

The Impact of the Ukraine War on Donor Priorities

Major OECD Development Assistance Committee (DAC) members have been revising their aid budgets to address the humanitarian crisis created in the wake of the war in Ukraine. A central component of these revisions has been the redirection of Official Development Assistance (ODA) earmarked for long-term development projects in the Global South. This diversion of aid may have far-reaching consequences for recipient communities in the Global South.¹

Brief Points

- OECD-DAC donors are increasingly using ODA to cover the expenses of in-donor refugee-hosting at home to offset the toll of the Ukraine war on their own economies.
- OECD-DAC countries have increased their defence and military spending in response to the war in Ukraine, limiting funds for development assistance.
- Post-war reconstruction costs will be a further drain on resources, the extent of which will depend on the duration of the war, the scale of infrastructure destruction, and the standard to which reconstruction is carried out.
- Defence budget increases are likely to continue for the long-term and reflect a changing geopolitical order.

Carina Strøm-Sedgwick *Peace Research Institute Oslo (PRIO)*

Pinar Tank *Peace Research Institute Oslo (PRIO)*

Introduction

As the human and economic toll of the Ukraine war continues to rise, the scope for humanitarian engagement in the Global South is shrinking. On 12 May the Norwegian Finance Minister announced that 3.6bn NOK would be reallocated from international development projects to fund domestic refugee-hosting costs as a consequence of the war. While this figure was later revised to 1.5bn following criticism, similar decisions have been made by other DAC member states attempting to adapt to the tumultuous post-invasion environment. The realignment of development funding is of particular concern in the context of a global economy that is slowly recovering from the fallout of the COVID-19 pandemic. In 2021, approximately 140 billion people were pushed into extreme poverty, a state which the World Bank estimates now affects 674 million people globally.² Rising inflation, food and energy insecurity, and supply-chain issues exacerbated by the war are furthermore amplifying humanitarian crises and disproportionately impacting the world's most disadvantaged communities. Resolving these issues presents a substantial challenge to policymakers in countries that are also facing domestic pressures related to the impact of the dual crises.

Existing Trends: Development Assistance before 24 February

To assess trends, we selected five of the largest European OECD DAC donors: the European Union Institutions, Germany, the United Kingdom, France, and Sweden. According to preliminary data from the OECD, these donors contributed respectively \$32,232mn (Germany), \$19,027mn (EU Institutions), \$15,814mn (UK), \$15,448mn (France), and \$5,927mn (Sweden) in ODA in 2021. Of the five, only Germany and Sweden met or exceeded the target of spending 0.7% of their gross national income (GNI) on development aid.³ We have used publicly available OECD data covering ODA contributions for the years 2019 to 2021. For 2022 figures, we have extracted data from the most recent national budgets of the five countries and cross-referenced the data with development aid projections reported by Donor Tracker. While this means that the 2022 data does not reflect *actual* aid contributions, it nonetheless provides insight into DAC members' commitments to deliver aid and offer a starting point for considering both post-invasion donor priorities and the ramifications of aid reallocation.

As illustrated in Figure 1, Germany and the UK are projected to decrease ODA from 2021 to 2022. In the British case this reduction corresponds to a 0.5% aid cap implemented in 2020 as a strategic measure to counteract the negative effects of the COVID-19 pandemic on the national economy.⁴ Beyond driving national governments to withdraw funding from aid projects in order to tackle the effects of COVID domestically, 2020-2021 ODA was also affected by the reallocation of funds within aid budgets to support the international response to the pandemic. EU donors alone effectively slashed \$1.8bn from development budgets to fund vaccine donations to ODA recipients, yet only \$3mn was spent on vaccines specifically intended for export.⁵

