



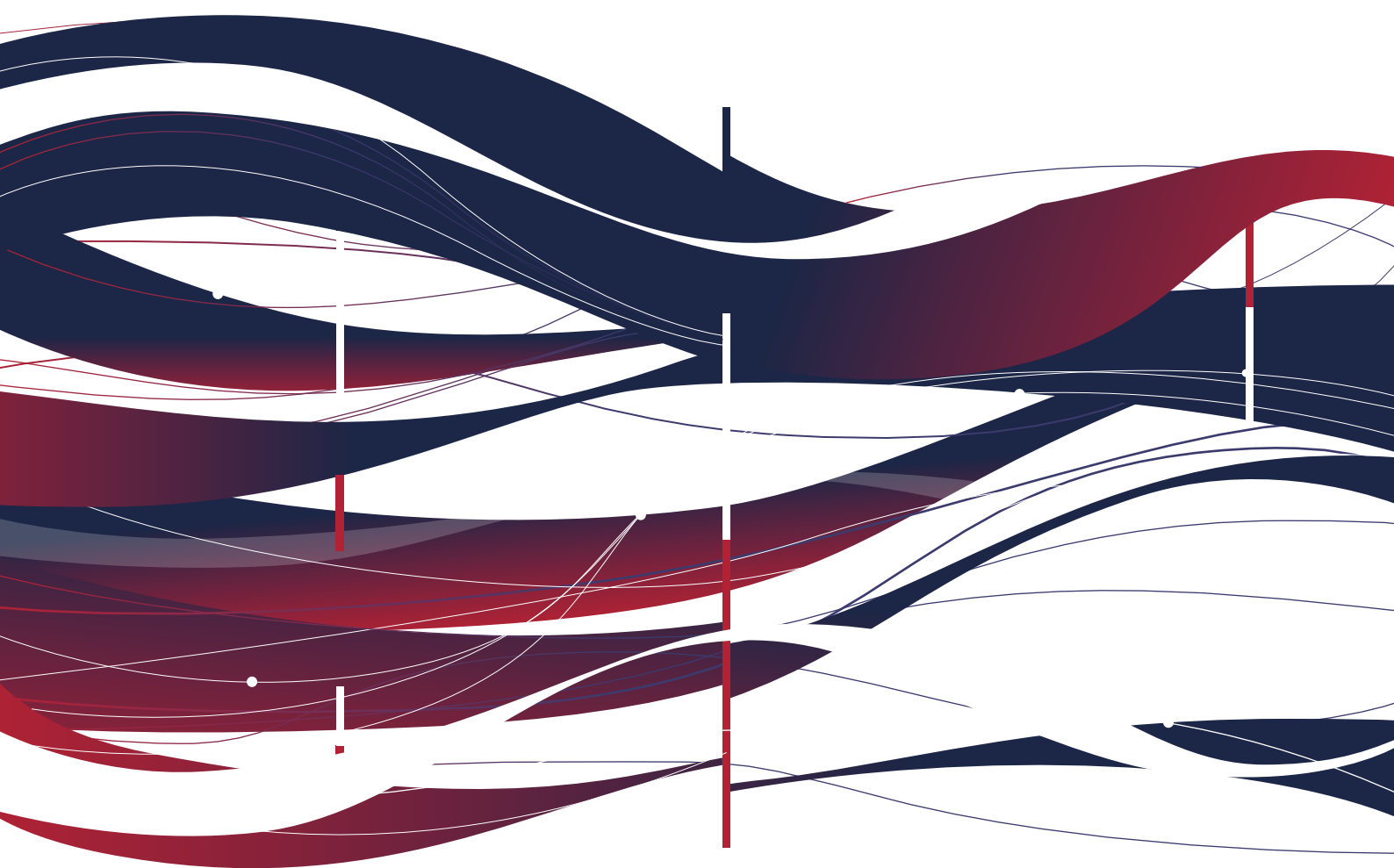
Official Development Assistance

○ Geopolitical
Impact

○ Funding
Shifts

○ Scenario
Projections

○ Development
Risks





Quantifying Peace and its Benefits

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Key Findings

- Amidst rapidly shifting geopolitics, major donors such as the United States, the United Kingdom and European Union (EU) countries have announced significant reductions to their annual Official Development Assistance (ODA) commitments. In 2023, contributions from these countries accounted for 63 per cent of all ODA flows.
- A key driver of the current situation has been the Russian invasion of Ukraine, which has led to unprecedented aid allocations to Ukraine. In 2023, Ukraine received \$37 billion in ODA, equating to 14 per cent of all ODA disbursed in that year. In addition to ODA, military aid allocations to date have totalled \$128 billion.
- Given the current climate, this report presents economic projections under various scenarios, indicating that ODA could decline by 20 to 40 per cent in the coming years. This would result in reductions of between \$50 and \$115 billion less aid relative to 2023 levels.
- In such scenarios, sub-Saharan Africa, MENA and Latin America could see cuts of 30-40 per cent in their ODA inflows, exacerbating risks of economic downturns, political instability, and humanitarian crises.
- The economies that will be most affected by ODA cuts are also in the least peaceful countries in the world. Most at risk include Afghanistan, Yemen, Central African Republic, and Somalia.
- Existing and emerging donors are unlikely to be able to fill the gap. Countries such as China, Saudi Arabia and Türkiye contribute less than five per cent to the international aid system.
- With US support for Ukraine in question, EU countries may need to further increase their contributions to Ukraine and boost domestic military spending.
- Calls to raise EU military spending to five per cent of GDP could require an additional \$560 billion annually, diverting funds from other sectors.
- In a climate of shrinking resources and rising demand, there is an urgent need for reforms that enhance the efficiency, transparency, and data-driven targeting of ODA.
- Investing in robust monitoring and evaluation systems is essential to ensure that limited aid funds yield maximum developmental and economic benefits.

Executive Summary

Official Development Assistance (ODA) is the primary measure of international aid, designed to support the economic development and welfare of developing countries. In 2025, the global landscape of ODA is undergoing profound changes as geopolitical tensions, economic constraints, and shifting donor priorities reshape international aid flows. After years of steady increases, ODA faces potential reductions as major donors - including the United States, the European Union (EU) and the United Kingdom - announce budgetary cutbacks. Based on official announcements, future ODA reductions could range between 20 per cent and 40 per cent, equating to between \$50 and \$115 billion less ODA, relative to 2023 levels.

ODA funding patterns have shifted dramatically since 2021, with levels of aid directed toward Ukraine increasing to \$37 billion in 2023. With increased aid flows to Ukraine, areas like sub-Saharan Africa and Latin America have seen proportional declines in a time of rising violence and political instability.¹ Peacebuilding aid to conflict-affected countries has declined, falling from \$4.9 billion in 2014 to \$3.1 billion in 2023. Further, developing countries will find the coming years economically challenging as net financial flows to them are projected to turn negative for the first time the early 2000s. In the coming years, these regions could easily see cuts of over 30 per cent in ODA inflow, exacerbating risks of economic downturns, political instability and humanitarian crises.

The withdrawal of funding from major donors is unlikely to be offset by contributions from emerging donors. In 2023, China's estimated foreign aid totalled between \$3-4 billion, equivalent to just over one per cent of the total provided through the international ODA system.

With rising demand and reducing supply, the international system must find ways to maximise impact with fewer resources. The structural integrity of the ODA system is at risk due to donor fragmentation, inefficiencies in multilateral aid coordination and insufficient transparency in financial flows. Addressing these challenges will enhance the efficiency, predictability and impact of development assistance. Donor harmonisation and the rebalancing of core and earmarked contributions can increase the efficiency of ODA.

More broadly, the international community must better demonstrate that programs are addressing priorities and have long-term positive impacts. Casting a critical eye on what has worked, and what has not worked, in ODA investments in the past, will offer insights into how better to allocate funds in the future. Investment in data-driven evidence, innovative tools and return-on-investment methodologies will be essential if aid agencies are to secure funding in the future.

In 2025, the global landscape is undergoing profound changes as geopolitical tensions, economic constraints and shifting donor priorities reshape international aid flows. As a result, after a period of steady increases, Official Development Assistance (ODA) faces potential reductions as major donors - including the United States, the European Union and the United Kingdom - announce budgetary cutbacks.

These cuts coincide with a period of escalating global instability, with 2024 recording a total of 56 conflicts around the world, the highest number since the end of World War II.² The realignment of ODA priorities, driven in part by the Russia-Ukraine war, has led to a decline in aid allocations to regions such as sub-Saharan Africa and Latin America. In the coming years, these regions could easily see cuts of over 30 per cent in ODA inflows, exacerbating risks of economic downturns, political instability and humanitarian crises. Additionally, donor countries are increasingly using aid funds domestically, including for refugee support, reducing the amount reaching the intended foreign beneficiaries.

Within this context, the report delivers an analysis and forecasts on how ODA may evolve in view of these new geopolitical and economic realities. It offers a comprehensive snapshot of ODA in 2023 using the latest OECD data and contextualises these findings with trends observed since 2014.

Official Development Assistance

Official Development Assistance is the primary measure of international aid designed to support the economic development and welfare of developing countries.¹ At a high level, ODA can be thought of as including:

- **Bilateral ODA:** Flows from official (government) sources directly to the recipient country, which can be channelled through multilateral institutions.³
- **Multilateral ODA:** Core contributions to ODA-eligible multilateral organisations to fund operational costs and development projects.⁴

To be counted as ODA, financial disbursements must meet criteria set by the OECD Development Assistance Committee (DAC), an international committee of 32 members. In 1970 the DAC agreed that each member should aim to have ODA levels of 0.7 per cent of its Gross National Income (GNI).⁵

In 2023, the inflows and outflows of the DAC aid system are shown in Figure 1.

Official ODA is monitored by the DAC to adhere to protocols. However, over the existence of the DAC, ODA has undergone definitional changes to reflect new spending priorities of member states. These changes have the effect of expanding the range of activities that can be counted towards the 0.7 per cent target. In the past decade, ODA has been expanded to include more security and humanitarian actions, COVID activities, climate action, in-country refugees and migration costs, loans, and private sector investment.⁶ In 2023, only four DAC members met the 0.7 per cent ODA target.

ODA Disbursements to 2023

Figure 2 shows gross ODA flows increased from \$163 billion in 2014 to \$274 billion in 2023. At 47 per cent, almost half all flows in 2023 went to four sectors: emergency response, in-donor refugee costs, general budget support, and government and civil society.

