Development Co-operation Report 2023

DEBATING THE AID SYSTEM

OECD

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Preface

The OECD can help development actors navigate a changing landscape

The world is faced with a growing set of profound, urgent and global challenges. COVID-19 and Russia's war of aggression against Ukraine have not only had devastating short-term consequences but have also precipitated longer-term economic and geopolitical shifts. Climate change, meanwhile, risks setting back the development progress of recent decades, particularly in the poorest countries. The international development architecture must respond to these challenges while supporting those most affected.

The OECD was founded in a similar moment of uncertainty to help implement the Marshall Plan for rebuilding Europe after the Second World War. Building on the success of this common effort, the Organisation expanded its attention to supporting the development and prosperity of countries outside its membership. With respect to official development assistance (ODA), which underpins members' bilateral relationships with low- and middle-income countries, the OECD has emerged as the custodian of standards and data in development co-operation. We provide a forum to drive good practice, transparency and accountability. Commitments by our members have ranged from improving their practices, such as untying aid, to working more effectively with all partners including humanitarian, peace, civil society and multilateral actors. The OECD has also helped members put development on the agenda of all government ministries and departments, leveraging skills and expertise across the Organisation's policy areas to agree a Council Recommendation on Policy Coherence for Sustainable Development (2019).

Now is the time to build on these solid foundations and evolve once again to meet the challenges of today, and deliver a fairer international system, which engages all countries equally, for tomorrow. As their contributions to this report make clear, leaders of low- and middle-income countries, heads of international non-governmental and multilateral organisations, researchers, and civil society groups see a rare window of opportunity for change. OECD member countries can embrace new ways of working and thinking, and new development actors. This includes leveraging development co-operation to build from developing countries' strengths, commit to long-term and locally led development, and tackle systemic issues such as racism and the legacies of a colonial past.

Enacting these changes will not be straightforward. ODA must adapt in the face of an increasingly complex environment, with global public goods and common challenges. International development actors will therefore need to take on and manage higher levels of complex risks. Multilateral development banks will need to make further use of their access to markets, while partners of developing countries may need to update their approaches to risk to work more directly with local stakeholders. New opportunities are also emerging, such as innovative insurance mechanisms to help transfer the risk of humanitarian disasters to private actors.

The OECD is well placed to help members navigate these fundamental changes. First, the Development Assistance Committee and its subsidiary bodies provide a unique forum for discussion and consensus among the world's largest providers of ODA (USD 185.9 billion in 2021) and the largest stakeholders in multilateral organisations. Second, our strong partnerships with low- and middle-income countries, the United Nations system, the Group of Twenty and other providers of development co-operation make it easier to find common ground. Finally, we provide expertise in multiple policy areas to help members co-operate to tackle problems and ambitious development goals that transcend borders and institutional as well as disciplinary boundaries.

This report will help break down complex challenges into manageable areas for action and identify where our current practices and policies are lacking. This will lay the groundwork for our members and other stakeholders to share information and advice, learn from each other's successes, and ensure development policy contributes real solutions to today's pressing challenges.

Mathias Cormann,
OECD Secretary-General

Foreword

For 60 years, the Development Co-operation Report has brought new evidence, analysis and ideas to the Development Assistance Committee (DAC) and the international community more broadly, shaping policy reform and behaviour change, and promoting best practices in development co-operation. Each year, the report analyses a fresh policy issue that is timely, relevant or challenging for development co-operation policy and finance. In addition, the Development Co-operation Profiles detail aggregate and individual trends in policies, allocations and the institutional set-up for a broad range of providers, including members of the OECD and DAC as well as other countries and philanthropic foundations.

The report will no longer include the "development co-operation at a glance" profiles, as have previous editions. Instead, individual data and policy priorities for more than 90 official and philanthropic providers of development finance are available on line: Development Co-operation Profiles. Summary charts and graphs can be found on the Development Co-operation Report homepage.

This 60th anniversary edition focuses on ways to accelerate the implementation of commitments in support of comprehensive and inclusive development progress. The report puts the voices of those representing the diverse experiences and perspectives of low- and middle-income countries and their populations at the centre. Drawing on the latest research and insights from practitioners, academia and civil society experts, it takes stock of opportunities and challenges confronting the aid system. It also presents concrete ideas for action with the objective of keeping development co-operation relevant and impactful. These ideas are organised under four ways forward: Deliver existing commitments and unlock progress; support locally led transformation in partner countries; modernise business models and financial management practices to align strategies, budgets and delivery; and rebalance power relations and find common ground for partnerships.

This report contains an overview and three main parts. The overview and accompanying infographic present key messages from the report on the opportunities and challenges for both development co-operation and official development assistance (ODA), its key policy instrument, to be fit for purpose in a rapidly changing landscape.

Part I explores the political economy of aid. It presents major trends, challenges and opportunities that are shaping development co-operation, including geopolitical tensions, the emergence of new actors and global inequalities, finance for climate change, feminist foreign policies and aid dependency. Part II focuses on aid relevance in a complex system. It analyses two decades of trends in ODA policy and allocations, performance against key financing and effectiveness commitments, and emerging responses to pressures on development co-operation – for example, locally led development and lessons on aid effectiveness in extremely fragile settings. Part III turns to adapting to evolving demands for ODA across regions. It examines how partners can respond better to national development priorities and preferred modalities and instruments while ensuring long-term sustainability. The three parts contain analytical chapters contributed by external experts and OECD teams, "In my view" articles by leaders in their fields, and "In focus" studies providing insights on specific themes or regions.

The full report is published in English and French. An electronic version is available on line at: https://www.oecd.org/dac/development-cooperation-report.

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Editorial

Development co-operation in 2023: The times, they are a-changing

“The times they are a-changin” was an anthem for change in the early 1960s. We publish this 60th Development Co-operation Report (DCR) when much of the world is facing crises that development co-operation is struggling to respond to. The international development community also needs an anthem for change.

COVID-19 has cost lives and livelihoods. Debt levels are escalating. Russia’s war of aggression against Ukraine is redrawing the geopolitical map. Conflict and fragility are on the rise. Poverty is increasing. People are starving to death. Even sceptics cannot ignore the impacts of the climate crisis, especially on the world’s poorest people. Political freedoms and human rights are under attack. Discrimination against women and girls persists and has been intensifying. The Sustainable Development Goals (SDGs) are more valid than ever but seem more elusive.

Neither the development co-operation system nor the global financial architecture were designed to tackle these crises, a view reflected in candid contributions to this DCR. The development landscape has changed beyond recognition since the establishment of the Development Assistance Committee (DAC) in 1961. Development partners’ needs are increasingly complex. Development is inherently and increasingly political and contested. The DAC continues to evolve, but systemic changes are needed in terms of the range, quantity and quality of resources for development and the architecture that governs their use. These changes require the painstaking business of consensus building.

Official development assistance (ODA) cannot solve all development challenges. We are expecting this precious resource to do too much. Competing demands – from financing for global public goods and adaptation to the climate crisis to unprecedented urgent humanitarian needs – are stretching ODA budgets to breaking point. It’s hard to deliver effective development when resources are spread too thin. It’s even harder to ration this scarce resource. ODA must be invested as wisely as possible, based on the Development Effectiveness principles. The DAC takes this very seriously, but it’s frustrating that other development actors are not always held to the same standards. We won’t achieve the SDGs without correcting this imbalance.

Sustainable development happens when communities, societies and their governments own and pursue change aligned to the aims of the SDGs, supported by a favourable external environment. This report tells compelling stories about how the power of ODA can be harnessed in conjunction with domestic revenues, foreign direct investment and growth driven by the private sector to deliver the SDGs. There are really good examples of what ODA can achieve, from enabling Bangladesh’s transition from least developed country status to supporting Colombia’s achievement of its national priorities. But there are also salutary warnings that progress is being reversed by the overlapping crises.

There are mounting cries for reform of the international development financial system to make it work better for those who need it most, ranging from the Bridgetown Agenda to rethinking climate finance and more regional co-operation. Much remains to be done to agree on what change is needed and how to deliver it.

The DAC, as the custodian of the ODA rules and key funder of the multilateral system, has an important role to play. We need to harness our collective ability to build consensus to help shape new solutions to tackle global challenges. We must take bold steps to finance global public goods and development in ways that make sense in the 21st century, with only seven years left until 2030. OECD data show that the finance needed to support low- and middle-income countries to tackle climate change and fulfil the annual commitment of USD 100 billion could drain budgets for other development priorities.

