



Independent observer
of the Global Fund

COVID-19 PANDEMIC SPARKS INCREASE IN FOREIGN AID, BUT FOR HOW LONG?

The COVID-19 pandemic has wreaked havoc across the globe since its emergence in 2019. By 16 April 2021, 140 million people had contracted the new coronavirus, and close to three million had died. The pandemic and measures taken to stop its spread, including lockdowns and border closures, have had catastrophic and devastating impacts on other disease outcomes.

Early surveys on the impact of COVID-19 on essential health services found countries were [diverting resources away from other disease programs](#), both infectious and non-communicable diseases, to combat the virus. The resulting disruptions [set back progress](#) made in meeting global health targets and the sustainable development goals. The pandemic has taken a toll on global and national economies, sparking a financial crisis, which has plunged [95 million people into extreme poverty](#).

Global community mobilizes trillions of dollars for COVID-19

Historical data indicate significant declines in [health spending](#) and [official development assistance](#) (ODA) during previous global crises – although not of the same magnitude as the health and financial crisis brought on by COVID-19. COVID-19 has led to increased investments in the health sector to respond to the pandemic and mitigate the health impacts. Devex [estimates](#) \$21 trillion was raised towards the global COVID-19 response between 1 January 2020 and 4 April 2021.

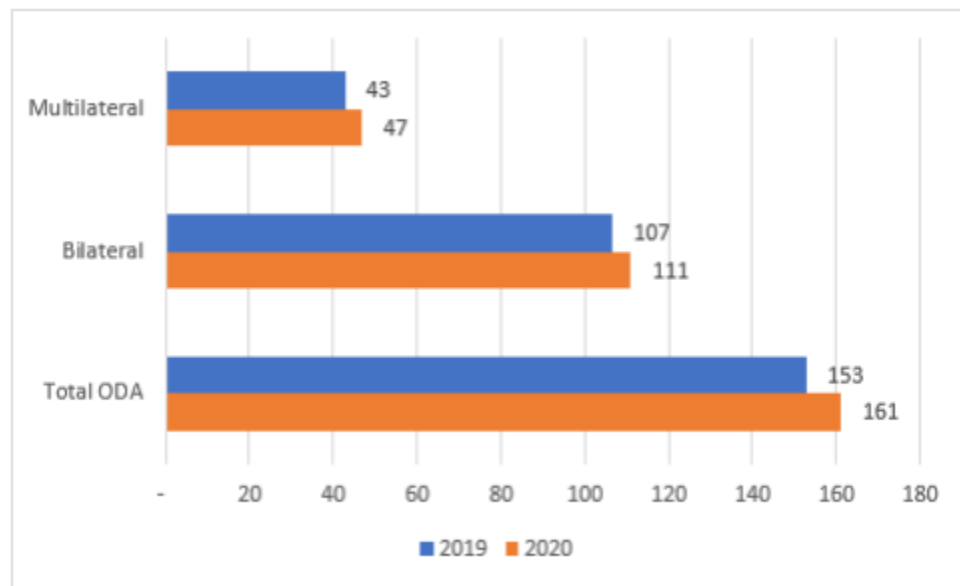
However, the shrinking of economies will derail financing for health in the short and medium term, further widening current resource gaps. External health aid [declined by 16% between 2014 and 2018](#), after a steady increase from 2000 to 2014. Both international and domestic financing for HIV has been on the decline [in recent years](#). Total HIV funding declined by 7% between 2017 and 2019 and has been

consistently below what is needed to achieve the 2030 global milestones and targets.

COVID-19 sparks an increase in foreign aid

The COVID-19 pandemic generated an increase in development assistance in 2020. For instance, foreign aid by the 29 member countries of the Development Assistance Committee (DAC) [rose by 3.5% in 2020](#) to \$161.2 billion, the highest it has ever been, according to preliminary data on ODA published recently by the Organization for Economic Cooperation and Development (OECD). The DAC is an international forum of many of the largest aid providers [accounting for 59%](#) of all ODA in the form of grants, loans to sovereign countries, debt relief and contributions to multilateral institutions. The amount given by non-DAC countries also increased. However, the amount provided as loans rather than grants increased by 39%.

Figure 1: Comparison of ODA commitments by type between 2019 and 2020 (US\$ billions)



Source: [OECD Official Development Assistance data](#)

The DAC countries had expressed a willingness to [‘protect their aid budgets’](#) at the beginning of the pandemic. Indeed, 16 countries increased their aid budgets, including France and Germany, while aid dropped for 13 of them including Australia, Italy, and the United Kingdom.