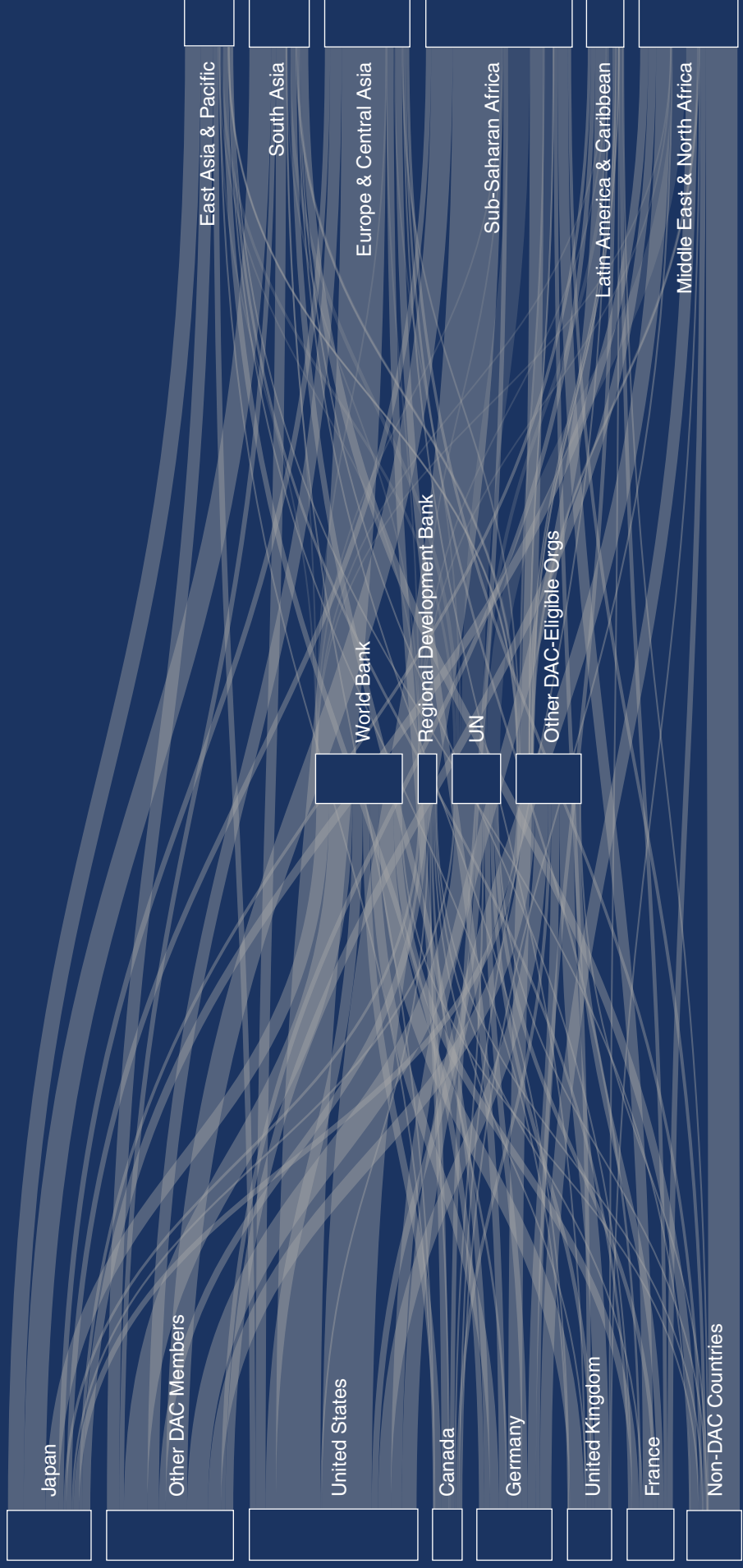
However, not all these flows are channelled to developing countries. In 2023, costs associated with in-donor hosting of refugees increased to \$31 billion and administration costs of ODA incurred by donor countries totalled \$14 billion. Developing countries received the remaining \$230 billion in 2023. While this increased from the \$150 billion received in 2014, this also coincides with an expansion of what activities constitute ODA to include COVID projects, additional types of security and humanitarian aid and costs surrounding migration and in-donor costs of hosting international refugees.⁷

Over the same period, humanitarian aid has doubled since 2014 to \$32 billion in 2023. Following the Russian invasion of Ukraine, aid to Ukraine increased from a very small base in previous years to \$37 billion in 2023. Since 2021, the total amount of ODA received is over \$65 billion. This does not include Military Aid given in the form of equipment, training or other assistance. Figure 2 also shows an increasing share of ODA is being used to cover refugee costs within donor countries, a trend that raises concerns about the diversion of resources away from direct assistance to developing nations. By comparison, other aid flows have seen modest increases over the period. Excluding aid to Ukraine, humanitarian aid, and in-donor refugee costs, bilateral development aid reached \$108 billion in 2023 - higher than in 2014 but down 10 per cent from its peak in 2022. Aid projects funded by multilaterals, which totalled \$51 billion in 2023, also declined by 11 per cent since peaking in 2020.

FIGURE 1

Flows by donors, intermediaries and recipients, 2023

The United States was the largest single provider of international aid and multilateral funding in 2023.

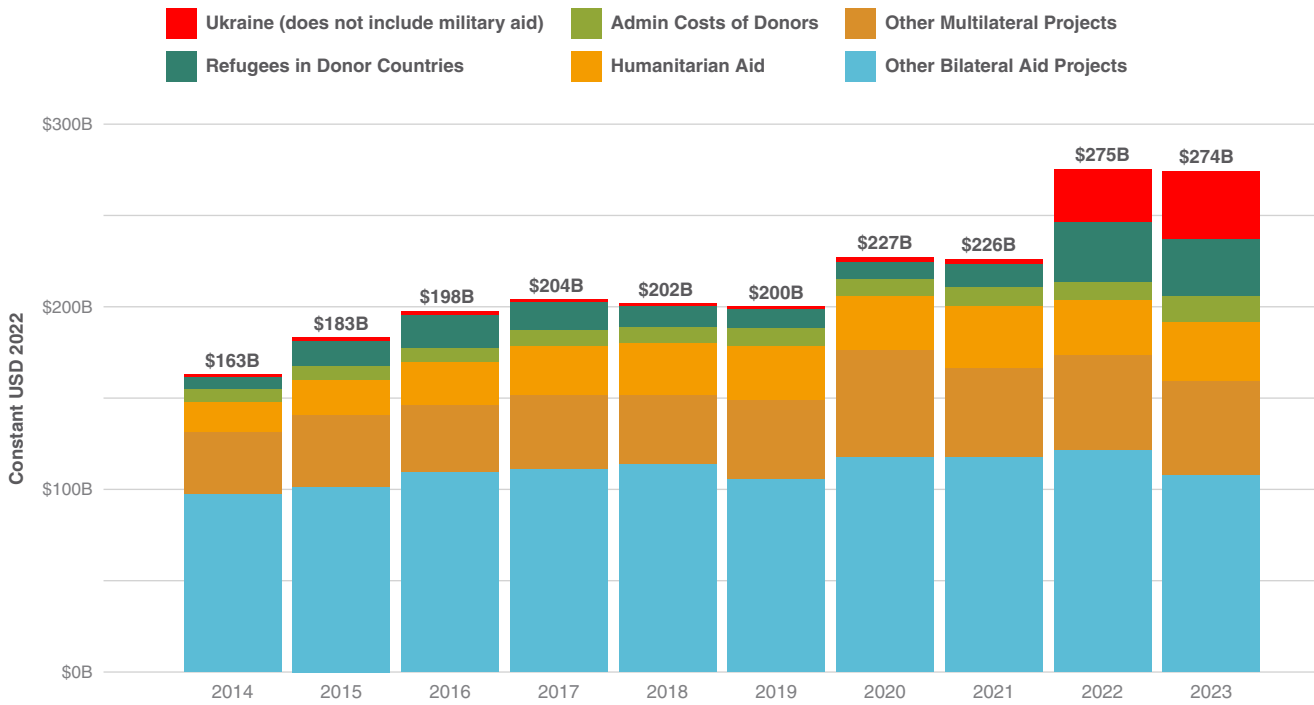


Source: OECD

FIGURE 2

Bilateral ODA and multilateral outflows 2014–2023 (constant 2022 US dollars)

In 2023, total aid flows - including bilateral flows, multilateral inflows, and multilateral outflows - amounted to \$274 billion. Net flows received by developing countries totals around \$230 billion.



Source: OECD

BOX 1

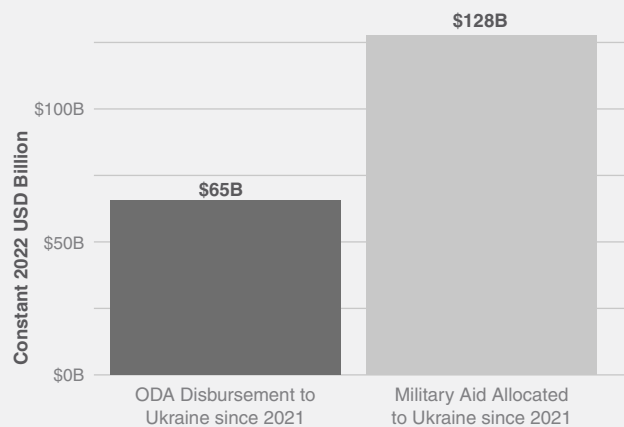
ODA disbursements and military aid allocations to Ukraine

The DAC database includes ODA disbursements to Ukraine up to 2023. However, military aid is not accounted for in ODA statistics. Estimates for military aid allocated to Ukraine since 2021 total \$128 billion. This is almost double the \$65 billion in ODA disbursed to Ukraine since 2021. These allocations will place increased pressures on donors, particularly the EU, as the war continues.

FIGURE 3

Ukraine ODA disbursements vs Military Aid allocations, 2021–2023 (constant 2022 US dollars)

Military aid allocations to Ukraine almost double the amount of ODA disbursed by the end of 2023.