Every dollar of development co-operation needs to be made to work as hard as possible. All development providers, including DAC members, must build on and improve existing toolkits and best practices. Much is known about what works and what doesn't. Fragile places are particularly difficult. This DCR has evidence from Afghanistan, Mali and South Sudan showing how development interventions in these extremely fragile contexts failed to deliver their objectives. A more realistic approach is needed. We don't need to start from scratch, but we do need to learn from our mistakes.

There is no escaping the need for more financing. Echoing the spirit of the SDGs, we must all be willing to share power and influence to bring together a new coalition of countries and other actors committed to financing sustainable development. Today, the DAC provides 81% of finance for the United Nations development system and 89% of IDA20. Others need to step up. Innovative partnerships between DAC members and other development providers can result in more and better development outcomes. This DCR has interesting examples from India and elsewhere. There is growing recognition of the need to widen the base of countries and actors supporting development. We need to improve how we work together to achieve shared goals.

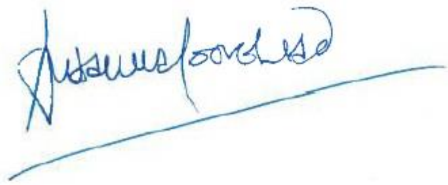
At the same time, we need to put accountability to poor people in partner countries at the heart of our approach. Despite years of partnership and substantial investment, trust and relations between development providers and partners are strained. Geopolitical tensions have exacerbated old fault lines and created new ones. Donors have become more cautious in the years since the financial crisis and have been more reluctant to take risks with public money. Public support for development co-operation is under pressure with the cost of living crisis. We need to think creatively about how to rebuild trust with partner countries as well as with taxpayers in donor countries. This report has good examples of new types of mutually beneficial partnerships and how the multilateral system can support them. Financing sustainable development through ODA and other means is an investment in everyone's future.

This time of global disruption offers an opportunity to forge a new social contract for development and build a better system to help set the world on course towards the SDGs. Many of the contributors to this DCR call for action and provide many ideas as to how we might do so. Resilience to future shocks, no matter what their source, is recognised as essential.

Any contract involves rights and obligations on all sides. It must be agreed to in a spirit of mutual trust, understanding and shared responsibilities. It means being honest about what we can and can't do. It requires a determination to create the political space for international co-operation and investment in the SDGs, despite international and domestic challenges. And for partner countries, it means committing to a new era of transparency and good governance. This contract is about much more than ODA. A whole-of-society approach is needed that uses all available levers – whether political or technical, public or private – to create the conditions for sustainable development.

The DAC has a unique role to play in shaping this new contract. As a champion of development standards and good practice and of peer learning, data, transparency and accountability, we have much to offer. We are keen to engage with other development providers, partners and the multilateral system to build a better future for inclusive and sustainable development.

As Bob Dylan sang in the early 1960s, "Admit that the waters around you have grown ... and you better start swimmin' or you'll sink like a stone, for the times they are a-changin'." As an international community, we must learn to swim harder against the rising tide. We must regroup and reform the development model and strengthen the global social contract to deliver for the complex realities of the world in 2023.



Susanna Moorehead

Chair, Development Assistance Committee

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Abbreviations and acronyms

4IR	Fourth Industrial Revolution
A4T	Aid for Trade
AfCFTA	African Continental Free Trade Area Agreement
AU	African Union
BIPOC	Black, indigenous and people of colour
BoP	Balance of payment
COP15	15th Climate Change Conference
COP27	27th Climate Change Conference
CPA	Country programmable aid
CRS	Creditor Reporting System
CSO	Civil society organisation
DAC	Development Assistance Committee (OECD)
DAH	Development assistance for health
DiT	Development in Transition
DREF	Disaster Response Emergency Fund
EC	European Commission
EU	European Union
FDI	Foreign direct investment
FFP	Feminist foreign policy
G7	Group of Seven
G20	Group of Twenty
GDP	Gross domestic product
GNI	Gross national income
GPG	Global public good
HIC	High-income country
IDA	International Development Association
IDRC	International Development Research Centre

IFF	Illicit financial flow
IMF	International Monetary Fund
INGO	International non-governmental organisation
LDC	Least developed country
LIC	Low-income country
LLDC	Landlocked developing country
LMIC	Lower middle-income country
MAPS	Methodology for Assessing Procurement Systems
MDB	Multinational development bank
MIC	Middle-income country
NDP	National development plan
NGO	Non-governmental organisation
NLP	Natural language processing
ODA	Official development assistance
PAGE	Policy Analysis on Growth and Employment
PCSD	Policy Coherence for Sustainable Development
PEP	Partnership for Economic Policy
SDG	Sustainable Development Goal
SDR	Special drawing rights
SIDS	Small island developing state
SSC	South-South co-operation
TOSSD	Total official support for sustainable development
UMIC	Upper middle-income country
UN	United Nations
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development
USD	United States dollar
WHO	World Health Organization
WRO	Women's rights organisation

Executive summary

Amid overlapping crises and unprecedented strain on aid budgets, development actors are being called on to adapt their policies, strategies and partnerships in a spirit of global solidarity and burden sharing. The *Development Co-operation Report 2023: Debating the Aid System* finds that debates are crystalising around the need for a fundamental rethinking of the international development system – the mandates, drivers, capacity and coherence of traditional and emerging actors – and feeding into urgent new discussions about scaling up and optimising the allocation of official development assistance (ODA) to reach goals.

Drawing on diverse contributions from all regions, this report takes stock of opportunities and challenges confronting the aid system and presents concrete ideas for action for keeping development co-operation relevant and impactful amid daunting challenges. Themes, ideas and proposals are brought together in the Overview, which proposes the following ways forward:

1. deliver existing commitments and unlock progress
2. support locally led transformation in partner countries
3. modernise business models and financial management practices to align strategies, budgets and delivery
4. rebalance power relations and find common ground for partnerships.

Crises and geopolitical shifts are challenging the aid system but also opening an opportunity for it to change

The political economy of aid is changing. Protracted crises have aggravated global instability, hunger, extreme poverty and fragility. Geopolitical shifts raise new challenges for development co-operation. On the one hand, pressure is on the development community to use the unique influence, relationships and financial flows at its disposal to contribute to security goals or create new trading relationships. On the other, calls are growing for development co-operation to meet the immediate needs of the most vulnerable while also tackling today's complex challenges, such as climate change and pandemic preparedness and mitigation.

Moments of challenge also offer a window of opportunity for change. In recent years, anti-racist movements calls to upend colonial legacies and a renewed push for locally led development have triggered reflections on how the aid system is structured and operates. Several countries have carried out reviews on racism in the sector, in some cases making direct links with power structures and paternalism that are the legacies of colonialism and taking steps to redress the balance. The ways in which funding relationships can perpetuate aid dependency are also being recognised, and an increasing emphasis is being placed on support to regional and global public goods as an alternative way to build resilience.

The weakness in the international financial architecture revealed by successive crises has led to a number of ideas for its reform – for example, the Bridgetown Agenda and calls for multilateral institutions to increase their level of risk and improve their ability to enable solidarity, in particular through the reallocation of International Monetary Fund special drawing rights. Humanitarian organisations, too, are attempting to fill the gap between the mounting needs and existing levels of funding by taking innovative financing approaches. The increase in the number of feminist foreign policies being adopted by OECD and other countries is a further sign of positive change.

Staying relevant requires delivering on past commitments and responding to new calls for change

Against this backdrop of crisis and reflection, development co-operation providers can pursue two strategic avenues: delivering on past commitments and responding to new calls for change. Over time, the aid community has made commitments and agreed on good practices that, if effectively implemented, could maximise ODA in this context of constrained budgets. Delivering on financing commitments, for example, will be particularly important in light of the pressures to finance expenditure on global public goods and respond to new crises. Delivering on the promise to maximise the collective impact of DAC members' ODA would decrease transaction costs for partner countries, enhance economies of scale, better focus ODA budgets on addressing needs, and help balance humanitarian interventions and long-term development impact. Tackling the fragmentation and proliferation of low-value projects and declining support to country systems would help simplify development co-operation and improve co-ordination.

As shown by the external contributions to this report, the calls for change are not rhetorical. There are also proposals for action. To operationalise their commitments to locally led development, all actors in the aid system, individually and as a group, must act on several simultaneous fronts. Cultivate new institutional capacities to rebalance power dynamics. Create a stronger evidence base on outcomes. Allocate larger proportions of financing to local organisations. Value the contribution of local researchers and forge stronger partnerships with entities based in the Global South. Adapt financing to fit with funding frameworks defined by developing countries and their representative bodies. And make space for the voice of civil society in priority-setting and decision making. Learning from what works and acknowledging failures and limitations, particularly in the most fragile contexts, is crucial to avoid repeating mistakes. Failing to engage seriously with such specific and direct proposals would undermine relevance going forward and miss a crucial opportunity to raise the bar for development co-operation.