Existing health resources redirected towards the COVID-19 response

Donor funding for the COVID-19 response either came from [new allocations or reallocations](#) from existing commitments in other sectors or within the health sector. There are still not enough publicly available data to provide a full picture of health spending in 2020, let alone to what extent funds from other diseases such as HIV have been channelled to the COVID-19 response. Such data are usually not available immediately and may take about two years to become publicly available. Aidspace undertakes to monitor this and publish information and analysis as it becomes available.

The preliminary ODA data shows that the increase in ODA by DAC countries was in part due to funds raised to support the COVID-19 response. Overall, the DAC countries raised \$12 billion for COVID-19-related activities, of which \$3 billion were health-related including COVID-19 testing, prevention, immunisation, treatment, care, education and communication. (The OECD expect these figures to rise as countries collect more data; comprehensive data are expected by December 2021.) In a survey of the DAC countries’ COVID-19 response, early on in the pandemic, countries had reported redirecting funds, though of varying degrees, or raising new funding in addition to what they had already committed as ODA

for 2020.

For instance, some international funders such as the Global Fund to Fight AIDS, TB and Malaria had allowed recipient countries to channel some of their savings or reprogram grants, up to a limit of 10% of the grants, towards the COVID-19 response. It also made available an extra \$500 million from savings at the larger portfolio level.

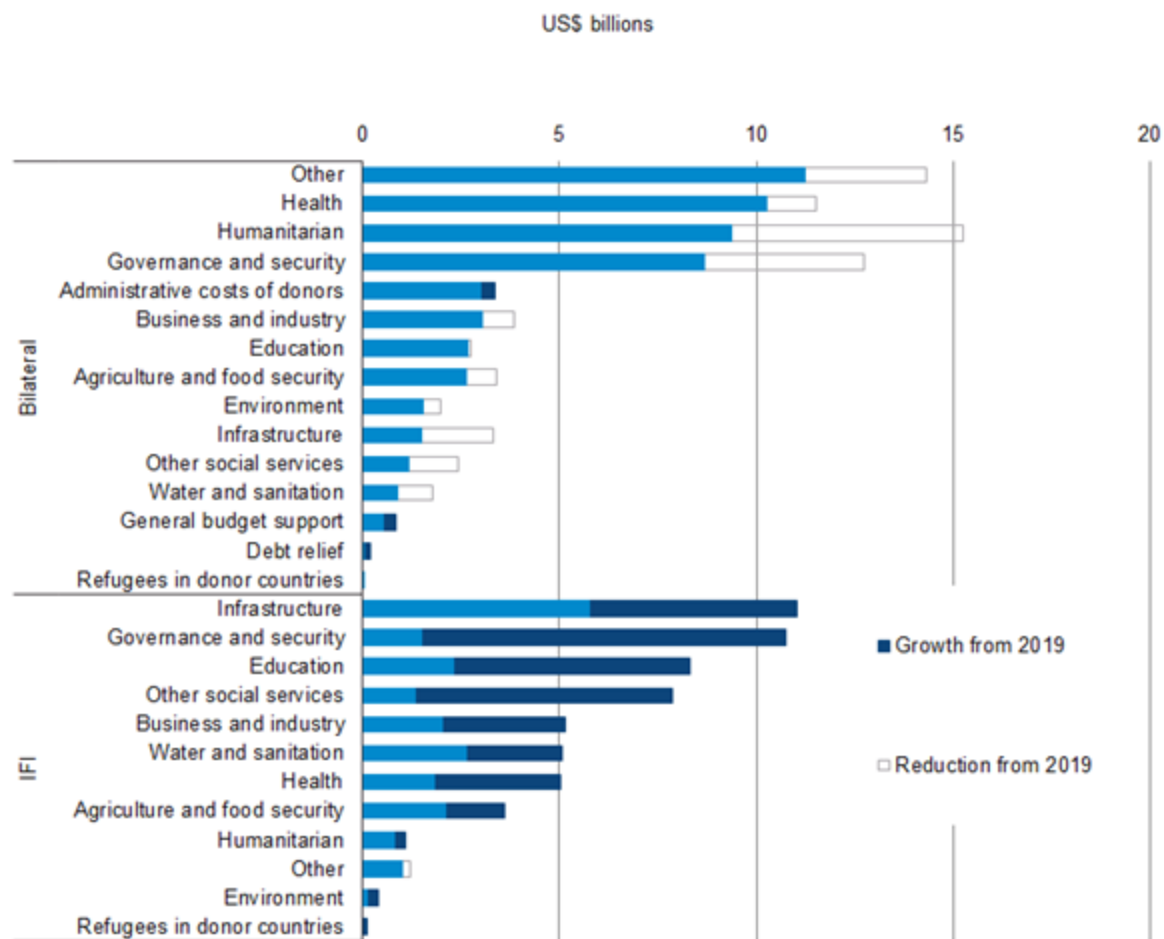
Bilateral donors maintained most of their aid commitments to the health sector in 2020

The recent preliminary ODA data do not include sector-specific statistics, which the OECD says will be available in December 2021. However, a [recent analysis by Development Initiatives](#) that compared ODA data for the periods January to November in 2019 and 2020 estimates that bilateral donors maintained most of their aid commitments to the health sector. However, it is likely that a good proportion of these funds were channelled to the COVID-19 response, thereby leaving less funding for other conditions. The bilateral donors made cuts to most other sectors, including humanitarian, governance, and security sectors.