Source: OECD, Kiel Institute

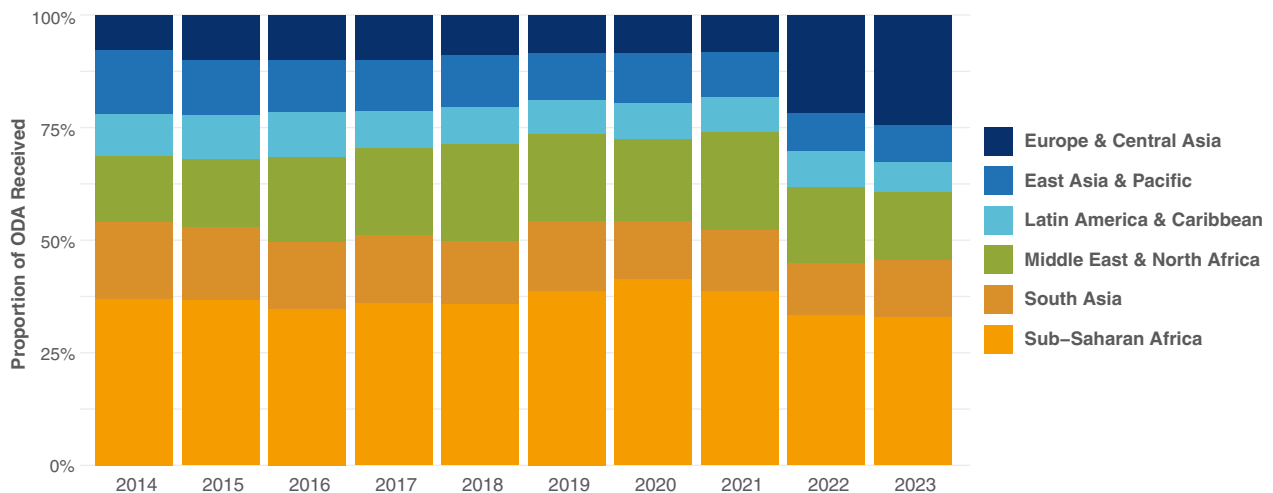
The war in Ukraine has had a material effect on the proportion of ODA allocated to each region. Figure 4 shows that since 2022, all regions except for Europe and Central Asia have received a smaller proportion of total ODA than they did in 2014.

receiving around five per cent less of overall ODA flows than they did in 2014. This is significant, as during this period regions such as sub-Saharan Africa experienced worsening peacefulness, marked by rising political instability and violence.

East Asia and the Pacific, sub-Saharan Africa and South Asia saw the largest decreases in ODA apportionments, each

FIGURE 4
Regional breakdown of ODA inflows, 2014–2023

East Asia and the Pacific, sub-Saharan Africa and South Asia saw the largest decreases in ODA apportionments, each receiving around five per cent less of overall ODA flows than they did in 2014.



Source: OECD

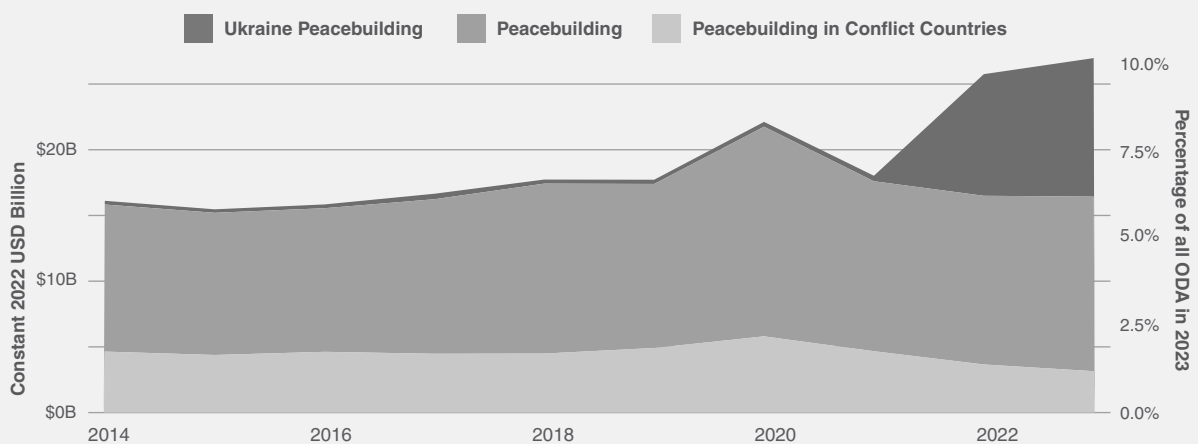
BOX 2

Peacebuilding aid to developing countries

As shown in Figure 5, peacebuilding aid to conflict affected countries has declined over the past decade, both as a share of total aid and in real dollar terms, dropping from \$4.9 billion in 2014 to \$3.1 billion in 2023.⁸ The decline has been particularly pronounced since the COVID pandemic in 2020.

FIGURE 5
Share of peacebuilding aid in total ODA, 2014–2023 (constant 2022 US dollars)

The share of peacebuilding aid to conflict affected countries has declined from \$4.9 billion in 2014 to \$3.1 billion in 2023.



Source: OECD

The definition of ODA has been expanded over time to include to include public and private funding, raising concerns that commercial investments could be classified as ODA by donor countries. Figure 6 shows that the total amount of ODA loans almost doubled in real terms between 2014 and 2023. Loans have been widely used in water and multisector development projects.

While ODA loans are meant to be concessional, with lower interest rates and longer repayment periods, this is not always the case. In fact, under the criteria of the DAC, a loan can be classified as ODA if at least 25 per cent of it is a grant and it has a discounted interest rate of 10 per cent or more. However, some of these loans still have high costs, making them less

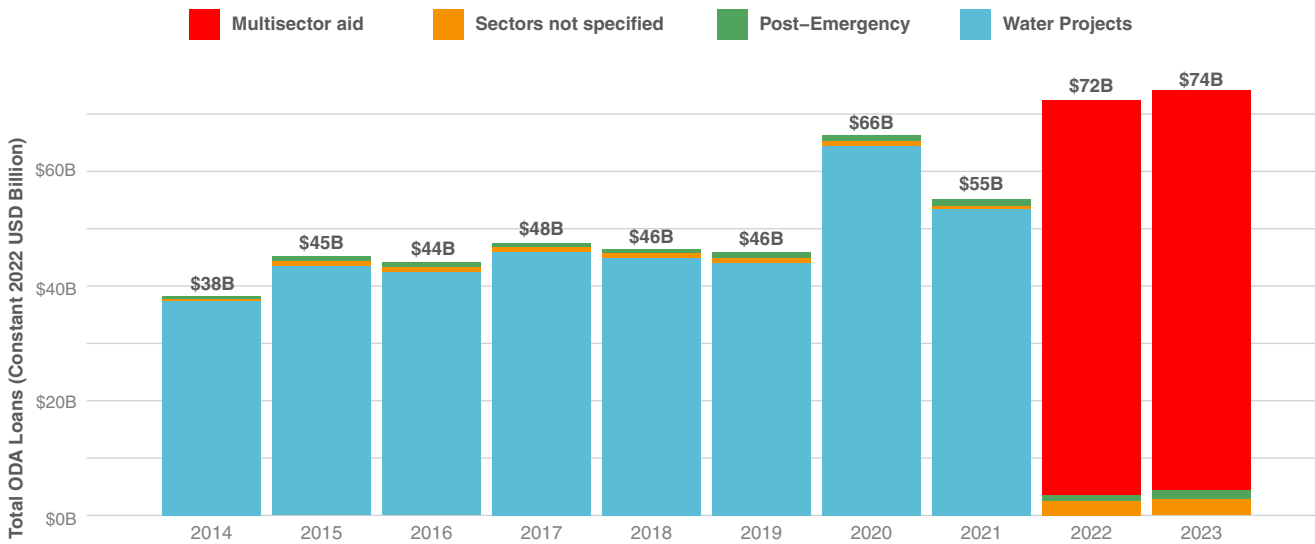
beneficial to developing countries than true concessional aid when compared to loans at market rates. This results in inflated ODA figures, as some loans counted as aid may not provide significant financial relief to recipient countries.⁹ Further, the increase in their usage has implications for developing countries as, unlike grants, they contribute to the country's debt burden.

A reduction in ODA, and increasing uses of loans, comes at a difficult time for developing countries. In 2023, increases in debt service payments are projected to surpass the amount of new external financing received by developing countries, as shown in Figure 7.

FIGURE 6

Total value of loan-based ODA, 2014–2023 (constant 2022 US dollars)

The total value of ODA loans has almost doubled in size in the past decade, from \$38 billion in 2014 to more than \$74 billion in 2023.

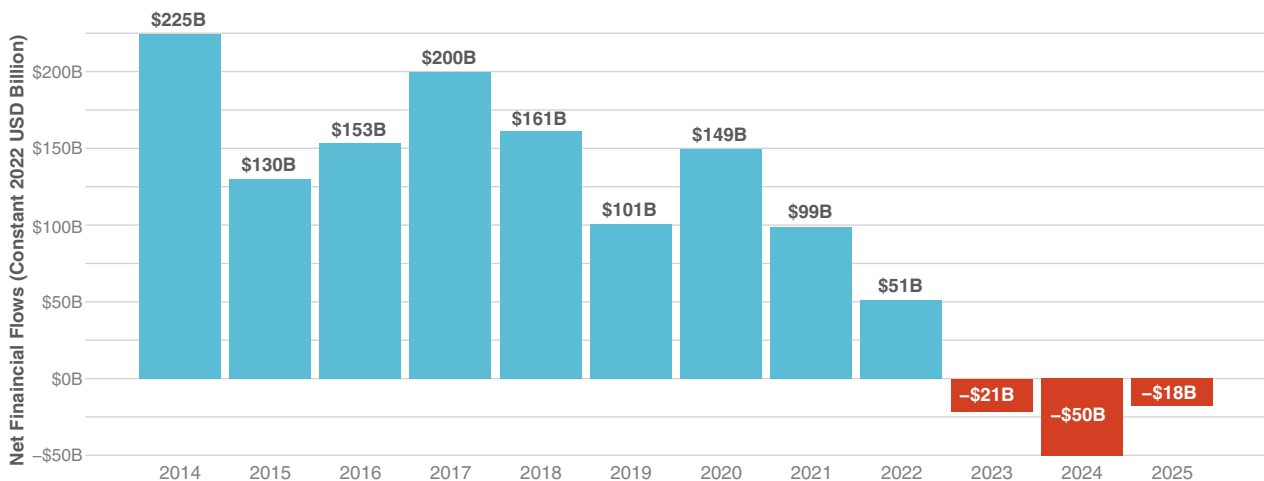


Source: OECD

FIGURE 7

Net finance flows to developing countries 2000–2023 (constant 2022 US dollars)

Net financial flows to developing countries are projected to turn negative in the coming years.



Source: ONE DATA

Multilateral Funding

Multilateral ODA provides funding from donor countries to multilateral agencies such as the United Nations and the World Bank. These can be voluntary or mandatory contributions.

With respect to the UN and its various agencies, “assessed” contributions are the mandatory payments from countries that maintain the UN’s “core” functioning, while “non-core” contributions are voluntary. Assessed contributions are mandatory for all member states. The amount each member state pays is based on its wealth, population, debt burden, and capacity to pay. Multilateral agencies have discretion on how and where they channel these funds. They can also receive voluntary core (“unearmarked”) or earmarked funding from donor countries, with the latter coming with provisions about where and how the money can be spent.

Figure 8 shows that the amount of funding UN agencies receive in assessed contributions has been declining since 2014. In 2023, most of the UN budget comes from voluntary contributions from donors. These have been increasing since 2014, with a slight fall in 2023. At the time of reporting, voluntary contributions accounted for two-thirds of the flows to, and through, multilateral agencies. Only 34 per cent of funding comes from assessed contributions. As Figure 8 shows, they have only marginally changed over the past decade. Accounting for inflation, the amount UN agencies received in 2023 is less than in 2014.