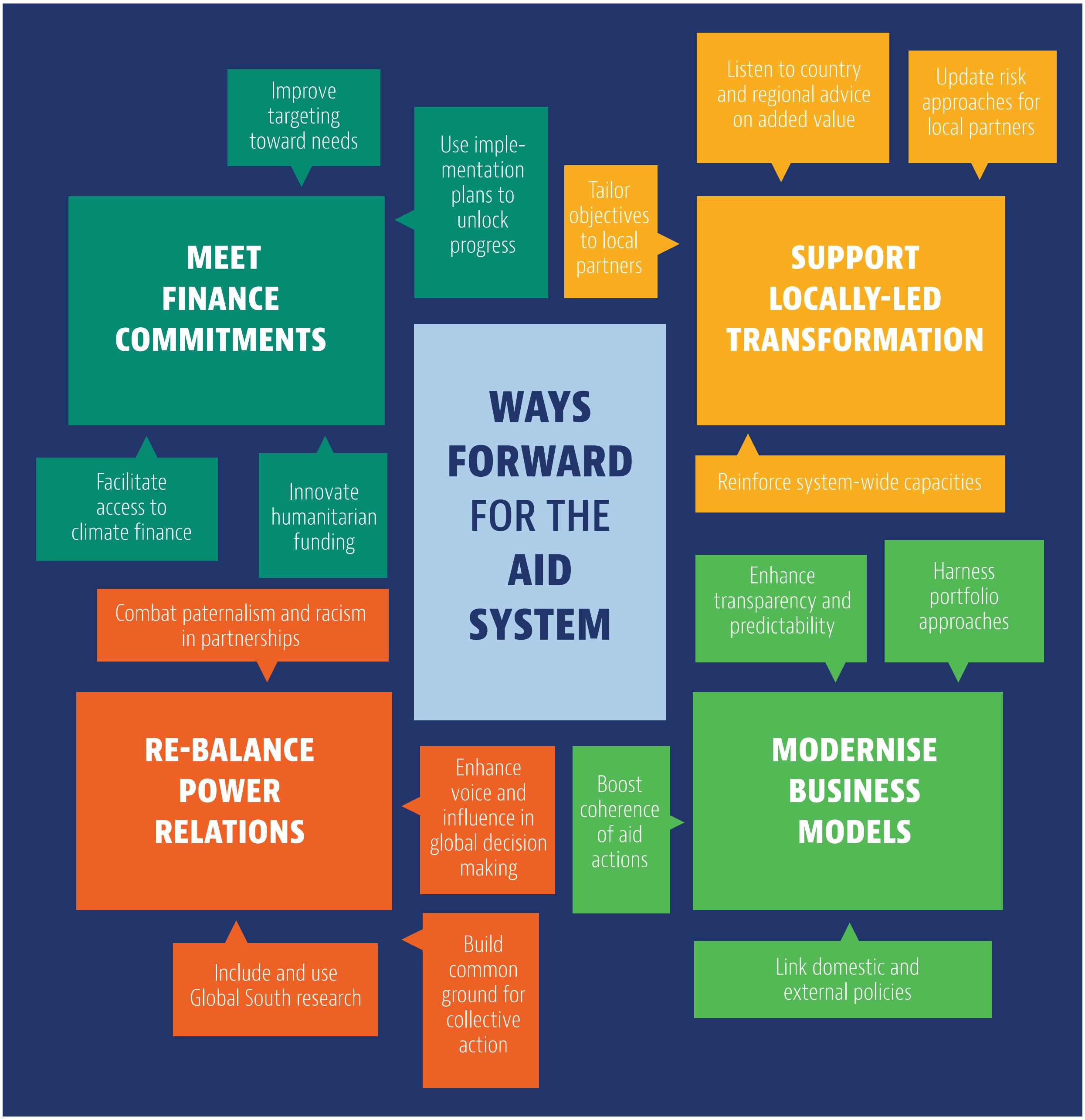
With priorities changing, development actors must be more agile and adaptable

Recent crises and wider shifts have transformed the priorities of developing countries. In Africa, for example, the focus is now on productive transformation as a source of growth and resilience. The sudden increase in poverty has re-engaged actors around tackling its root causes. Leaders across developing countries identify a lack of progress in job creation and government accountability as key areas where external support would add significant value. Some priorities are shared across developing countries; others are highly context-specific. Development co-operation providers, therefore, are facing the complex task of aligning with local priorities and complementing local reform efforts while also identifying sectors in which they have more or less of a comparative advantage and respecting the right of developing countries to draw support from multiple partners.

Adding to the complexity is the fact that: 1) local priorities change and are themselves the subject of debate among local stakeholders, which can make upholding the effectiveness principle of alignment challenging; and 2) country ownership is complicated by a plethora of global goals and aid providers' own interests and needs as well as the range of development pathways that countries may pursue. National development plans can help articulate country priorities and, despite their complexity and vulnerability to capture by various interests, strengthen development co-operation by encouraging context-specific approaches.

Importantly, some national development plans also highlight the global causes of domestic developmental challenges. As such, they are used as mechanisms to localise global agendas like the Sustainable Development Goals. Development co-operation providers can support this growing alignment between global and local goals by putting a greater emphasis on policy coherence for development. Regional bodies and frameworks can also provide spaces for co-ordination, co-operation and co-creation between countries.

Infographic 1. Ways forward for the aid system



Overview: Keeping development co-operation relevant and impactful amid daunting challenges

Providing the right development support at the right time and in the right places has become more difficult for international development actors. Demands on development assistance budgets are growing and finance gaps are widening. These pressures have made development co-operation the subject of healthy debate and reflection. All development actors are called on to adapt their policies, strategies and partnerships in a spirit of global solidarity and burden sharing. This overview outlines challenges and opportunities that are emerging from this rethinking of the aid system. It proposes ideas for action to overcome roadblocks to delivering existing commitments; support locally led transformation in partner countries; modernise business models and financial management practices; and rebalance power relations and find common ground for partnerships.

Development co-operation under pressure to meet new demands amid crises

Since 2020, rolling, concurrent crises have been eroding development progress and putting the international development system under immense, and in some cases unprecedented, strain. Global turbulence – the COVID-19 pandemic, Russia's war of aggression against Ukraine, growing awareness that the window for action on climate change is closing, and a shifting geopolitical landscape marked by increasing polarisation and competition – has also given rise to questioning and reflection about the capabilities and effectiveness of international development policy and practice. Not all of this is new. The development co-operation system is the product of near-constant evaluation and reassessment over the years. The search for common ground, norms and standards predates this time of immense need. But today's crises and new demands only increase the incentives to maximise its potential.

As illustrated by contributions to this landmark 60th edition of the Development Co-operation Report, debates are crystalising around the need for a fundamental rethinking of the international development system. There is fresh reflection on the mandates, drivers, capacity and coherence of its main actors and new urgency to the discussions about scaling up and optimising the allocation of its principal instrument, official development assistance (ODA)[1], to reach goals (Calleja and Gavas, 2021[1]; Mélonio, Naudet and Rioux, 2022[2]; Kharas, 2021[3]; Klingebiel and Reid-Henry, 2022[4]). Contributions to this report reflect parallel calls for a systemic reckoning to address racism, colonial legacies, top-down decision making, power imbalances and neo-dependencies on foreign assistance (Omlo et al., 2022[5]; International Development Committee, 2022[6]; Peace Direct et al., 2021[7]). Contributors also emphasise the importance of developing country leadership, domestic accountability and responsibility for transformative policies, good governance and tackling corruption. Development Assistance Committee (DAC) members welcome and invite diverse views from partners[2] and the broader international development community as to how to overcome policy, financial and delivery challenges and how to do so in a way that systematically includes a partner country perspective; connects rules, norms and debates to a wide group of stakeholders; and imbues strategies and plans with the commitment to values-based, coherent, inclusive and effective development co-operation focused on where needs are the greatest.

Debates are crystalising around the need for a fundamental rethinking of the international development system

Aid budgets and capacity are under unprecedented pressure as progress falters on the 2030 Agenda

The United Nations (UN) 2030 Agenda for Sustainable Development and the Paris Agreement on climate change embody countries' promises, to their citizens and to each other, to actively work towards a better future (UN, 2015[8]; 2015[9]). They were made with the understanding that tackling major systemic problems and the world's political, economic, social and environmental crises requires co-operation. But achieving the vision and lofty goals is proving hard. Progress is uneven and new challenges are rapidly emerging that often overshadow or undermine the positive outcomes already achieved.