An increasing tendency among donor states' to favour delivery of ODA through loans rather than grants in order to meet their targets also challenges the efficacy of development aid. Although proponents of loans argue that they allow donors to redistribute repayments to other projects needing support while recognising recipients' repayment capacity,⁶ the UN has cautioned against overreliance on loans as development assistance is scaled up to allow recipient states to meet the UN SDGs.⁷ In the current context of rising inflation, loans are becoming increasingly harder to manage, adding to an existing debt crisis. As a result, ODA recipients that are already nearing debt distress may be forced to focus their finances on debt repayment rather than on development investments. While the OECD DAC has presented debt relief through ODA as one solution to this challenge,⁸ this approach would effectively entail cutting aid from other development projects in order to manage rising debt in recipient countries. By example, \$800mn was cut from the British aid budget for 2022 following the decision to count cancelled debt owed by Sudan as ODA in 2021.⁹

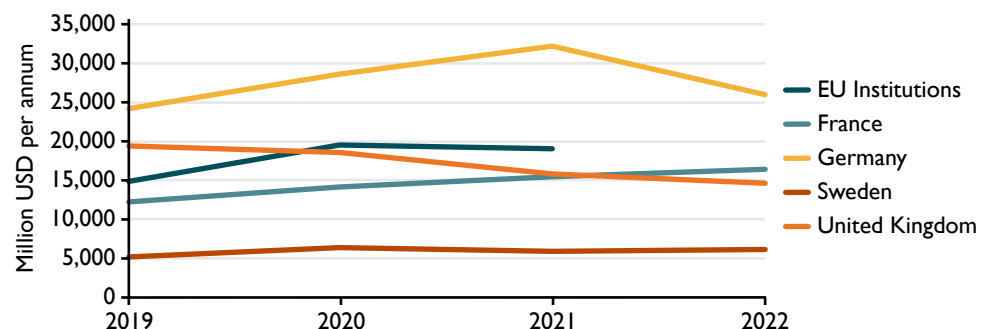
Based on current projections, the Ukraine war appears to have affected the allocation of funds within aid budgets more than the size of budgets, though changes to national budgets owing to increased defence and military spending should also be expected to affect the size of grants. With no end in sight to the war and a looming reconstruction to follow, the compound effects of existing and new crises are likely to substantially impact development assistance to the Global South. The next section of this brief addresses some of these issues in greater detail.

Response Trends: Donor Realignment after 24 February

According to Kiel Institute data, total bilateral funding commitments to Ukraine between 24 January and 3 October 2022 amounted to €89.23bn, of which €12.32bn was pledged by the EU Institutions, €6.65bn by the UK, €3.3bn by Germany, €1.15bn by France, and €510mn by Sweden.¹⁰ In addition to mobilising immediate financial, humanitarian, and military assistance to Ukraine, DAC donors have reprioritised their spending in three main ways: by hosting Ukrainian refugees at home, increasing military and defence budgets, and preparing for Ukraine's post-war reconstruction. These points are expanded upon below.

In-donor refugee hosting costs

Underlining the legal obligation of states to provide protection to those fleeing war, the OECD allows DAC members to report the costs of assisting refugees in donor countries as ODA under a '12-month-rule'. Following the Russian invasion of Ukraine, donors, including Sweden and Germany, have cited in-donor refugee costs as grounds for diverting funds from other development assistance targets. While the OECD



Note: There are no available projections of EU Institutions' ODA for 2022.

Figure 1: ODA by donor country. Source: Authors, based on data from OECD and Donor Tracker

cautions DAC members to follow a conservative approach to this exemption,¹¹ estimates by Donor Tracker indicate that DAC members may find themselves spending between \$424mn (Italy, low estimate) to \$8783mn (Germany) in additional in-donor refugee costs in 2022, figures which should be expected to severely impact the extent of ODA support for development projects in the Global South.¹²

On 4 May, the Swedish government announced plans to divert 18% of its annual aid budget – approximately \$1bn – to meet the expected influx of Ukrainian refugees to Sweden.¹³ Had criticism not led the government to revise these cuts in June and August, Sweden would in effect have become the largest recipient of its own development aid in 2022. Sweden is now set to spend 11% of its 2022 aid budget on in-donor refugee costs, which is less than it is reported to have spent during the Syrian refugee crisis of 2015–2017, yet more than it spent in the subsequent pre-pandemic years. While such revisions are obviously good news for aid recipients, Carl Björkman, Nordic head of the Bill & Melinda Gates Foundation, warns that the practice of pledging, slashing, and then re-pledging resources is extremely damaging, not only because it disrupts important development work, but also because it affects the credibility of donor countries and the OECD DAC system.¹⁴ Speaking at the European Humanitarian Forum in March, the UN High Commissioner for Refugees, Filippo Grandi, also expressed his concern over the practice, stating:

‘Unless we ringfence the resources that are dedicated to responding to crises ... in all parts of the world, we risk – once, hopefully, the crisis in Ukraine dies down – ... a huge backfire of other crises that have become much worse and even more difficult to address.’¹⁵

Increased military spending

Although DAC donors are not permitted to report military aid as ODA,¹⁶ increased military spending by donor countries – both on their own national defence and on military assistance to Ukraine – will have spill-over effects on aid budgets. Increased military spending will mean decreases in other budget lines, with aid being a prime candidate.

In an extraordinary session of the Bundestag on 27 February, German Chancellor Olaf Scholz defied decades-long German military policy by pledging to increase defence spending to 2% of

economic output, in accordance with NATO’s defence investment guideline.¹⁷ The federal draft budget presented on 16 March proposed a 12% cut in development aid to compensate for the defence increase, a figure which was later scaled down.¹⁸ Sweden too announced its intention to ramp up military spending to 2%, and – along with Finland – to apply for NATO membership in May.¹⁹ Following the 28–30 June NATO summit in Madrid, members pledged to increase their financial contributions, acknowledging the 2% mark as ‘a floor, not a ceiling’.

DAC members are also funding the Ukrainian army and the defence of Ukraine’s civilian population. The EU Institutions have adopted €2bn under the European Peace Facility for this purpose,²⁰ whereas the UK, Germany, Sweden and France have pledged, respectively, €3.7bn, €1.2bn, €270mn and €220mn in military aid as of 3 October.²¹ It is important to note that the present defence budget increases, though politically determined by national parliaments with differing priorities, are likely to be extended long-term and reflect a changing geopolitical order.

Preparations for the post-war reconstruction of Ukraine

Cost estimates for post-war reconstruction in Ukraine vary across sources and are ultimately contingent on the duration of the conflict, the extent of infrastructural destruction, and the standard to which reconstruction is carried out. As of 22 August 2022, an ongoing study at the Kyiv School of Economics estimates the total value of losses to Ukrainian infrastructure resulting from the war as equivalent to \$113.5bn. This includes destruction, damage or seizure of at least 131,300 homes, 206,000 private and public vehicles, 2,290 educational facilities and 934 healthcare facilities, as well as extensive damage to roads, bridges, and digital infrastructure.²² Researchers from the Centre for Economic Policy Research (CEPR) estimated in April that rehabilitation after a Russian withdrawal will cost between \$220–\$540bn, with the lower estimate alone representing approximately four times the EU’s annual foreign aid budget.²³ This estimate is supported by a recent joint report by the World Bank, the European Commission and the Ukrainian government, which calculated that the combined cost of reconstruction and economic recovery has already reached at least \$349bn.²⁴

Reconstruction preparations are already well underway. The Ukrainian government has set up

a National Council for Recovery tasked with preparing a post-war recovery and development plan, supported by the European Commission. The EU has set up the Ukraine Solidarity Trust Fund, which aims to raise funds for humanitarian support, short-term liquidity needs, and reconstruction. The Marshall Plan, which rebuilt Western Europe after the devastation of World War II, has repeatedly been referenced to illustrate the financial magnitude of reconstruction needed after a Russian withdrawal. In current dollars, the equivalent of the Marshall Plan’s original price tag of \$13bn is over \$155bn, which is less than half of the loosely estimated cost of Ukraine’s reconstruction. Funds earmarked for the post-war reconstruction of Ukraine will invariably continue to influence donor priorities in times to come, further affecting the availability of aid for vulnerable communities in the Global South.