The increase in earmarking is in part attributable to the increases of humanitarian aid since the Syrian civil war.¹⁰ Using multilateral agencies for provision of humanitarian aid builds on strength and expertise of such organisations and allows stakeholders to directly target unplanned emergencies as they occur.

Although it is important for a donor country to be able to quickly change the direction of its funding as crises arise, there are potential pitfalls to the growing reliance of the multilateral system on voluntary earmarked contributions. According to the OECD, this practice should not “*detract from the need to invest in the system through core contributions, which ensure that multilateral organisations can maintain a focus on key long-term sustainable development goals, such as poverty and climate*”.¹¹ Regarding broader developmental objectives, evidence suggests that earmarked humanitarian aid is most effective when delivered through the multilateral system without being restricted to specific emergency activities. Instead, when such aid provides sustainable, long-term funding, it better supports ongoing development goals.¹²

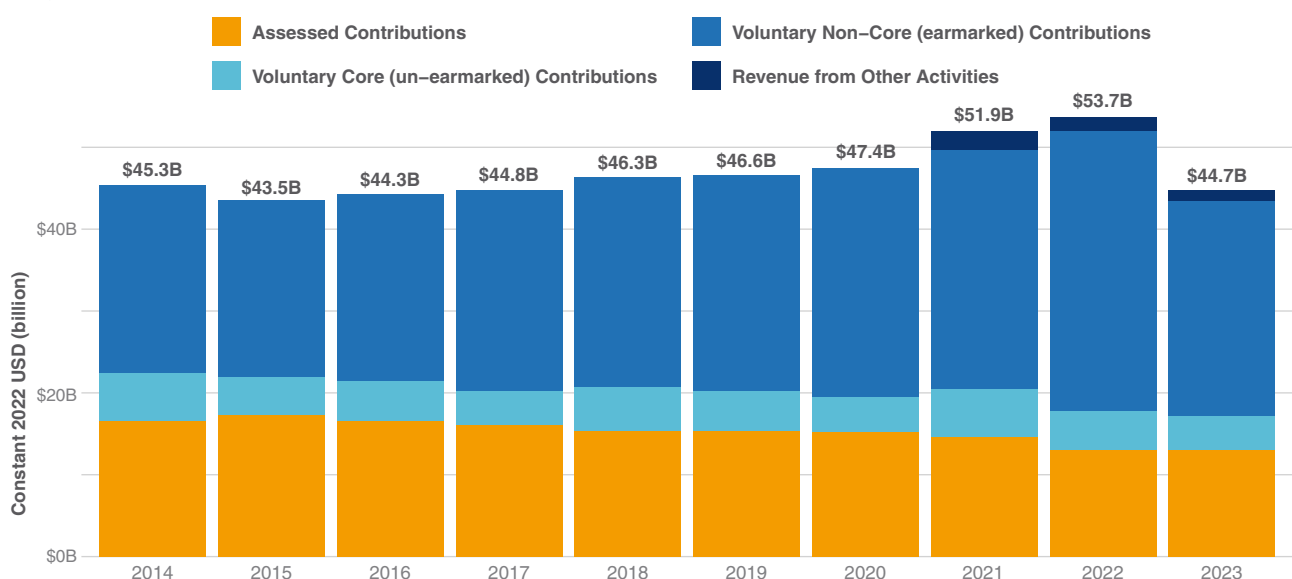
Impact of the Current Geopolitical Context on ODA

Major geopolitical events, such as the COVID pandemic and the Russian invasion of Ukraine, have impacted the type, direction, and even definition of aid disbursements. In 2025, amid geopolitical uncertainty and security concerns, major international aid donors have announced cuts to their ODA budgets. Most notably in January the new United States administration placed a 90-day pause on US foreign development assistance. While this aid freeze was subsequently blocked, global ODA seems poised for major shifts in the coming months and years, with countries such as Germany, France and the United Kingdom subsequently announcing cuts to their own aid budgets in the near term.

FIGURE 8

Government contributions to the UN, 2014–2023 (constant 2022 US dollars)

The share of voluntary non-core (earmarked) contributions to UN entities has steadily increased over the past decade, rising from just over half in 2014 to two-thirds in 2023.



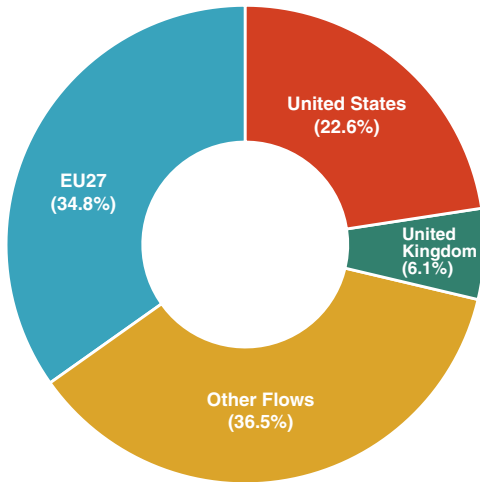
Source: UN System Chief Executives Board for Coordination (CEB), World Bank USD Deflator

As shown in Figure 9, the inflows of multilateral ODA are heavily dependent on the United States, the United Kingdom and the EU, which account for two thirds of all international aid disbursements. Reductions in these will have significant impacts on global ODA levels.

FIGURE 9

ODA funding breakdown, 2023

The United States and Europe account for two thirds of all in international aid disbursements.



Source: OECD

The United States

On 20 January 2025, the new US administration enacted Executive Order 14169, titled "Reevaluating and Realigning United States Foreign Aid" which placed a 90-day pause on US foreign development assistance to allow for assessment of programmatic efficiencies and consistency with US foreign policy.¹³ In 2023, the US, with a total of over \$61 billion, accounted for 22.6 percent of all ODA flows, both bilateral and through multilateral institutions. As a percentage of GDP in 2023, this accounted for around 0.25 per cent of the US economy.

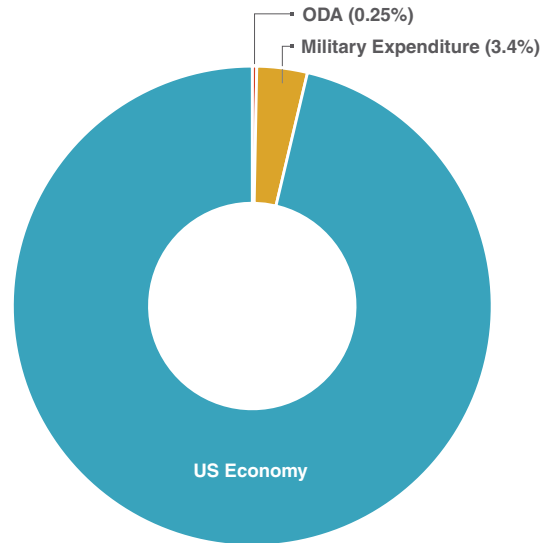
On January 28, exemptions to the aid freeze were announced, including to humanitarian programs that deliver essential medical care, medications, food, shelter, and basic subsistence support. However, the exemptions did not apply to programs related to abortions, administrative costs unrelated to life-saving aid, gender or Diversity, Equity, and Inclusion (DEI) initiatives, or other forms of assistance deemed non-essential.¹⁴ The freeze was challenged in court and on 5 March the Supreme Court rejected the administration's bid to uphold the aid freeze.

In its review, the US administration clarified that all its foreign assistance must ultimately contribute to making the US safer, stronger and more prosperous.¹⁵ The review document stresses policies that bolster energy independence, secure domestic supply chains and enhance national security. The US administration has also made public its criticism of DEI-focused initiatives and those emphasising climate change or environmental justice.¹⁶

FIGURE 10

ODA as a percentage of US GDP, 2023

In 2023, the US spent 0.25 per cent of its GDP of \$27 trillion on ODA.



Source: OECD, SIPRI

Europe

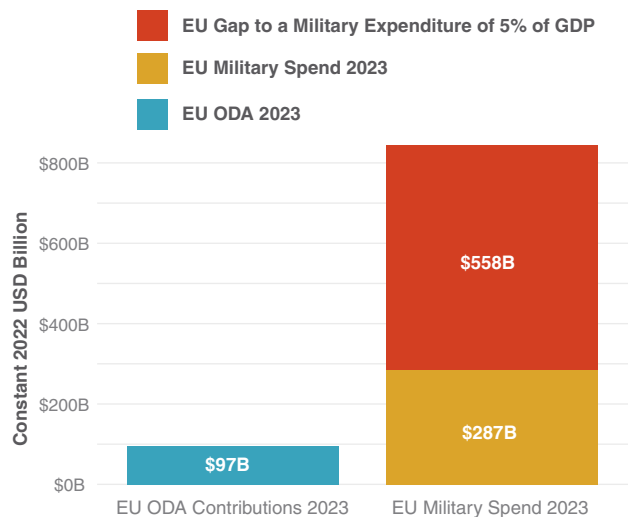
Since the Russian invasion of Ukraine, Europe finds itself with military conflict on its borders for the first time since the Yugoslav wars of the 1990s. In this environment of renewed geopolitical uncertainty, analysts argue that NATO and European governments must drastically increase their defence spending, proposing a target of five per cent of GDP.¹⁷ Countries like Denmark, for example, have already announced their intentions to increase military spending.¹⁸ Currently, most European nations allocate less than two per cent of their economic output to military expenditures.

Figure 11 compares EU countries' ODA contributions in 2023 with their military expenditures for the same year. It also highlights the additional funds required for EU countries to increase their total military spending to five per cent of GDP. To meet a five per cent target, EU countries would collectively need to allocate an extra \$560 billion per year to the military from other domestic fiscal budget items. In this environment, contributions to the ODA system will likely be reduced further.

FIGURE 11

ODA and military spending in EU countries, 2023 (constant 2022 US dollars)

In 2023, EU countries contributed around \$97 billion to ODA. By comparison, they spent around \$287 billion on the military and have a potential funding gap of an additional \$560 to meet their military expenditure target by 2030.



Source: SIPRI, IEP Calculations

This call for increased military spending comes against the backdrop of an already challenging fiscal year. Major European ODA donors, including France, Germany and the UK, have begun scaling back their aid commitments. Table 1 shows announced cuts to ODA, which at the time of writing totalled around \$15 billion. In February 2025, the UK announced it would be reducing its ODA budget by 50 per cent more than previously announced.

TABLE 1

Planned ODA Cuts by Major Donors

Planned ODA cuts by major donors, excluding the United States, total nearly \$15 billion in 2025.