A staggering 90% of countries saw their Human Development Index value drop in 2021 (UNDP, 2022[10]). An estimated 100 million more people have fallen into extreme poverty as a result of COVID-19 (Gerszon Mahler et al., 2020[11]) and about 40 million more will follow due to the war in Ukraine (Mitchell, Hughes and Huckstep, 2022[12]). Unchecked, climate change and related extreme weather will drive 130 million people into extreme poverty by 2030 (World Bank, 2022[13]). Hunger and violent conflict are also on the upswing. These drive fragility, and in some developing regions such as West Africa and the Horn of Africa, they also divert resources away from development priorities to address internal conflict (see

Chapter 2) (OECD, 2022[14]; UNDP, 2022[10]; World Bank, 2022[15]; IMF, 2022[16]; UN, 2022[17]). Some of the most vulnerable will find themselves at the intersection of two or more of these crises.

Crises are having a profound impact on ODA budgets and their focus and delivery. Quasi-continuous post-disaster reconstruction and emergency repairs of climate-vulnerable infrastructure; increasing fragility, violent conflict and humanitarian disasters; and ever-expanding need are straining the availability of financing for other development goals. In her "In my view" article, Amina Mohammed stresses the urgency, noting that 94 countries, home to some 1.6 billion people, "are severely exposed to at least one dimension of the multifaceted crisis facing the world today and unable to cope with it." As contributors to the report warn, achieving the Sustainable Development Goals (SDGs) in the remaining seven years to 2030 requires affordable financing for the developing world. But this is in short supply and competing demands for finance risk diverting ODA from its core mission. Aid budgets have become more volatile and stretched amid the crises (see Chapter 8), compromising investments in long-term development and climate transition. Poorly timed and communicated cutbacks, reallocations and programme closures are also opening development co-operation actors to criticism and can undermine trust (see Chapter 2).

Competing demands for finance risk diverting ODA from its core mission.

Had the DAC collectively met the 0.7% target in 2021, total ODA would have been USD 389 billion – more than double the actual amount of USD 185.9 billion, which represented 0.33% of collective gross national income (GNI) (see Chapter 8). Finance trends outside the DAC are also cause for concern. Other providers reporting data to the OECD have also cut their development co-operation budgets (OECD, 2022[18]). Long-term trends in aggregate development assistance show that fewer resources are being spent in developing countries (see Chapter 8). Country programmable aid in particular has decreased, while an increasing proportion of ODA budgets is allocated to refugee costs incurred in donor countries, humanitarian financing and spending on global public goods (GPGs). Most of the growth in ODA spending in 2020-21 was related to climate change, refugee costs, food security and infectious diseases, reflecting the response to the COVID-19 pandemic. When allocations shift to immediate crisis response, the quality of development co-operation and the commitment to effectiveness can suffer (GPEDC, 2022[19]).

Wider trends – notably depressed global finances, geopolitical polarisation and accelerating climate deterioration – do not bode well for scaling up financing for development and investments to reverse the recent development losses (OECD, 2022[20]). In short, global needs are spiking at exactly the moment when it is most difficult to raise the resources to meet them. The OECD projects that global gross domestic product (GDP) in 2023 will be at least USD 2.8 trillion lower than was forecast in December 2021 (OECD, 2022[21]). Many least developed and low-income countries risk becoming all the more dependent on concessional grants and loans as fiscal revenues decline, the cost of debt rises and other sources of finance for development dry up (see Chapter 8) (OECD, 2022[20]).

To adequately implement their nationally determined contributions, countries in Africa require cumulative climate financing of up to USD 1.6 trillion between 2020 and 2030 – that is, an average of USD 128 billion annually (Gable et al., 2022[22]). Many developing countries are taking on ever-increasing levels of debt to mitigate and adapt to climate change as well as deal with loss and damage (see "In focus" 3). Accessing climate finance, whether through traditional development budgets or specific climate finance funds, is a major challenge. While climate funds have tried to streamline their processes, more needs to be done. Pacific Island countries, for example, continue to struggle to access finance because the reforms required to meet criteria stretch their already-thin capacities (see "In focus" 23) (Fouad et al., 2021[23]). Barbados' Prime Minister Mia Mottley spoke for leaders of many developing countries that are burdened with debt to finance domestic adaptation and mitigation costs on top of costs of loss and damage when she said that the current architecture just does not and cannot work. She calls for innovative climate finance plans, as outlined in the Bridgetown Agenda (see Box 2.1 in Chapter 2).

The institutions established in the wake of World War II that underpin the current international order are under strain and scrutiny (Mélonio, Naudet and Rioux, 2022[2]; OECD, 2020[24]; 2019[25]). In a context of rival development models and rising competition for global influence, and access to markets and supply chains, contributors to the report ask how these tensions will affect commitments to promote human rights; sustainability; and the social, economic and environmental goals of the 2030 Agenda (see Chapter 2).

Delivering high-quality ODA for development progress requires solid political economy analysis, partner country ownership and leadership on national and local development, delivery of core commitments and good practices, and the application of lessons and evidence on what works – all of which play out differently in each of the 141 ODA-eligible countries. For example, broader ownership of development plans, a critical success factor (see Chapters 2 and 20 and "In focus" 22), may be less prevalent in autocratic countries, challenging donors to rethink their development strategies and allocations at a time when aid flows to these contexts are growing. The share of bilateral aid going to autocratic countries has grown from 64% in 2010 to 79% in 2019, and there was a 19-fold increase in humanitarian aid to closed autocracies over the ten-year period (OECD, 2022[26]).

Reflections on the aid system point to constraints and opportunities to better address shared global challenges

While the international development system has been fine-tuned and fortified over time, it is subject to new, evolving and complex demands today. The contributions in this report recognise constraints and opportunities to do development co-operation better. Though there is no consensus on how to get there, several common themes emerge from expert input to this report, including around issues of power, partnership, and the need for all sources of finance – not just ODA – to align and deliver for sustainable development and economic transformation.

One theme relates to the diverse demands on ODA to achieve multiple global agendas that range from stemming migration and fighting global health pandemics to securing GPGs more broadly. According to some estimates, ODA for objectives similar to GPGs has increased from 30% of average DAC members' bilateral ODA over 2006-10 to about 57% in 2016-20 (see Chapter 8). Using ODA budgets to secure GPGs is not without challenges and controversy, however, in light of needs and unmet demand for ODA investments in national development goals and priorities and the imperative to maintain focus on poverty and inequality at local and global levels (see Chapters 3 and 4). Furthermore, while only certain countries are eligible for ODA under the current definition, support for GPGs calls for investments in advanced and non-ODA eligible countries. The international community needs to agree on clear financing rules, boundaries, sources and mechanisms for GPGs (including pandemic preparedness) beyond ODA. According to Abdoulaye Mar Dieye in his "In my view" article, "The real instrumental value of ODA lies in its ability to contribute to mitigating risks created by global trends and in investing in global goods and global commons." Analysis of the opportunities and trade-offs of using ODA to secure GPGs compared to other official and private international flows will need to be an important part of GPG norm setting and architecture[3] (OECD, 2019[25]).

A broader, critical and systemic theme is that development co-operation actors must take a hard look at whether their objectives are relevant or achievable in some contexts and whether ODA is entrenching dysfunctional institutions and habits. Based on his analysis of 315 evaluations of aid effectiveness in Afghanistan, Mali and South Sudan, Zürcher urges providers to consider the opportunity costs of reflexively investing where needs seem to be greatest, especially in settings such as fragile contexts that are beset by institutional and security weakness (see "In focus" 10). He warns that "once the evidence shows that the probability of success in these sectors is extremely low, then aid resources must be allocated to sectors where there is a reasonable probability for success". Likewise, Adeyi argues that support for basic health services and inputs, which should be the primary responsibility of each individual country, creates dependencies that undermine domestic government accountability for health and perpetuates fragile health systems (see "In focus" 6). He suggests "letting go of the status quo, which is familiar and comfortable but dysfunctional", and making individual countries accountable and responsible for basic health and inputs.

A broader, critical and systemic theme is that development co-operation actors must take a hard look at whether their objectives are relevant or achievable in some contexts and whether ODA is entrenching dysfunctional institutions and habits.

Ways forward for keeping development co-operation relevant and impactful

Over the years, at successive summits and conferences, the global community has developed and reaffirmed principles of development co-operation that recognise its core business of supporting developing countries in their efforts to improve the lives of their citizens, leaving no one behind. These commitments and pledges are further based on recognition that nations and societies hold the keys to their own progress. While it can only contribute in this regard, development co-operation must go beyond the injunction to do no harm and contribute effectively (OECD, 2019[25]).