This analysis had sampled 13 bilateral donors and used data from the International Aid Transparency Initiative (IATI) which did not provide a comprehensive picture of the ODA commitments. The analysis had found a 26% decrease in commitments, contrary to the OECD statistics. So, the final figures on the sector-specific commitments may differ considerably.

The analysis also compared commitments by international financing institutions (IFIs) such as the World Bank, the African and Asian Development Banks, and Inter-American Bank, and found that they rose by 189%. However, most of the support by the IFIs was through loans and not grants, amid concerns over the rising debt levels in developing countries. According to the analysis, IFIs increased their commitments most of the sectors, including health (Figure 2).

Figure 2: Change in aid allocations by sector



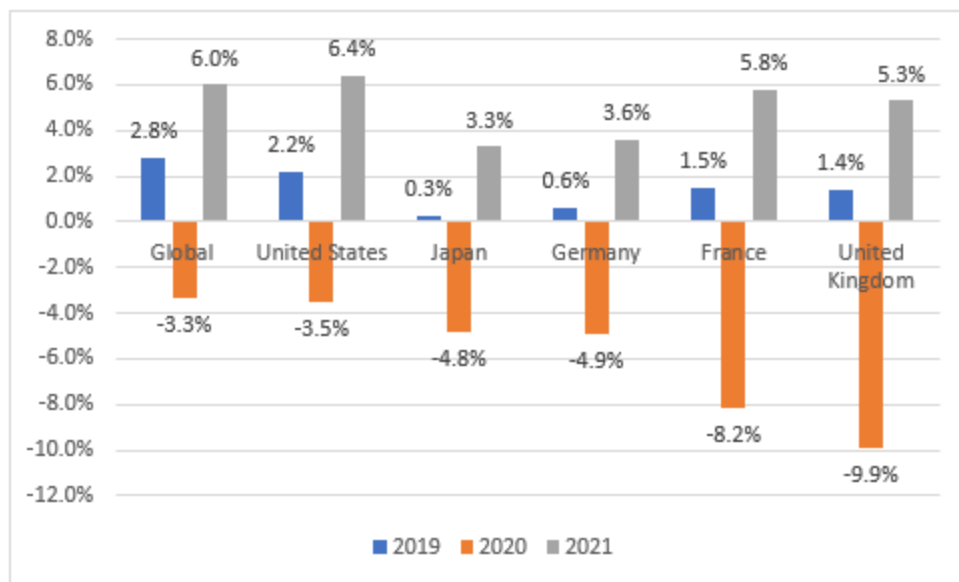
Source: [Aids data 2019-2020: Analysis of trends before and during COVID](#)

The economies of these countries have been significantly affected by the pandemic

The bilateral donors have grappled with a heavy COVID-19 burden within their countries and the economic fallouts of the pandemic. To put this into perspective, the 37 OECD member countries accounted for 55% of the cumulative global COVID-19 burden as of 13 April 2021. The United States alone accounted for more than a fifth of the burden, with more than 31 million cases. Most of the OECD countries have much higher cases and deaths per capita than the global average of 1,746 cases and 38 deaths per 100,000 people.

The advanced economies faced greater economic fallout as gross domestic product (GDP) shrank by 4.7% compared to 2.2% for developing and emerging economies. Overall, the [global economy shrank by 3.3% in 2020](#), compared to a 1% decline during the 2008-2009 global financial crisis. The contraction of these economies has affected the countries' capacity to provide foreign assistance.

Figure 3: 2019-2021 GDP for top five ODA contributors in 2020, (from highest to lowest GDP for 2020)