Donor	Planned Cut (\$US billions)
United Kingdom ¹⁹	9
France ²⁰	2.1
Germany ²¹	1.1
Netherlands ²²	1.1
Canada ²³	1
Sweden ²⁴	0.3

Future ODA Scenarios

The current global situation that has resulted in the above cuts has been termed a “geopolitical recession”, characterised by increased conflict and a waning appetite for multilateralism.²⁵ Some are suggesting that the fragmentation of the post-Cold War international order will result in a system that operates like 18th-century Europe, with alliances that are constantly in

flux to maintain balances of power.²⁶ If this were the case, unless the ODA system can recalibrate, it may be facing a “death by a thousand cuts”.²⁷

In such a climate, ODA may shift from its intended purpose of developed countries assisting developing countries, to a more transactional system that is dominated by domestic and potentially commercial interests. In such cases, developing countries with domestic resources may be in a stronger position to negotiate favourable aid deals than those countries that are resource poor.

Further, such changes are being described as an “existential threat” to the multilateral system that has been in place since the end of World War II.²⁸ While countries have mandatory contributions to the UN system, not all countries meet their annual payments. The US is in arrears, owing \$1.5 billion to the UN system. In the Global Peace Index 2024, only 27 countries have kept up to date with their UN Peacekeeping funding obligations.²⁹ UN Peacekeeping operations over the period have seen a decline from over 100,000 peacekeepers in 2016 to 68,000 in 2024.³⁰ In light of funding uncertainty, Secretary General Antonio Guterres launched the UN80 initiative, which is prioritising reform to ensure it remains effective, cost-efficient and responsive.³¹

In this context, this report provides economic projections for a series of scenarios for how ODA may evolve over the coming years. It is based on the public announcements of relevant countries have made at the time of writing.

US Context

In enacting Executive Order 14169, the US administration is reviewing the benefits of ODA programs. The administration has emphasised a foreign aid strategy focused on enhancing national security, economic strength and prosperity. The review stresses policies that bolster energy independence, secure domestic supply chains and enhance national security, and casts a critical eye on programs that do not align with these strategic priorities. Specifically, initiatives focused on DEI and those emphasising climate change or environmental justice are singled out. In February, the US withdrew from the United Nations Human Rights Council and extended a funding ban on the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).³² UNESCO has also been placed under review. Domestically, the U.S. Agency for International Development (USAID) has faced substantial reductions in early 2025, with early reports indicating numbers may drop from 10,000 employees to just over 600.³³

In 2023, 85 per cent of US bilateral and earmarked ODA was allocated to six key categories: (1) emergency response, (2) government and civil society, (3) administrative and in-country refugee costs, (4) population and reproductive health, (5) health and (6) agriculture. Some of these sectors are more vulnerable to temporary or permanent cuts given the new priorities of the current US administration. To estimate potential reductions, we assume that essential sectors, such as emergency response, will face smaller cuts than others, like government and civil society.

On the 5 March 2025, the US administration introduced a pause on support for Ukraine with future support contingent on a series of US terms, including a critical mineral agreement between the US and Ukraine. In this deal, it is believed the US seeks to receive 50 per cent of the profits from Ukraine's critical minerals, as well as from its oil and gas. The money would then be invested in Ukraine's recovery.³⁴

If the Ukraine example is a bellwether for future discussions on aid, the US administration will increasingly be looking for quid-pro-quo arrangements with terms supportive of US interests. In this environment, it is possible that ODA becomes a more commercial enterprise for the US in coming years. If this occurs, ODA will, in the worst case, be heavily reduced across many sectors.

The EU and the UK Context

As a bloc, the EU is the largest ODA donor outside of the US. Growing security concerns are creating domestic pressure to increase military spending by more than \$560 billion by 2030. If the US reduces or withdraws support for Ukraine, EU countries may face increased pressure to step up their own assistance to sustain the war effort. In this environment, EU countries may choose to reduce ODA contributions to free up additional funds to be reallocated into other areas.

While no longer a member of the EU, the United Kingdom is also a major donor that has announced large cuts in ODA. At the time of writing, EU and UK cuts amount to around \$15 billion of total ODA from the EU and the UK in 2023.

However, further cuts may yet be announced. The result could again be a significant reduction over the next five years.

Scenario Impacts

Based on information in the public domain at the time of writing, Table 2 outlines three outcome scenarios: optimistic, moderate, and pessimistic. In the optimistic scenario, many of the frozen funds are released and the international system and, in addition to already announced cuts, sees only minor reductions in future flows. In the moderate scenario, sectors that have already been targeted are reduced more heavily, but other sectors see more modest reductions. In the pessimistic scenario, ODA from major donors is heavily reduced. In such a scenario, the rest of the world would have a difficult decision to make regarding their own annual ODA budgets. In the pessimistic scenario we assume that the rest of the world also reduces voluntary contributions by 10 per cent. This is a conservative estimate; remaining countries could well opt for higher reductions. As shown in Figure 12, the analysis indicates that ODA could decline by 20 to 40 per cent in the coming years equating to reductions of between \$50 and \$115 billion.

TABLE 2

Future scenarios for ODA

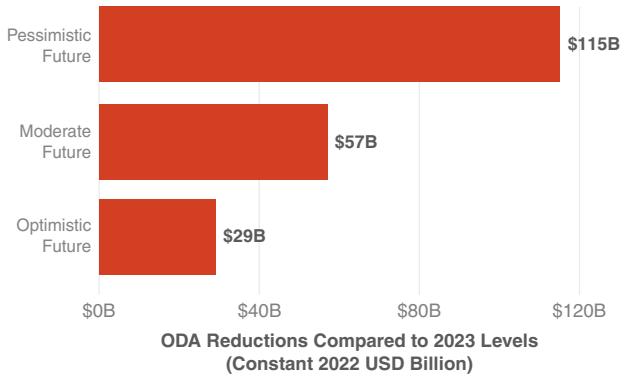
The projected ODA scenarios find that total ODA contributions are poised to drop globally by between 10 and 40 per cent.

Scenario	Funding Flow	US	EU27	United Kingdom	Rest of the World	Total Gross Impact
Optimistic	Voluntary Contributions	20-40 per cent reduction across ODA sectors	10 per cent reduction	50 per cent reduction	Maintains 2023 levels	\$29 billion (10 per cent of 2023 total)
	Mandatory Assessed Contributions	Unchanged	Unchanged	Unchanged	Maintains 2023 levels	
Moderate	Voluntary Contributions	50-60 per cent reduction across ODA sectors	30 per cent reduction	60 per cent reduction	Maintains 2023 levels	\$57 billion (20 per cent of 2023 total)
	Mandatory Assessed Contributions	10 per cent of mandatory contributions withheld.	Unchanged	Unchanged	Maintains 2023 levels	
Pessimistic	Voluntary Contributions	70-90 per cent reduction across ODA sectors	70 per cent reduction	80 per cent reduction	10 per cent reduction across ODA sectors	\$115 billion (>40 per cent of 2023 total)
	Mandatory Assessed Contributions	30 per cent of mandatory contributions withheld.	20 per cent of mandatory contributions withheld.	20 per cent of mandatory contributions withheld.	10 per cent of mandatory contributions withheld.	

FIGURE 12

Future gross ODA and multilateral outflows forecast (constant 2022 US dollars)

Future ODA flows may be reduced by between \$28 billion and \$115 billion. In the worst-case scenario, this would see an international aid system with 40 percent less funding in the coming years.



Source: OECD, IEP Calculations

Exposure to Funding Reductions

Significant reductions in ODA will have far reaching effects in the short and long term. UN agencies would be affected in different magnitudes by these changes. Figure 13 shows the estimated level of exposure to major UN agencies.

The World Food Programme (WFP) has the highest level of exposure, with around 50 per cent of funding streams at risk in the pessimistic future scenario. The WFP is the world's largest humanitarian organisation, providing food assistance in emergencies and working on building nutrition in developing contexts. Unlike other UN bodies, funding to WFP is voluntary.³⁵ It received the Nobel Peace Prize in 2020 for its efforts to combat hunger, promote peace and prevent the use of hunger as a weapon of war. The impacts of funding cuts have been immediate for the organisation, and it has already closed its southern African office.³⁶

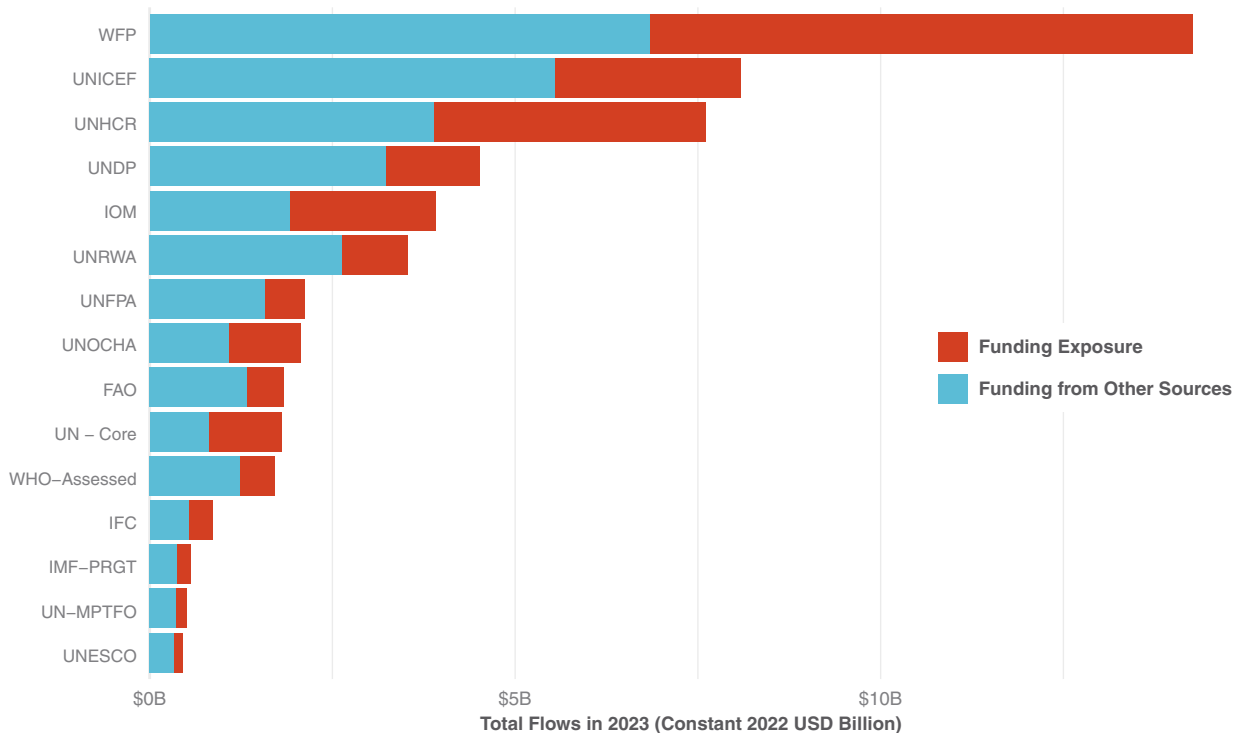
The United Nations Children's Fund (UNICEF) works to protect the rights of children in over 190 countries. Like WFP, funding to UNICEF is voluntary and, in these scenarios, around 20 per cent of its this is at risk.³⁷ The United Nations High Commissioner for Refugees (UNHCR) protects and assists people who have been forced to flee their homes. This includes refugees, asylum-seekers, internally displaced people and stateless people. It has an exposure of around 50 per cent.