A clear imperative, embedded in global agreements, is to deliver quality development co-operation. Participants at the 2022 Summit on Effective Development Co-operation reaffirmed the commitment to the Effectiveness Principles – namely country ownership, a focus on results, inclusive partnerships, and transparency and mutual accountability (GPEDC, 2022[19]). The summit also reasserted the relevance of development co-operation and international partnerships, with a renewed emphasis on country capacity and global-scale challenges (see also Chapter 20 and "In focus" 22).

At the same time, development co-operation is not a one-way relationship. It creates mutual benefits for countries and citizens. While these benefits are often cast in terms of foreign policy and economic interests, they also extend to fundamental aspects of human well-being, such as health and peace. Arguing for new models of partnerships, Nardos Bekele-Thomas, the chief executive officer of the African Union Development Agency (NEPAD), makes this point in her "In my view" article: "There is a need for partnerships and collaborations that foster mutual benefits and inclusivity among different stakeholders at the local, national and international levels." Domestically, the effective use of ODA budgets is subject to oversight by parliaments, the media and taxpayers, notably when there is an explicit political commitment to scale up aid when budgets are growing and during periods of austerity and broader government cutbacks. Over the period 2018-21, 24 DAC countries recorded positive growth in their ODA/GNI ratios (see Annex 8.C in Chapter 8).

Translating the spirit of global solidarity and responsibility, partnership and burden sharing into action is one of the great challenges in development co-operation. At the start of 2022, the DAC Chair took note of the growing urgency for international co-operation and solidarity in the face of daunting and multiple challenges. DAC members must support their partners to confront these challenges; she stated, "and we will do this best if we listen, learn from best practice, adapt our approaches and prioritise ruthlessly. We must continue to gather the data and evidence, to hold each other to account, and strive to improve both the quality and quantity of development co-operation" (OECD, 2022[27]). Indeed, reshaping the system is critical to meeting the DAC mandate of contributing to the implementation of the 2030 Agenda and to a future in which no country will depend on aid (OECD, 2017[28]).

Translating the spirit of global solidarity and responsibility, partnership, and burden sharing into action is one of the great challenges in development co-operation

Contributors to this report laud the established good practices and the potential of development co-operation to support inclusive and sustainable development. Their ideas for action and greater impact include meeting existing commitments; supporting locally led transformation in partner countries; modernising business models and financial management practices; rebalancing power relations in international decision making; and finding common ground for partnerships.

Meeting finance commitments, unlocking progress

Development co-operation and finance are heavily scrutinised and constantly challenged, at home and abroad, to perform better. The suite of commitments and standards that has been built serve as helpful guideposts in an increasingly complex system, as they are powerful affirmations of governments' intentions and values (see Chapter 8). Delivering on them helps cement the mutual trust and credibility that are essential to partnerships. But the global community has fallen short, and the intended beneficiaries and main stakeholders of co-operation are raising legitimate concerns that the widening gaps between promises and practices weaken trust with partner countries (see Chapter 2) (Mitchell and Birdsall, 2022[29]; UN, 2021[30]). These debates on making development co-operation relevant are a positive impetus to dialogue and reflection among aid providers on putting commitments fully into action.

Providers of development co-operation have signed on to numerous aid-financing targets and commitments – to allocate 0.7% of their GNI to ODA, to increase the share of ODA for least developed countries (LDCs) to 0.15-0.20% of GNI, to use partner country public finance and delivery systems, and to provide core support to multilateral organisations in line with the UN Funding Compact (see Chapter 8). They have also committed to ensure policy coherence for sustainable development. DAC peer reviews, a backbone of the analysis in this report, consistently highlight political, economic and systemic factors that get in the way of progress on financing targets, needs-based allocations and improved ODA quality. Meeting commitments to strengthen the enabling environment for aid through policy coherence can also significantly increase (or at least avoid undermining) the impact of ODA (see Chapter 8).

An overarching message in this report is that all international development actors need to close implementation gaps. While most DAC members are making progress on some commitments, collectively they are off track on several indicators, as summarised in Table 8.1 in Chapter 8. Translating commitments into timebound action plans is a useful exercise recommended by DAC peer reviews. More targeted implementation plans also foster greater realism and awareness among domestic stakeholders, including ministries of finance, and helps identify bottlenecks, trade-offs and what is needed to keep promises.

An overarching message in this report is that all international development actors need to close implementation gaps.

ODA is one of three major sources of external financing for developing countries alongside remittances and foreign direct investment. While ODA represents the smallest share of the three, it has been the most stable resource over the last two decades, even increasing from 2020 to 2021 when the COVID-19 crisis caused other resource flows to decline (see Figure 8.2 in Chapter 8). However, performance against the 0.7% target has plateaued since 2005, with ODA at about 0.3% of collective DAC members' GNI. While a few DAC members have been meeting the target for some time, the majority of DAC and other development co-operation providers have never done so.

Likewise, the ODA/GNI target of 0.15-0.20% for LDCs has not been achieved at an aggregate level. Nor have new incentives in ODA accounting rules for more lending on highly concessional terms to the LDCs produced the intended result. From 2015 to 2019, conditions for ODA lending to the LDCs actually hardened, with average grant elements and maturity periods falling and interest rates rising.[4] Noting the rising cost of borrowing and recent declines in grant and concessional resources from bilateral and multilateral financing, Prime Minister Sheikh Hasina of Bangladesh, in her "In my view" article, stresses that achieving the SDGs by 2030 will require affordable financing for the developing world. Other contributors also point to the looming crisis of unsustainable debt (see Amina Mohammed's "In my view" article and Chapter 2).

Current efforts to use ODA to catalyse and mobilise financing for development from other sources, including blended finance, are also falling short. According to OECD-DAC international development statistics, just USD 4.5 billion of the USD 185.9 billion in total ODA flows from DAC members in 2021 was dedicated to development-oriented private sector instruments.[5] Finding a permanent solution for measuring donor effort in private sector instruments has been a key challenge for DAC members (see Annex 8.B in Chapter 8). At the same time, private finance is not delivering at the scale envisioned in the Addis Ababa Action Agenda or in terms of SDG alignment (UN, 2015[31]; OECD, 2022[20]). Despite this overall disappointing performance, collaboration with the private sector can yield some innovations, for example, new insurance mechanisms to help manage elevated levels of risk (see Jagan Chapagain's "In my view" article).

The consequences of the widening finance gap are especially stark when it comes to addressing climate crisis impacts. At present, both the quantity and quality of climate finance remain inadequate to cover climate mitigation and adaptation and the economic and social needs of climate-vulnerable communities and countries in the Global South. With a new commitment at the most recent climate conference to launch a loss and damage fund, the need for additional finance above and beyond development co-operation is increasing (see "In focus" 3), although a portion of existing climate-related development finance is already applicable to loss and damage (OECD, 2021[32]). In parallel, Global South countries are calling for greater transparency on climate finance and its relationship with development finance, further animating debate over how to measure and track such finance, including the commitment to new and additional funding.

With a new commitment at the most recent climate conference to launch a loss and damage fund, the need for additional finance above and beyond development co-operation is increasing.

International development budgets are the primary financing stream for advanced economies' efforts to meet the United Nations Framework Convention on Climate Change's annual commitment of USD 100 billion. Of the USD 83.3 billion in climate finance provided and mobilised by developed countries in 2020, USD 31.4 billion was bilateral public climate finance and USD 36.9 billion was multilateral public climate finance (OECD, 2022[33]). While it is impossible to calculate the exact proportion accounted for by ODA, on average, volumes of DAC ODA going to climate adaptation and climate mitigation increased in the period 2016-20 compared to the period 2011-15 (see Chapter 8).

DAC members have also committed to allocate more ODA to countries most in need and to leave no one behind (OECD, 2018[34]), and yet bilateral ODA has become more focused on middle-income countries. Peer reviews have found that issue-based ODA allocations (e.g. for climate mitigation or infrastructure) are partly driving this increase, and a recent OECD (2022[35]) report noted a similar trend for multilateral outflows. Targeting inequality has not been a key focus to date in ODA allocations. Nor do ODA allocations show a strong or consistent relationship to extreme or multidimensional poverty.

From 2010 to 2021, the volume of DAC members' humanitarian aid grew by 109% and increased by 5 percentage points as a share of total gross ODA. But humanitarian financing has fallen short of rising needs. While UN appeals amounted to USD 51.7 billion in 2022, only 47.4% of this amount was funded (UN, 2022[36]). As noted by Degan Ali in her "In my view" article, many of the ambitions of the 2016 Grand Bargain also have not been fully realised. Among these is the commitment to target, as directly as possible, at least 25% of humanitarian funding to local and national responders (Inter-Agency Standing Committee, 2021[37]). Direct funding to local civil society organisations also remains particularly low, at 2.63%. Unpredictable funding flows pose a particular challenge to adequate planning and response, and better co-ordination is needed to align budget cycles, risk appetite and ways of working. Nonetheless, there are some positive trends. For example, some providers are shifting from short-term, project-based grants to multiannual financing and more empowering types of support, such as cash and voucher assistance (see Box 8.2 in Chapter 8).