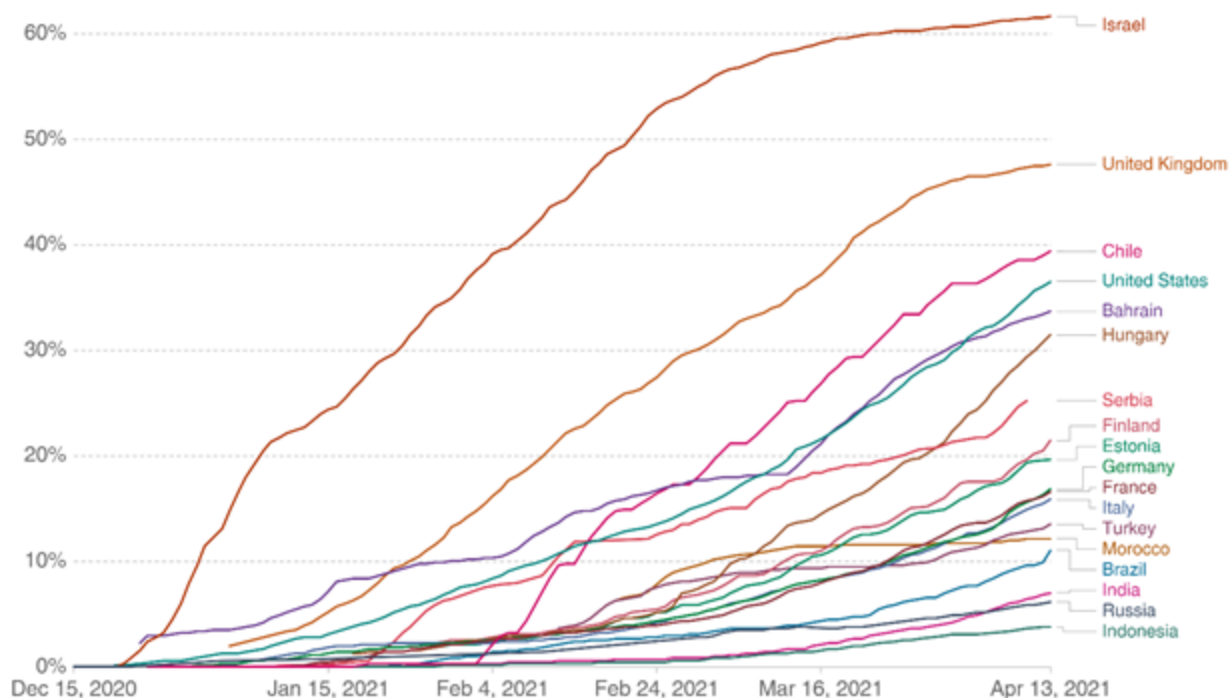
Source: [World Economic Outlook April 2021](#)

The United Kingdom (UK) economy shrank by 10%, the second-largest fall in the OECD. Consequently, [the UK made major cuts to its aid budget in 2020](#), totalling £3.5 billion. The UK is one of the few DAC countries to have consistently met [the United Nations' ODA as a percentage of gross national income \(GNI\) target](#) of 0.7% since 2013. However, with these new budget cuts, the UK government spent 0.5% of national income in 2020 and will continue using this base temporarily from 2021, leading to [a further estimated reduction of £4.4 billion in 2021](#) or 24% between 2020 and 2021. The UK is one of few donors that has tied aid to its GNI; others include [Norway](#), [Sweden](#), and France, which recently passed a law committing the country to reach the 0.7% target by 2025. Development assistance for these countries is vulnerable to adverse changes in the economy. (It will also be affected by exchange rates.)

Economies set to grow faster than anticipated

According to the International Monetary Fund (IMF), the [global economy will grow by 6% in 2021](#), faster than initially anticipated. Advanced economies will recover faster, as is already evident in China and the United States, compared to developing economies who may return to their pre-COVID-19 GDP well into 2023. Critics are sceptical about a 2023 recovery for developing economies due to vaccine nationalism currently rife, rising debt levels and limited economic support. The World Health Organization (WHO) estimated that 733 million vaccines had been administered as of 13 April 2021, most of which have been dispensed in higher economies (Figure 4). [Less than 2% of the vaccines](#) had been administered in Africa?see our article in this same issue of GFO, The few numbers of COVID-19 vaccines administered in low-income countries indicate inequity in allocation and [distribution](#).

Figure 4: Share of people who have received at least one dose of COVID-19 vaccine



Source: [Our World in Data](#)

Unprecedented investments are now needed to help developing countries recover from the financial and health crises. There is still a lot of uncertainty around the impact of this pandemic on foreign aid from 2021 and beyond. The OECD noted that most of the donors had already adopted their ODA budgets by the time the pandemic hit. However, 2021 started with the bilateral donors being under pressure to control the pandemics in their countries by immunizing their population and rebuilding their economies. For instance, Germany, the Netherlands and Norway have [projected slight decreases in ODA in 2021](#), and the UK as highlighted above, while France and Italy have promised to increase their investments.

Developing countries will also need to dig deeper into their public purses to fill the gaps in financing. However, with increasing debt levels, there are concerns that developing countries will channel domestic resources towards the payment of debts and rebuilding the economy, with minimal investments in the social sectors.

Author's note: COVID-19 has also undermined developing countries' ability to pay for health through domestic private and public resources. The Global Fund Observer will publish a bonus article in this series exploring the pandemic's effect on domestic health financing in one of the issues in June 2021.

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