The World Bank also faces high levels of risk to the projects it funds globally. The World Bank assists countries to reduce poverty and achieve economic growth. Increasingly, many of its programs are funded through earmarked projects and its largest donor is the United States.³⁸ However, being a bank, it also has a diverse range of funding sources, including revenue from loan repayments and investments, borrowing from capital markets, and International Development Association (IDA) replenishments.³⁹

FIGURE 13

UN agency exposure to potential funding cuts (constant 2022 US dollars)

The World Food Programme, UNICEF and UNHCR have high exposure to potential future funding cuts.

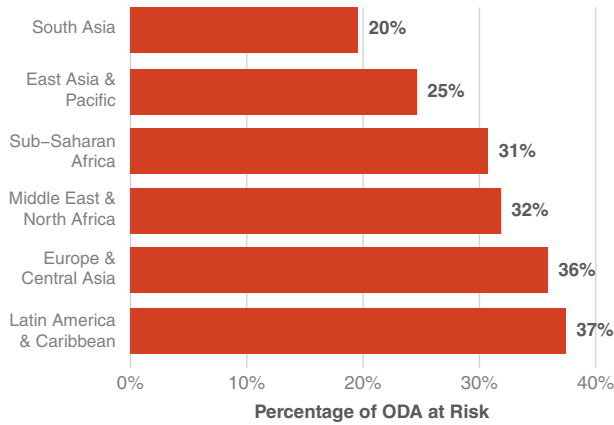


Source: OECD, IEP Calculations

Figure 14 shows the regions that are expected to be most affected. Europe and Central Asia, Latin America, MENA and sub-Saharan Africa all have over 30 per cent of their 2023 ODA inflows at risk of cuts. This is important, as Central Asia, MENA, Latin America and sub-Saharan Africa are among the least peaceful regions in the Global Peace Index.

FIGURE 14
Recipient region exposure to potential funding cuts

Europe and Central Asia, Latin America, MENA and sub-Saharan Africa have between 30 and 40 per cent of 2023 ODA inflows at risk of cuts.

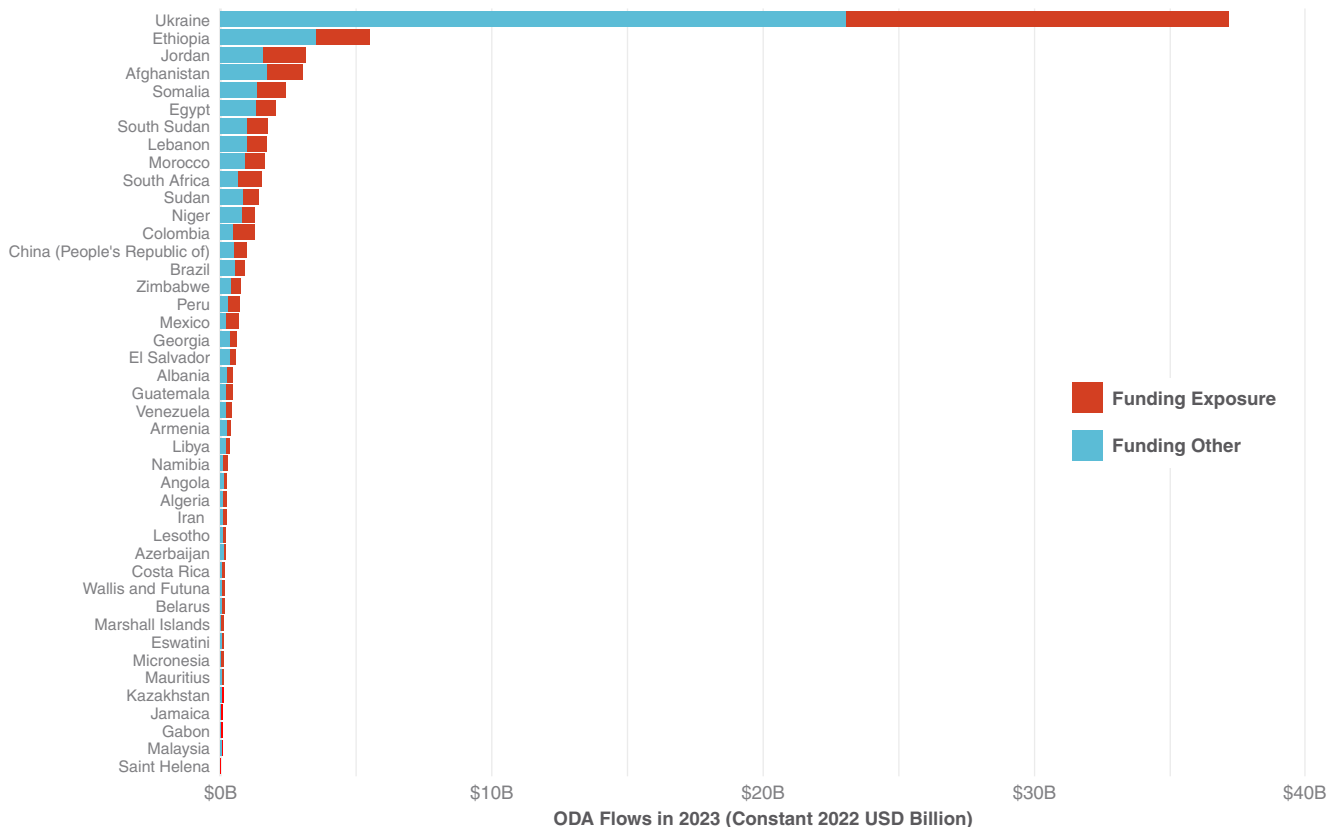


Source: OECD, IEP Calculations

As a result of upcoming cuts, recipient countries are likely to see much smaller amounts of ODA funding in the coming years. The most affected countries will be in Latin America and sub-Saharan Africa. The individual country with the highest level of funding risk is Ukraine, which, depending on the US administration's stance in the coming months, could see its funding from abroad reduced by 40 per cent in the next year. Ethiopia, Afghanistan, Jordan and Somalia could each see cuts of over 30 per cent in the next year in the pessimistic future scenario. Small countries, such as Marshall Islands, Wallis and Futuna and Saint Helena could see 50 to 80 per cent reductions in aid flows.

FIGURE 15
Recipient country exposure to potential funding cuts (constant 2022 US dollars)

Most of the countries most affected by potential funding cuts would be in Latin America, MENA and sub-Saharan Africa. Smaller countries may see over 80 per cent reductions in aid flows.



Source: OECD, IEP Calculations

TABLE 3

Recipient country exposure to potential funding cuts as a percentage of GNI

The countries that will economically be most affected by ODA cuts are all within the least peaceful countries in the world.

Country	ODA (% GNI) 2023	% of GNI at Risk	GPI Rank 2024
Afghanistan	27%	12%	160
Yemen	38%	11%	163
Syria	36%	9%	156
Somalia	19%	8%	153
Central African Republic	27%	7%	150
South Sudan	16%	7%	161
Ukraine	17%	6%	159

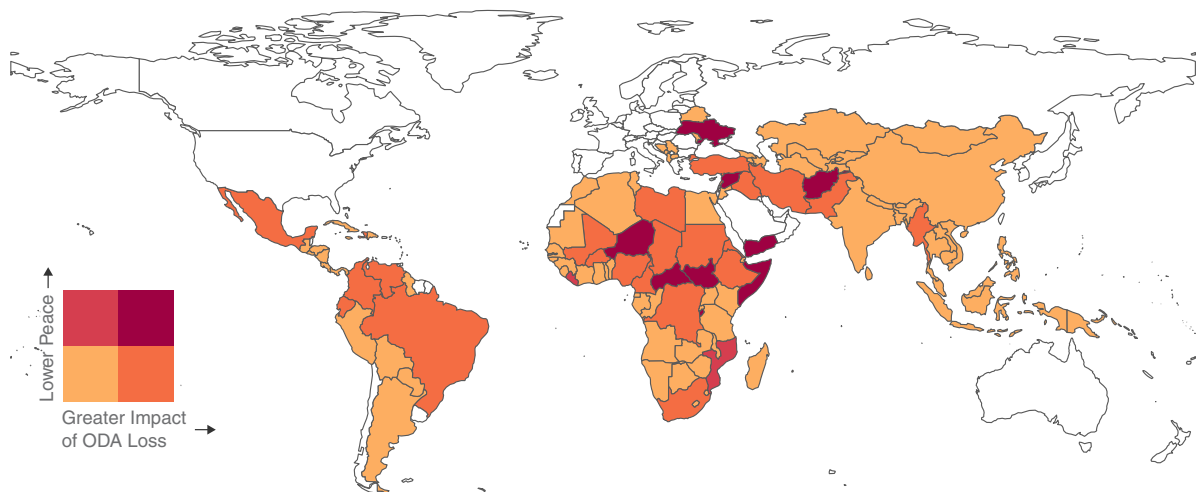
Source: World Bank, IEP

Table 3 lists the potential impact of these cuts when considering the amount of ODA received as a percentage of Gross National Income (GNI). The country whose overall economy may most be hit is Afghanistan, followed by Yemen, Somalia, Central African Republic and South Sudan. All countries are within the least peaceful countries in the world. Figure 16 shows the distribution of greatest impact of losses to ODA overlaid with the Global Peace Index.

FIGURE 16

Recipient country exposure to potential funding cuts and peace levels, 2024

The countries that will be most affected by cuts to ODA are some of the least peaceful countries in the world.



Source: IEP, OECD

BOX 3

Emerging donors and China

Donors such as Saudi Arabia, Türkiye, the United Arab Emirates and China have recently been reshaping the funding base for multilaterals.⁴⁰ However, DAC countries remain the largest funders of the multilateral system, collectively accounting for 95 per cent of contributions.