Ideas for actions to deliver existing commitments and unlock progress can be found in Figure 1.

Figure 1. Deliver existing commitments and unlock progress

Deliver existing commitments and unlock progress

IDEAS FOR ACTION

1. Develop and approve implementation plans that include interim budgetary milestones to meet commitments of 0.7% ODA/GNI. These plans must be guided by clear definitions of what counts as development spending in line with OECD rules on counting ODA.
2. Find common ground on how to measure private sector instruments and create incentives to capitalise on untapped resources in the global private sector through innovative mechanisms such as guarantees, and green and social impact bonds.
3. Capitalise on the process for setting a post-2025 global climate finance goal to agree on how to measure and track climate finance. Help streamline and ease access for developing countries to all existing and newly developed international climate funds, including those related to loss and damage.
4. Revisit strategies and models for allocating aid budgets to meet commitments to target people and countries most in need, including by meeting the UN LDC target, while taking into account each country's financing context and constraints.
5. In line with the DAC Recommendation on the Humanitarian-Development-Peace Nexus and the Grand Bargain, provide longer term, multiannual financing and pooled or multi-partner funds; step up the use of flexible crisis budgets across humanitarian and development action, including the use of cash transfers to empower those in need; and mobilise new sources of humanitarian finance, such as insurance structures instead of directly financing disaster responses.

Development Co-operation Report 2023: Debating the Aid System

OECD

Support locally led transformation in partner countries

Contributors to this report emphasise the need for mutually beneficial and accountable international partnerships that respond to national development strategies, policy priorities and reform agendas. While self-reliance, self-help and country ownership have long been development co-operation principles, providers are now challenged to deliver on these ideals. In line with the country ownership principle, developing countries need to lead engagement with stakeholders and develop a long-term vision, with strategies embedded in government ministries and institutions independent of politics to minimise the risk of progress getting lost between political cycles (see Chapters 2 and 20). Dercon advises that where there is a "development bargain", donors should provide budget and capacity-building support for local authorities such as central banks and regulatory authorities while bringing international capital directly into firms via development finance institutions (Dercon, 2022[38]).

Developing countries have consistently signalled that they prefer to receive expertise from a variety of actors and thanks to different development paradigms, pathways and geopolitical competition, they now have a wider choice of partners (see Chapter 18) (OECD, 2019[25]). AidData surveys of about 8 000 civil society and public and private sector leaders in the Global South suggest they continue to value DAC members' support on governance and the rule of law – issues critical to long-term development (see Chapter 18). At the same time, developing countries are seeking to meet their needs and priorities through partnerships with the full range of OECD providers and Group of Twenty countries (e.g. Brazil, the People's Republic of China, India, Indonesia and South Africa) as well as with other Global South countries.

In international meetings and debates, there is fresh momentum behind national and locally led development, which was a key theme at the 2022 Global Partnership for Effective Development Co-operation Summit and outcome document (GPEDC, 2022[19]). Aligning donor funds with national development priorities can lead to more goal-oriented investments and create more equitable and longer term partnerships (Custer et al., 2021[39]). While national development plans may often reflect the interests of elites more than societal consensus, they can guide funders and also inspire them to identify and address the global causes of the challenges that developing countries face (see Chapter 20).

While national development plans may often reflect the interests of elites more than societal consensus, they can guide funders and also inspire them to identify and address the global causes of the challenges that developing countries face.

Contributions to the report underscore the benefits of adhering to country ownership principles. By paying attention to what their country partners say they want to achieve and what they need to make reforms happen, development co-operation providers increase the odds that their investments bear tangible fruit (see Chapter 18). Moreover, development co-operation providers seen as being aligned to national development strategies may gain a performance dividend as they tend to be considered more influential and helpful by leaders in low- and middle-income countries (Custer et al., 2021[39]).

There is a demand for development co-operation to focus on long-term sustainability, resilience, jobs and accountable institutions. Muzawazi and da Costa stress the need for co-operation to help address persistent continental challenges in Africa, particularly for industrialisation and economic competitiveness for job creation (see "In focus" 21). Development co-operation providers can support Africa's industrialisation and productive transformation by helping address the continent's infrastructure deficit and supporting regional agendas. In Chapter 2, Signé's key message is that development strategies should also leverage the strengths of each developing country. "In doing so," he argues, "development actors can provide actionable recommendations that are rooted in a country's situation and politics rather than a laundry list of recommendations that may not be politically or financially viable and that are treated as prerequisites for development progress." Local and agile partnerships with developing countries in the driving seat can respond to emerging dynamics (Silva, Bernardo and Mah, 2021[40]).

Locally led transformation also entails supporting regional development mechanisms and institutions. Contributions from NEPAD call for repurposing current developmental strategies and creating fit-for-purpose mechanisms to shore up Africa's resilience to both regional and external shocks, citing the African Continental Free Trade Area agreement as a promising regional integration initiative that responds to persistent challenges and polarisation in the international trading system and the political backlash against globalisation in some parts of the world. OECD countries are called on to play a stronger role in supporting the continent in its demand for debt relief and promote dialogue between credit rating agencies and the African public sector on credit rating indicators.

Locally led transformation also entails supporting regional development mechanisms and institutions.

Follow through on the long-established principle and commitment of locally led development

Working with local actors offers a range of benefits. According to Jagan Chapagain in his "In my view" article, localising humanitarian assistance promotes greater inclusion and equity, more trust, faster and more timely responses, more flexibility, broader access, and long-term sustainability in operations and programming. Local and community actors deliver programming that is 32% more cost-efficient than that of international intermediaries. Local actors are connected and accountable to their communities and often the most efficient first responders to crises. Excluding them from decision making and finance impinges on the effectiveness of development assistance (Peace Direct et al., 2021[7]).

There are many constraints to localising aid and empowering communities to develop (Barbelet et al., 2021[41]). Chief among them is the branding of local groups as "risky" because many are unable to meet donor requirements – embedded in complex compliance systems – and are thought to lack capacity, says Degan Ali in her "In my view". Donors tend to favour greater financial control of bilateral, earmarked and tied aid projects over co-ordination with local actors, joint approaches and national procurement (see "In focus" 14). However, as a number of contributors point out, short-term project-based funding can sacrifice long-term sustainability and opportunities to strengthen staff capacities, retention and security; it also inhibits local actors' ability to be independent, self-reliant and collaborative partners. In contrast, core funding aligned with local partner priorities would enhance autonomy and sustainability. A key enabler is having a clear sense of risk appetite and risk management strategies. While some members have a comprehensive risk management system, including context analysis and assessment of partner capacity as well as mitigation measures, others rely on less developed frameworks with, for example, a focus on risk avoidance or a narrower focus only on fiduciary risk (see "In focus" 12).

Ideas for actions to support locally led transformation in partner countries can be found in Figure 2.

Figure 2. Support locally led transformation in partner countries

Modernise business models and financial management practices to align strategies, budgets and delivery

Development policy does not operate in a vacuum. Policy makers need to manage competing national interests without letting short-term pressures jeopardise the long-term common interest in effective development. Coherent policies and well-considered development co-operation can, and do, contribute to overarching long-term national interests.

DAC peer reviews find that development policy is becoming more integrated in ministries of foreign affairs and trade, other government departments, and national development finance institutes. This wider dispersal of the aid portfolio brings opportunity but also raises some concerns. For instance, many different agencies draw on ODA to extend grants and loans, knowledge sharing and technical co-operation and for purposes as diverse as stemming migration, handling refugee crises in-country and global health security (see Chapter 8 and DAC peer reviews). In her “In my view” article, Theo Sowa warns that the positive trend of feminist foreign policies also risks “pinkwashing” development if it focuses merely on promoting activities that include women and girls rather than on advancing equality and justice. Countries need to ensure they follow through with gender equality finance and actions and manage for policy coherence.

Increased crisis spending has triggered debates about the benefits and drawbacks of different aid modalities and instruments and the need to build a more well-rounded delivery toolkit for use in different contexts (see Chapter 8). At the same time, DAC peer reviews show that consistent pressures on human resources across development agencies and ministries result in more centralised programming and distance from local realities and less capacity for dialogue, engagement and building partnerships.

Increased crisis spending has triggered debates about the benefits and drawbacks of different aid modalities and instruments and the need to build a more well-rounded delivery toolkit...