Conclusion

Recent trends related to the COVID-19 pandemic and the ongoing war in Ukraine clearly suggest that the delivery of development assistance is threatened with respect both to the extent of funding and to the allocation of funds within aid budgets. The types of assistance reported as ODA – including refugee hosting costs, loans over grants, and debt cancellation – may also undermine the quality of aid schemes. Projects in the Global South are particularly at risk of being underfunded or cancelled due to renewed prioritisation of aid that addresses the current crises affecting Europe. These priorities are not without consequences. The diversion of long-term development funds away from unstable and vulnerable regions in the Global South leaves the root causes unaddressed, increasing the risk of future instability and protracted humanitarian crises. As assistance to the Global South from traditional donors becomes more precarious, questions arise as to whether there is a growing role for emerging donors and if so, what the nature of their assistance would be. We address these questions in the follow-up policy brief: Smith, Carina Strøm & Pinar Tank (2022) *Shifting Donor Priorities Following the Ukraine War: What Role for Emerging Donors?*, *PRIO Policy Brief*, 18. Oslo: PRIO. ■

Notes

1. Whereas humanitarian aid is aimed at addressing crises in the short-term, development assistance funds longer-term responses to structural and systemic issues in recipient communities. Although the

distinction may be useful, in practice, distinguishing clearly between types of aid can be difficult and often depends on who the donor is.

2. Aguilar, R. Andres Castaneda et al. (2022) September 2022 global poverty update from the World Bank: 2017 PPPs and new data for India, *World Bank Blogs*, 14 September. Available at: blogs.worldbank.org/opendata/september-2022-global-poverty-update-world-bank-2017-ppps-and-new-data-india.
3. Although Sweden is a smaller donor, in terms of absolute numbers, than the other four selected cases, it consistently ranks among the largest aid contributors by ODA/GNI. See OECD (2022) 'ODA Levels in 2021 – Preliminary Data', 12 April. Available at: www.oecd.org/dac/financing-sustainable-development/development-finance-standards/ODA-2021-summary.pdf.
4. Foreign, Commonwealth & Development Office and Raab, Dominic (2021) UK Official Development Assistance (ODA) allocations 2021 to 2022: written ministerial statement, *GOV.UK*, 21 April. Available at: www.gov.uk/government/speeches/uk-official-development-assistance-oda-allocations-2021-to-2022-written-ministerial-statement.
5. Newsroom (2022) EU ODA at a standstill: It's time for action to counter the shockwaves of global crises, *Concord*, 12 April. Available at: concordeurope.org/2022/04/12/eu-oda-at-a-standstill-its-time-for-action-to-counter-the-shockwaves-of-global-crises/.
6. Cutts, Steve (2022) Give credit where credit's due: Development assistance in loans should reflect donor effort, *Brookings*, 13 April. Available at: www.brookings.edu/blog/future-development/2022/04/13/give-credit-where-credits-due-development-assistance-in-loans-should-reflect-donor-effort.
7. UN IATF (2022) Financing for Sustainable Development Report 2022, 12 April. Available at: developmentfinance.un.org/fsdr2022.
8. OECD (2020) Donors agree on aid treatment of debt relief, 30 July. Available at: www.oecd.org/fr/presse/donors-agree-on-aid-treatment-of-debt-relief.htm.