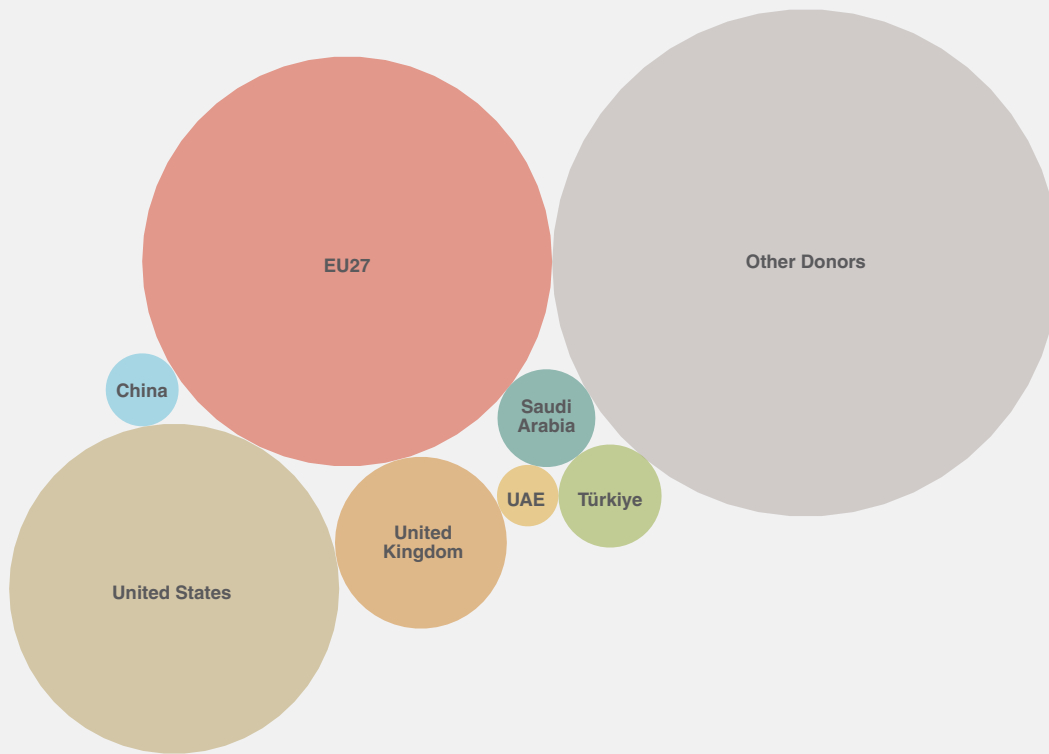
In addition to multilateral funding, China has emerged as an international aid provider. Aid flows from China are not monitored by the DAC under ODA protocols. In 2018, China established the China International Development Cooperation Agency (CIDCA) to coordinate its foreign aid.

Chinese aid has a higher proportion of less-concessional loans, meaning that the terms of the loans are more in line with market prices rather than concessional below market rates. Exact volumes of Chinese development finance are difficult to assess because the Chinese government does not disclose official statistics; estimates place the total amount of foreign aid at between \$3 and \$4 billion. China also contributes around \$2 billion to multilateral financing.⁴¹ Over 45 per cent of China's aid goes to Africa.⁴²

FIGURE 17

Emerging donor vs DAC flows, 2023

DAC countries account for around 95 per cent of all ODA flows.



Source: John Hopkins, OECD

Conclusion

Over the past few decades, ODA evolved into an increasingly complex system involving the international transfer of funds through a wide array of bilateral and multilateral modalities. Its composition and regional allocations have continually changed with the shifting geopolitical landscape.

The prospect of drastic cuts to ODA in the coming years raises a fundamental question: how can ODA become more effective in achieving its primary goal of fostering economic development and improving welfare in recipient countries? Ensuring that ODA remains focused on its purpose requires significant enhancements in its efficiency, transparency and responsiveness to local needs.

Developing countries in sub-Saharan Africa and Latin America are particularly vulnerable to declining ODA flows. Rising political instability and violence in places like the Sahel, Venezuela and Mexico have already placed severe strain on governance and economic conditions. The loss of 30 per cent or more in development aid flows in these regions risks exacerbating instability, increasing migration pressures and undermining economic gains. A more strategic approach to ODA allocation is needed, one that balances resilience-building and long-term economic opportunities with short-term considerations.

Transparency and the control of corruption in ODA flows remain critical issues in ensuring aid effectiveness. The OECD's Creditor Reporting System (CRS) has been instrumental in tracking official development finance, allowing for greater scrutiny of how funds are allocated and used by recipient governments and multilateral organisations. However, the system still faces challenges in fully capturing the impact and effectiveness of aid flows. While donor reporting requirements have improved, inconsistencies persist, making it difficult to assess whether funds are being utilised as intended. Strengthening reporting mechanisms and ensuring that multilateral organisations adhere to high standards of transparency would enhance accountability and mitigate risks of misallocation.⁴³

With reduced resources, efficiency gains can be achieved by integrating programs more effectively. On-the-ground efforts by different multilateral agencies often operate in isolation, leading to duplication. Stakeholders in the multilateral development system have responded to each crisis by creating new entities - the number of ODA-eligible international organisations increased from 121 in 2000 to 212 in 2020 - which has increased fragmentation.⁴⁴

Administratively, harmonising donor requirements would reduce excessive transaction costs that divert resources away from development priorities.⁴⁵ Greater reliance on pooled funds and multi-year funding mechanisms would provide much-needed flexibility, allowing recipient countries and agencies to respond more effectively to evolving challenges.

Lastly, in an era of fiscal uncertainty, development programs must be designed with greater precision to align with recipient priorities. Identifying the areas of greatest need is essential for effectively addressing development challenges. Achieving this requires timely and accurate data. Strengthening the use of data analytics in ODA decision-making combined with effective monitoring and evaluation would enhance the efficient allocation of resources, ensuring that funding supports initiatives with the highest potential for sustainable economic and social impact.

Moreover, as competition for funding intensifies, development projects must better articulate how their positive impacts in developing countries also benefit donor nations. Demonstrating the return on investment (ROI) of development initiatives will be crucial in securing future funding. Currently, no standardized framework exists for demonstrating ROI of development projects effectively. Developing a compelling approach to quantifying these benefits will enhance the ability to demonstrate the benefits that aid provides, both overseas and domestically.

Appendix A: Official Development Assistance (ODA) Definitions

Official Development Assistance (ODA) is the primary measure of international aid, designed to support the economic development and welfare of developing countries.¹ To be counted as ODA, it must meet criteria set by the OECD Development Assistance Committee (DAC). The DAC is an international forum which includes 31 member states and the EU. It includes many of the largest providers of international aid, including the United States, Germany, France, Japan and the United Kingdom. The proportion of all international aid channelled by DAC members is over 95 per cent.⁴⁶ In 1970 the DAC agreed that each member should aim to have ODA levels of 0.7 per cent of its Gross National Income (GNI).⁴⁷

ODA also is the main source of income for the major multilaterals. As donor countries make payments to multilateral organisations, particularly the United Nations and its various agencies, through “assessed” or mandatory contributions. Multilateral agencies have discretion on how and where they channel these funds. This allows multilaterals to address global challenges and humanitarian crises.⁴⁸

Figure 18 outlines the funding flows from donor countries to recipient countries, both bilaterally and through multilateral organisations. Table 4 classifies these flows as voluntary or mandatory.

FIGURE 18

ODA flows

The DAC system collects statistics on all flows from donor countries to recipient countries.

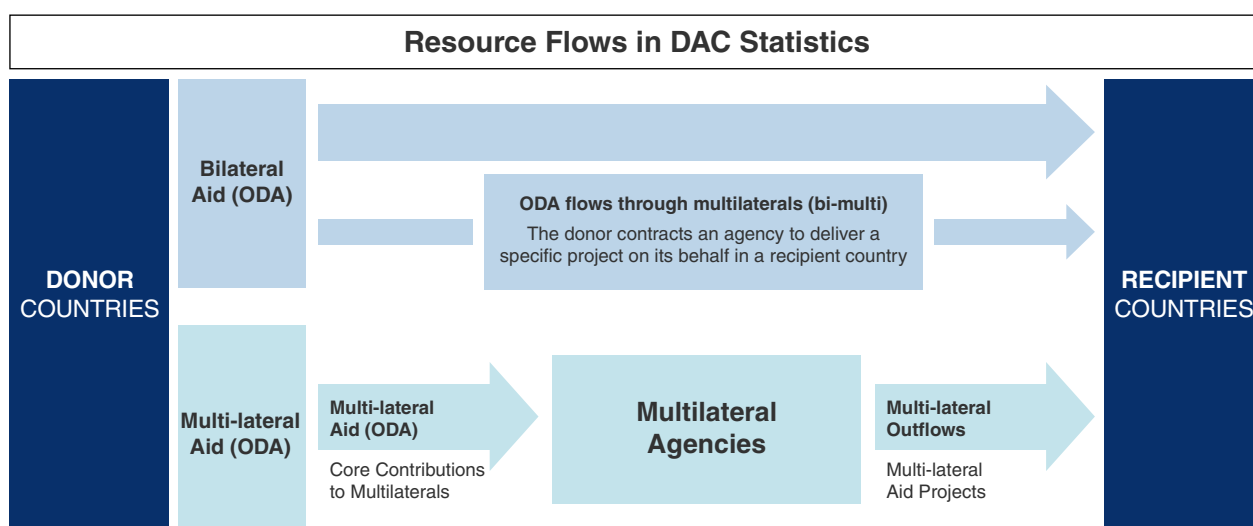


TABLE 4

Type of resource flows in the DAC statistics

Type	Description	Voluntary Or Mandatory
Bilateral ODA	Flows from official (government) sources directly to the recipient country. ⁴⁹	At donor country discretion (voluntary).
Bi/Multi (Earmarked) ODA	Flows channelled from donor countries through multilateral organisations (Bi/Multi) to a specific recipient (the multilateral organisation is contracted to deliver a specific project). ⁵⁰	At donor country discretion (voluntary).
Multilateral ODA	Core contributions to ODA-eligible multilateral organisations. ⁵¹	Can be voluntary or mandatory. With respect to the United Nations and its various agencies, core contributions are generally understood to refer to assessed contributions and non-core to voluntary contributions. ⁵² Assessed contributions are mandatory for all member states. The amount each member pays is based on the member's wealth, population, debt burden and capacity to pay. Multilateral agencies have discretion on how and where they channel these funds.