In addition, budget cuts, a renewed focus on bilateral co-operation, earmarking and lack of strategic vision for multilateral co-operation undermine the potential of allocations to the multilateral system to enhance the collective impact on global challenges and at the country level. The increased volume of earmarked funds to multilateral organisations also contributes to financial instability and unpredictability for partner countries, as political or economic changes in donor countries can lead to an abrupt reduction of funding, putting projects, especially long-term ones, at risk (see Chapters 2 and 8 (OECD, 2022[35])). Some DAC members have introduced budgeting mechanisms to reduce year-on-year volatility and increase predictability in an accountable manner, which is good practice (see Chapter 8). Creating an international system for real-time co-ordination and tracking of aid decisions when shocks hit could also inform fast-paced decision making by providers and improve the transparency and outlook of aid budgets for partners.

The pandemic seems to have spurred greater use of budget support and reliance on local partners for programme delivery and monitoring. However, commitment to align with and use country systems – including national development plans, results frameworks and monitoring systems – appears to be waning (see Chapter 8 and the case study by Schuster). Developing country actors say progress is slowed by political, programming and risk management obstacles.

There is scope for more strategic and targeted prioritisation of bilateral portfolios and to further enable the multilateral system to play to its strengths. However, bilateral and multilateral development assistance programmes and projects are increasingly fragmented and of low value, which creates significant costs for recipient countries and other partners (see Chapter 8). In 1960, DAC members, on average, provided aid to 15 recipient countries and territories. In 2021, the average was 97. Reducing aid fragmentation involves difficult choices on where to scale back and where to scale up support as well as co-ordination with an increasing number of development actors in low- and middle-income countries.

DAC peer reviews note the absence of strategic planning for country engagement, with missed opportunities for complementarity in diplomatic, commercial and development relations with partner countries. A result can be incoherence in actions (see Chapters 8 and 20). There is also scope for greater transparency of all development finance flows to countries as well as more multi-year predictability of aid budgets and programming. Between 2010 and 2020, for example, 13 countries in Africa experienced a one-year drop in grant revenues equivalent to at least 1% of GDP between 2010 and 2020 (see Chapter 8). Lack of predictability undermines effectiveness, and accountability and capacity to plan.

Portfolio approaches can better optimise and align scarce human and financial resources behind strategic objectives and build more meaningful partnerships across a range of actors. They can also create space for experimentation, innovation and failure (see Chapter 20). Investing in and drawing on lessons and evidence from evaluations, research, peer learning and expert communities, and wider results management systems are also essential for effective delivery. Organisations must learn how to learn, or risk stagnating and falling short.

Ideas for actions to modernise business models and financial management practices to align strategies, budgets and delivery can be found in Figure 3.

Figure 3. Modernise business models and financial management practices

Modernise business models and financial management practices

→ IDEAS FOR ACTION

1. Anticipate, recognise and act upon the impact of domestic policies and regulations on development objectives to guide greater coherence between foreign and domestic policies, such as the environment, business oversight, security, migration, illicit financial flows and global tax rules.
2. Develop whole-of-government country and multilateral strategies to incentivise more coherent delivery of aid and greater transparency for recipients.
3. Adopt portfolio approaches to managing development co-operation at thematic and country levels drawing on the range of instruments available and proven to be effective. This can foster greater strategic alignment between policy objectives and delivery; decrease fragmentation; and create opportunities for greater scale and innovation.
4. Overcome bottlenecks for enhanced transparency and medium-term predictability of all development finance flows for partners.
5. Work to co-ordinate decisions on development finance with other providers and partners, communicate these in a timely manner, and ensure responsible transitioning drawing on real-time information, data and lessons.

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Rebalance power relations and find common ground for partnerships

Evolving relationships between countries and questioning of paradigms and international norms are opening avenues for system-wide reform. Driven by concerns about climate justice, failures of the international financing system to meet their needs during successive crises, and power imbalances in international decision making, leaders from the Global South are increasingly stressing how the current system is unfair and needs reform to include the voice and recognise the agency of developing nations (Government of Barbados, 2022[42]). Contributions to the report outline calls for reforms to make the international financial system work better for them and ensure greater voice, agency and equal footing in partnerships for economic growth and development (OECD, 2020[24]; 2019[25]). Broader debates urge a more fundamental rebalancing of power that ends paternalism and racism in the aid system and beyond.

Contributions to the report outline calls for reforms to make the international financial system work better for them and ensure greater voice, agency and equal footing in partnerships...

Some OECD countries have started to address systemic racism, colonial legacies, top-down decision making and power imbalances, and neo-dependencies on foreign assistance (International Development Committee, 2022[6]; Omlo et al., 2022[5]). The discussion of power revolves around two questions: 1) the extent to which local actors have access to decision-making spaces; and 2) whether their voices count. In her “In my view” article, the Chair of the UK House of Commons’ International Development Committee, Sarah Champion, described testimonies the International Development Committee heard about racism in the UK aid sector. “Too often, decisions about funding and policy are taken in the offices of large, white-led organisations in the Global North though most aid programmes are delivered in low-income countries in the Global South,” she noted. “We heard that these power structures are remnants of colonialism; the same paternalistic ideas underpin the common portrayal of affected populations as in need of ‘saving’.”

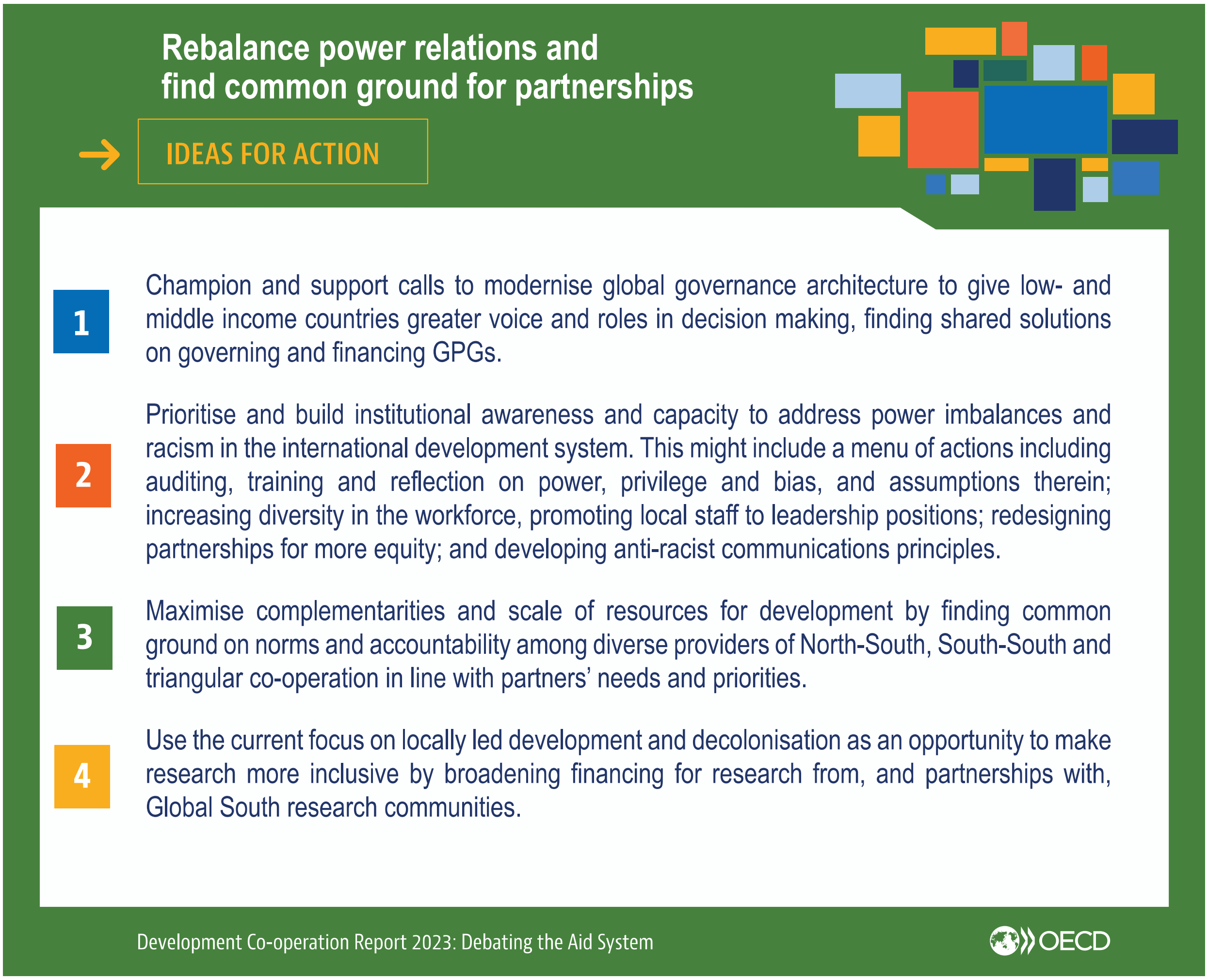
Some international non-governmental organisations are committing to shift power “in an international aid system that has long functioned as a hierarchy dominated by the Global North”, noting, “Our instinct for preservation is often in conflict with our desire for transformational change”. In their contribution, the chief executive officers of Plan International UK and Oxfam GB stress the need for urgent reform to address inherent paternalism and racism in partnerships and to work for transformative change. Official providers can incentivise reform by international non-governmental organisations by supporting the aims of the Pledge for Change and aligning their own support and actions to its goals.

