic, allows a small proportion of funding to be included in framework agreements of some partners that can be approved within 24 hours in response to a crisis (Mowjee et al., 2016). Large multilateral institutions like the World Bank, on the other hand, do not appear to be shifting their disbursement mechanisms in response to the crisis. Morris et al. (2021) notes that the Bank’s development policy lending, or budget support, is typically the fastest way to release funds, but its share of the Bank’s portfolio remains largely unchanged through the Covid-19 crisis.

“As the health and economic crisis has spread like a streak of lightning, development agencies have tried to respond by deploying rapid and flexible financing instruments, including cash transfers at the micro level, budget support at the macro level and risk sharing tools, such as guarantees. These latter instruments are areas in which the EU has been a practice leader, with well-established precedents for both sector-specific and large budget support programmes, and an external investment programme providing guarantees. However, sluggish disbursement rates have been a real problem.”

(Gavas, 2020)

With arguably more centralised decision-making structures, some foundations have found themselves in a position to shift ways of working more easily than bilateral or multilateral donors. The Council on Foundations Pledge on Commitments during Covid-19 signed by 805 organisations, largely based in the U.S., have committed to:

- Loosen or eliminate the restrictions on current grants, including converting project-based grants to unrestricted support; accelerating payment schedules; and not holding grantees responsible if project deliverables must be postponed or cancelled.
- Make new grants as unrestricted as possible, so non-profit partners have maximum flexibility to respond to this crisis. We will also support organizations created and led by the communities most affected that we may not fund currently.

- Reduce what we ask of our non-profit partners, postponing reporting requirements, site visits, and other demands on their time during this challenging period.
- Contribute to community-based emergency response funds and other efforts to address the health and economic impact on those most affected by this pandemic.
- Communicate proactively and regularly about our decision-making and response to provide helpful information while not asking more of grantee partners.
- Commit to listening to our partners and especially to those communities least heard, lifting their voices and experiences to inform public discourse and our own decision-making so we can act on their feedback. We recognize that the best solutions to the manifold crises caused by Covid-19 are not found within foundations.
- Support, as appropriate, grantee partners advocating for important public policy changes to fight the pandemic and deliver an equitable and just emergency response for all.
- Learn from these emergency practices and share what they teach us about effective partnership and philanthropic support, so we may consider adjusting our practices more fundamentally in the future, in more stable times, based on all we learn.

Adapted from: Council on Foundations (2021)

Disbursing funds directly to international and national non-government organisations (NGOs) and civil society organisations (CSOs) appears to be an area that some donors are exploring as an adaptation of their ways of working. The UK government, for example, reports having “allocated significant funding directly to international charities and UK-based charities, to play their critical role to support vulnerable communities with the humanitarian impact of the virus. Much of this will be spent through local partners” (UK Parliament, 2021). USAID has also announced funding to the NGO Give Directly to provide direct cash transfers in Uganda, Kenya Malawi and elsewhere. Similarly, an open letter signed by several international NGOs in France called on the government there to support collective action among actors working on socioeconomic dimensions to provide a ‘collective and systematic’ response (Le Monde, 2020).

The Covid-19 pandemic has been argued to have revealed “crisis of legitimacy” of aid structures, evidenced by the fact that a target to disburse 25% of aid to grassroots NGOs set four years ago at the World Humanitarian Summit has been unsuccessful, with only 2.1% going to national NGOs in 2019, a decrease on previous years (McVeigh, 2021). Some NGOs have expressed frustration that most Covid-19 funding is stuck in the multilateral system and slow to reach those organisations implementing programmes through these funds:

“Concerns were raised at an inquiry held by the [UK’s] International Development Committee — the parliamentary watchdog overseeing the Department for International Development — about the relative lack of direct funding given to NGOs. Much of the funding is instead being directed through the United Nations or other multilateral organizations, which slows down distribution.”

(Worley, 2020)

It remains unclear whether these bottlenecks will be resolved in the short-term during the immediate response to the pandemic, though these observations do suggest that inefficiencies in aid disbursement mechanisms are generating interest and debate across different levels of the aid system.

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About this report

This report is based on 5 days of desk-based research. The Covid Collective research helpdesk provides rapid syntheses of a selection of recent relevant literature and international expert thinking in response to specific questions relating to international development. For any enquiries, contact Covid Collective- covidcollective@ids.ac.uk.

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