Source: OECD

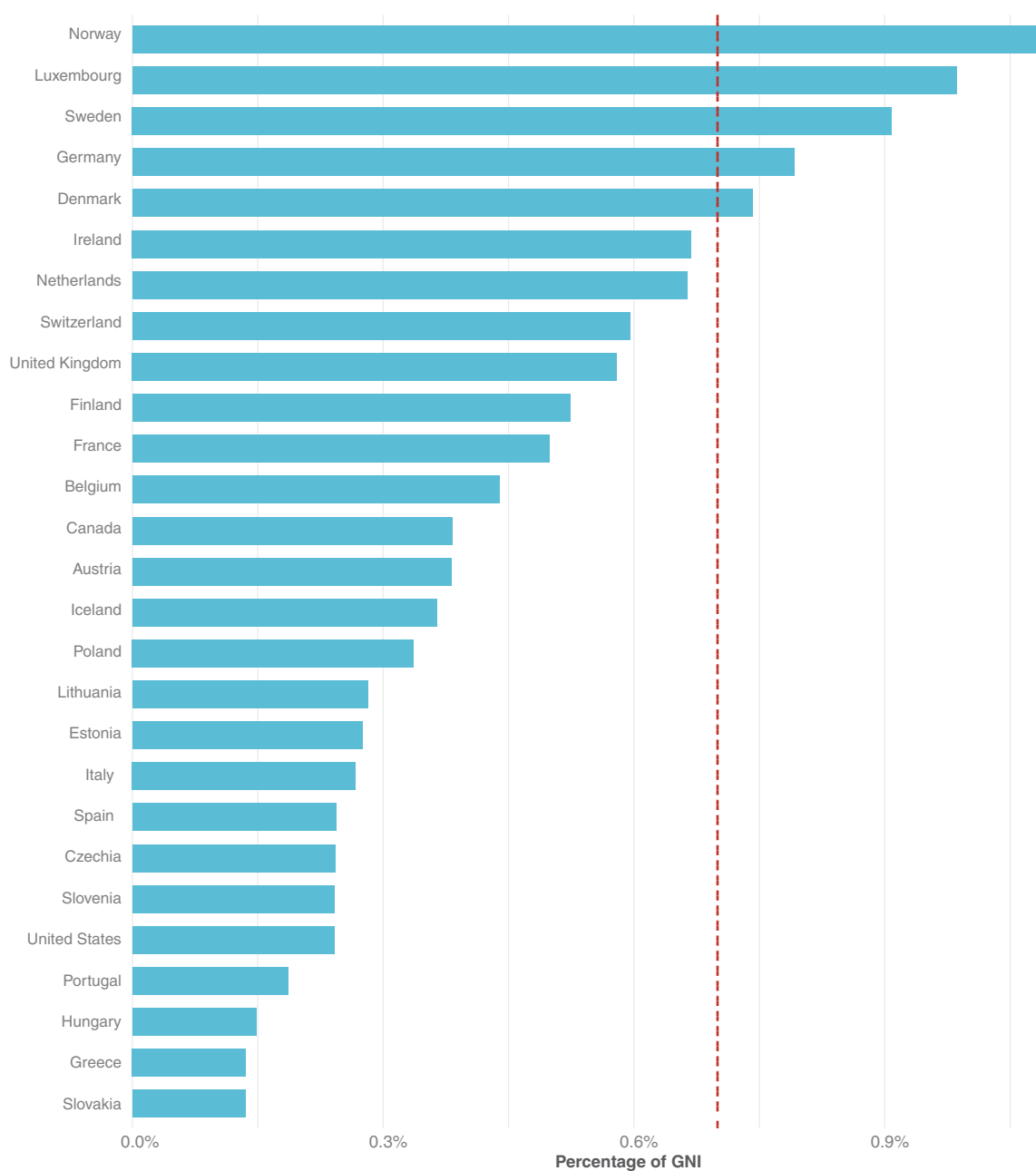
Official ODA is regulated by the DAC to adhere to protocols. However, over the existence of DAC, ODA has undergone definitional changes to reflect new spending priorities of member states. These changes have the effect of expanding the range of activities that can be counted towards the 0.7 per cent target. In the past decade, ODA has been expanded to include more security and humanitarian actions, COVID activities, climate action, in-country refugees and migration costs, loans, and private sector investment.⁵³ Figure 19 shows the DAC member states and their percentage of ODA to GNI in 2023. Only four DAC members met the 0.7 per cent ODA target in 2023.

The shifting nature of ODA makes it difficult to track like for like over time. Further, commentators suggest that the expanding nature of ODA comes with risks. The increasing scope of ODA has the potential to dilute its original purpose to support the economic development and welfare of developing countries. It also offers the ability for DAC member states to 'pad' the activities the channel to ODA to meet the 0.7 per cent target. The inclusion of in-donor refugee costs is one example. While refugee hosting is a legitimate development activity, using ODA to fund these costs can displace other essential cross-border flows, but with inconsistent accounting practices, it can lead to discrepancies in how hosting expenses are reported across donor countries.⁵⁴

FIGURE 19

Net official development assistance (ODA) as a percentage of OECD-DAC donors GNI (grant equivalent methodology), 2023

Only four DAC members met the 0.7 per cent ODA target in 2023.



Source: UN Economic Commission for Europe (UNECE)

The increase of the use of private sector investment and loans also has potential unintended consequences. During the 2010s, the ODA accounting rules went through a period of modernisation in the aftermath of the Global Financial Crisis which saw an abundance of low interest loans worldwide. This meant that even non-concessional loans from donors to recipient countries could be classed as ODA-eligible under the protocols of the day. This process allowed for the inclusion of private-sector inclusions in ODA, raising concerns that donor countries could include commercially viable investments as ODA.⁵⁵

Moreover, as ODA's scope expands, various thematic areas compete to increase their share of limited development assistance. With these rising and competing demands, funds have become increasingly stretched at a time when ODA struggles to achieve its primary purpose of poverty alleviation. For example, the number of people living in extreme poverty in Africa is higher than it was in ⁵⁶

While it is difficult to discern exactly how much of the increase reported since 2014 is due to definitional changes to ODA, Table 5 shows almost 50 per cent of all flows went to four sectors: emergency response, in-donor refugee costs, general budget support, and government and civil society. These sectors have also seen some of the largest increases since 2014.

BOX 4:

Methodology at a Glance

This report uses information from several sources to track inflows and outflows of the DAC System:

- OECD DAC Database: Tracks bilateral and multilateral aid to recipient countries. Flows that are bilateral but channelled through a multilateral agency are classified as "earmarked".
- OECD Donor Use of the Multilateral System: Tracks flows from donor countries into multilateral agencies through either "Core Funding" or "Earmarked Funding". This database is merged with the DAC database and double counts of projects are removed.
- Kiel Institute Ukraine Aid Tracker: This database is merged with the OECD databases to track aid flows not accounted for in the DAC system such as military aid.
- SIPRI Military Expenditure Database: Tracks military expenditure across the globe and time.

The analysis of this report is primarily based on the Development Assistance Committee (DAC) database of the Organisation for Economic Co-operation and Development (OECD), a comprehensive resource that tracks and categorises official development assistance (ODA) flows. This database tracks aid flows from the 32 DAC members. Contributions from non-DAC countries, such as India and China, are not included in this analysis except in their core contributions to the United Nations.

TABLE 5

Sector Increases between 2014–2023 (constant 2022 US dollars)

The largest sector increases across the period were in emergency response, in-donor refugee costs, government and civil societies, general budget support, health and administrative costs of donors.

Sector	Value in 2014 (\$USD B)	Value in 2023 (\$USD B)	Increase 2014-2023	% Increase 2014-2023	% of 2023 Disbursement
EMERGENCY RESPONSE	\$7.0B	\$35.5B	\$28.5B	406%	14%
REFUGEES IN DONOR COUNTRIES	\$6.5B	\$31.2B	\$24.8B	383%	12%
GENERAL BUDGET SUPPORT	\$3.5B	\$27.2B	\$23.7B	684%	10%
GOVERNMENT AND CIVIL SOCIETY	\$16.6B	\$30.0B	\$13.4B	81%	11%
ADMINISTRATIVE COSTS OF DONORS	\$8.6B	\$15.2B	\$6.6B	77%	6%
HEALTH	\$10.1B	\$16.1B	\$6.0B	60%	6%
EDUCATION	\$11.3B	\$15.3B	\$4.0B	35%	6%
OTHER SOCIAL INFRASTRUCTURE AND SERVICES	\$3.9B	\$7.8B	\$3.9B	101%	3%
TRANSPORT AND STORAGE	\$10.5B	\$13.7B	\$3.2B	31%	5%
ENERGY	\$8.2B	\$11.1B	\$2.9B	35%	4%
AGRICULTURE, FORESTRY, FISHING	\$7.5B	\$10.0B	\$2.5B	33%	4%
DISASTER PREVENTION AND PREPAREDNESS	\$0.8B	\$2.6B	\$1.8B	229%	1%
INDUSTRY, MINING, CONSTRUCTION	\$1.3B	\$2.9B	\$1.6B	126%	1%
GENERAL ENVIRONMENTAL PROTECTION	\$4.3B	\$5.4B	\$1.1B	24%	2%
OTHER MULTISECTOR	\$9.7B	\$10.6B	\$0.9B	10%	4%
RECONSTRUCTION RELIEF AND REHABILITATION	\$0.8B	\$1.7B	\$0.9B	105%	1%
COMMUNICATIONS	\$0.4B	\$1.2B	\$0.8B	192%	0%
BANKING AND FINANCIAL SERVICES	\$2.4B	\$3.2B	\$0.7B	31%	1%
BUSINESS AND OTHER SERVICES	\$1.7B	\$2.0B	\$0.3B	18%	1%
WATER SUPPLY AND SANITATION	\$6.2B	\$6.4B	\$0.2B	3%	2%
TRADE POLICIES AND REGULATIONS	\$1.2B	\$1.3B	\$0.1B	6%	0%
DEVELOPMENTAL FOOD AID/FOOD SECURITY ASSISTANCE	\$1.0B	\$1.0B	\$0.0B	2%	0%
POPULATION POLICIES/PROGRAMMES AND REPRODUCTIVE HEALTH	\$10.5B	\$9.4B	-\$1.1B	-10%	4%
ACTION RELATING TO DEBT	\$1.5B	\$0.2B	-\$1.3B	-87%	0%
OTHER COMMODITY ASSISTANCE	\$2.1B	\$0.2B	-\$1.9B	-90%	0%

Source: OECD

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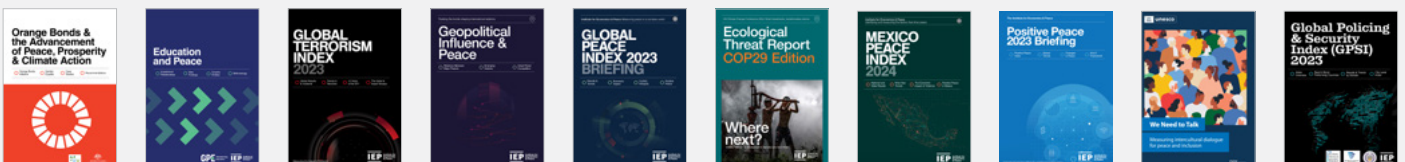
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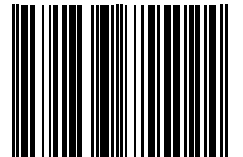
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