9. Worley, William (2021) UK aid budget gets de facto \$800 million cut for 2022, *Devex*, 21 October. Available at: www.devex.com/news/uk-aid-budget-gets-de-facto-800-million-cut-for-2022-101893.
10. Norwegian bilateral aid pledges amount to €1.39bn. See Antezza, Arianna et al. (2022) The Ukraine Support Tracker: Which countries help Ukraine and how? *Kiel Working Paper*, No. 2218, 1–65.
11. OECD (n.d.) In-donor refugee costs in Official Development Assistance (ODA). Available at: www.oecd.org/dac/financing-sustainable-development/development-finance-standards/refugee-costs-oda.htm.
12. West, Maura Kitchens (2022) Ukraine Crisis and Refugee Costs: Initial assessment of impacts for development assistance, *Donor Tracker*, 6 May. Available at: donortracker.org/insights/ukraine-crisis-and-refugee-costs-initial-assessment-impacts-development-assistance.
13. Ministry for Foreign Affairs (2022) Humanitarian assistance fully safeguarded as refugee costs increase in 2022, Government Offices of Sweden, 4 May. Available at: www.government.se/articles/2022/05/humanitarian-assistance-fully-safeguarded-as-refugee-costs-increase-in-2022.
14. Chadwick, Vince (2022) Sweden restores more global aid after lower Ukrainian refugee forecast, *Devex*, 25 August. Available at: www.devex.com/news/sweden-restores-more-global-aid-after-lower-ukrainian-refugee-forecast-103836.
15. Alexander, Jessica & Rozzelle, Josie (2022) Is Ukraine's aid bonanza coming at the expense of other crises? *The New Humanitarian*, 24 March. Available at: www.thenewhumanitarian.org/analysis/2022/03/24/ukraine-aid-funding-media-other-crises.
16. Note that the OECD DAC widened the definition of ODA in 2016 to include technical cooperation that supports good governance in the security sector, if it does not contribute to the recipient's military capability. Tian, Nan & Diego Lopes da Silva (2020) Military Spending and Official Development Assistance in Recipient States: Is there a relation-

ship? *SIPRI Insights on Peace and Security*: 4. Available at: www.sipri.org/sites/default/files/2020-08/sipri-insight2008_oda_milex_0.pdf.

17. Sheahan, Maria & Sarah Marsh (2022) Germany to increase defence spending in response to 'Putin's war' – Scholz, *Reuters*, 27 February. Available at: www.reuters.com/business/aerospace-defense/germany-hike-defense-spending-scholz-says-further-policy-shift-2022-02-27.
18. Hemm, Alina et al. (2022) Germany's 2022 Budget: The good and bad news for development cooperation, *Donor Tracker*, 22 March. Available at: donortracker.org/insights/germanys-2022-budget-good-and-bad-news-development-cooperation; Donor Tracker (2022) German parliament approved US\$14.4 billion development ministry budget for 2022, 3 June. Available at: donortracker.org/policy-updates/german-parliament-approves-us144-billion-development-ministry-budget-2022.
19. AFP (2022) Sweden to raise military spending over Ukraine war, *France24*, 10 March. Available at: www.france24.com/en/live-news/20220310-sweden-to-raise-military-spending-over-ukraine-war.
20. European Council (2022) EU solidarity with Ukraine, 31 May. Available at: www.consilium.europa.eu/en/policies/eu-response-ukraine-invasion/eu-solidarity-ukraine.
21. Antezza, Arianna et al. (2022).
22. Kyiv School of Economics (2022) Damages to Ukraine's infrastructure. August 2022, 22 August. Available at: kse.ua/russia-will-pay/.
23. Economist (2022) What will it cost to rebuild Ukraine?, 16 April. Available at: www.economist.com/briefing/2022/04/16/what-will-it-cost-to-rebuild-ukraine.
24. World Bank (2022) Russian Invasion of Ukraine Impedes Post-Pandemic Economic Recovery in Emerging Europe and Central Asia, 4 October. Available at: www.worldbank.org/en/news/press-release/2022/10/04/russian-invasion-of-ukraine-impedes-post-pandemic-economic-recovery-in-emerging-europe-and-central-asia.

THE AUTHORS

Carina Strøm-Sedgwick is a Research Assistant at PRIO. Her research interests include political representation, gender, and development.

Pinar Tank is a Senior Researcher at PRIO, with a research focus on humanitarian issues, rising powers and the Middle East.

THE PROJECT

The project 'Consequences of the Invasion of Ukraine for the Global South' was set up to provide rapid analysis of the wider effects of the invasion. It is led by PRIO Senior Researcher Nicholas Marsh. The project is funded by Norad and the Ministry of Foreign Affairs of Norway.

PRIO

The Peace Research Institute Oslo (PRIO) is a non-profit peace research institute (established in 1959) whose overarching purpose is to conduct research on the conditions for peaceful relations between states, groups and people. The institute is independent, international and interdisciplinary, and explores issues related to all facets of peace and conflict.