Local knowledge – of the politics, vested interests and local delivery capabilities that matter in each context – is extremely valuable to design and execute relevant and effective development programming (Dissanayake and Dercon, 2022[43]). Yet local research and indigenous knowledge are underused for priority-setting and programming, mirroring a broader lack of recognition of Global South expertise. Most of the research funded, published and valued in the development sector is carried out by researchers from the Global North: Only one in six of the articles published in the top 20 development journals from 1990 to 2019 were by Southern researchers (see “In focus” 15).

The diversity of development actors – official and private – creates opportunities to find common ground; create new partnerships; and use multilateral channels, strategies and financing to collectively tackle the issues raised across the report. Sachin Chaturvedi, in his “In my view” article, points to the South-South partnership opportunities afforded by emerging financial platforms, including the New Marshall Plan, the Asia-Africa Growth Corridor, the Belt and Road Initiative, and the Silk Road Fund. Global South leaders do not view development partners through an either-or lens. Rather, different providers are seen as offering a range of comparative advantages (see Chapter 18). However, when competition between donors is high, as it is now amid geopolitical tension, partnerships and communication are strained, raising risks of duplication and actions unintentionally undermining the goals of another (see Chapter 2). The growing trend towards South-South and triangular co-operation shows there is an appetite to partner and leverage expertise and resources in some areas. Yet, different standards, accountability mechanisms and financing offers can also create an uneven playing field for international development actors, and this is a disincentive to join forces. Clear normative frameworks, shared goals and regular dialogue are conducive to collective action in development and more countries appear to be ready to find common ground in a spirit of shared responsibility for rising to today’s development and global challenges.

Ideas for actions to rebalance power relations and find common ground for partnerships can be found in Figure 4.

Figure 4. Rebalance power relations and find common ground for partnerships



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Notes

[1] Official development assistance is the DAC-agreed statistical measure of development co-operation resource flows. The criteria for ODA are that it is undertaken by the official sector, has the primary objective of promoting economic development and welfare, and has concessional financial terms. For further details, see: Official Development Assistance – definition and coverage (OECD, n.d.[47]).

[2] Calls to listen and engage more openly were made during the DAC@60 celebrations in 2021, for example. For details, see: DAC@60 Years page (OECD, 2021[48]).

[3] In 2019, an international task force developed a shared statistical measure of Total Official Support for Sustainable Development (TOSSD), including South-South co-operation and triangular co-operation. Pillar 2 of TOSSD tracks support for international public goods and global challenges. For more information, see the TOSSD key facts (TOSSD, n.d.[46]).

[4] Analysis by Ahmad and Carey found declining levels of concessionality for the LDCs between 2015 and 2019: Bilateral and multilateral lending interest rates increased from 0.34% in 2015 to 0.80% in 2019 and maturity periods shortened from 35.7 years in 2015 to 28.3 years in 2019 (see: https://doi.org/10.1787/e4b3142a-en). Between 2018 and 2019, the share of grants in bilateral loans also declined to the LDCs.

[5] For further analysis on development finance flows beyond ODA, see: https://doi.org/10.1787/fcbe6ce9-en.

Part I The political economy of aid

1 In my view: Development co-operation must tackle complex challenges better and protect the most vulnerable

Amina J. Mohammed, UN Deputy Secretary-General

We are living through a time of complex interconnected challenges that are putting an unprecedented strain on people and planet. The confluence of crises posed by the pandemic and the recovery; the climate emergency; and the impact of Russia's war of aggression against Ukraine on food, energy and finance markets is creating a perfect storm for much of the world. Ninety-four countries, home to some 1.6 billion people, are severely exposed to at least one dimension of this multifaceted crisis and unable to cope with it (United Nations, 2022[1]). Global temperatures are on track to rise by 2.8°C by the end of the century. Meanwhile, 54 developing countries are either in debt distress or at risk of it, while soaring inflation and shrinking fiscal space continue to undermine investments in the Sustainable Development Goals (SDGs).

Our current system of development co-operation is simply not meeting the scale of this challenge. Despite some positive developments, including the issuance of USD 650 billion in Special Drawing Rights, developing economies face unsustainable debt burdens and a liquidity crisis. Official development assistance (ODA) is deeply inadequate and has fallen behind commitments made decades ago. While ODA to the most vulnerable countries has grown since the pandemic, this increase has been driven overwhelmingly by loans. The total external debt service of least developed countries has more than tripled in the last ten years and is projected to reach USD 43 billion in 2022. Under such conditions, loans can be counterproductive and raise the risk of debt distress, undermining the ability of countries to invest in long-term sustainable development and resilience.[1]

> At a time of asymmetric vulnerabilities, we must also co-ordinate efforts to invest globally and protect locally, while ensuring that ODA is not redirected away from long-term development needs.

Mobilising more ODA and requiring that loans be made with greater concessionality are steps in the right direction. But at a time of asymmetric vulnerabilities, we must also co-ordinate efforts to invest globally and protect locally, while ensuring that ODA is not redirected away from long-term development needs. We need to enhance strategic planning and channel more *ex ante* financing to resilience-building to protect vulnerable countries and people that are most exposed to the adverse effects of shocks that threaten lives and livelihoods. These efforts must be complemented by a co-ordinated approach to providing immediate debt relief and restructuring. The Secretary-General has called for the reinstatement of the Debt Service

Suspension Initiative and its expansion to include vulnerable middle-income countries, and the rechanneling of all unused Special Drawing Rights to countries in need.

Improving support for resilience-building that supports lives and livelihoods requires better strategic planning among developing countries and their partners. The United Nations is leading the way with the repositioning of its development system. With a reinvigorated Resident Coordinator system directly accountable to the Secretary-General and supported by new generation country teams around the world, we are now better able to deliver collective responses to national vulnerabilities and ensure system-wide accountability on the ground, in support of the SDGs.

But we need to go further. To achieve the SDGs and support lasting results, international partners must think more strategically about how the global financial system can be transformed to meet the demands of our time. The Bridgetown Agenda sets out many important recommendations, including expanding debt relief and access to concessional finance to vulnerable middle-income countries; integrating pandemic and disaster clauses into all debt contracts; and ensuring investments are aligned with the SDGs at the country level. These demonstrate how development partners can do more to meet the scale of today's challenges while making the global economic system more equitable and absorbent to shocks. Other measures that should be considered include the use of metrics that go beyond gross domestic product and integrating vulnerability into development co-operation policies and practices.

Development partners can do more to meet the scale of today's challenges while making the global economic system more equitable and absorbent to shocks.

Looking forward, I see three broad areas for targeted, risk-informed and resilient development co-operation: 1) boosting social protection and investing in decent job creation; 2) strengthening climate adaptation; and 3) harnessing digital transformations.

1. Building on lessons learnt from the COVID-19 crisis, and in anticipation of future crises and transitions, we must invest in universal social protection and decent job creation, which function both as critical shock absorbers and as enablers of inclusive growth. The UN Global Accelerator on Jobs and Social Protection for Just Transitions provides a coherent framework for short- and long-term actions and solutions.
2. Development co-operation must do more to support the most vulnerable countries as they navigate the climate crisis. Building on the recent achievements of COP 27, especially on loss and damage, we must mainstream climate resilience into development co-operation and meet climate finance commitments while bringing climate and development finance closer together in recognition of the need to accelerate just transitions for all. Sub-Saharan Africa, for example, will need billions of dollars this decade to protect itself from climate-related disasters. In this regard, the Secretary-General will continue to advocate for a large-scale SDG Stimulus to mobilise the financing needed at scale for investments in long-term sustainable development.
3. The pandemic has accelerated digital transformation through more effective digital learning platforms, strengthened e-commerce and e-procurement systems and other innovative digital technologies. We must support digital interventions nationally and globally, especially those that address multi-dimensional vulnerability and build resilience.

The upcoming High-level Meeting of the Economic and Social Council's Development Cooperation Forum on 14-15 March 2023 will provide one forum to tackle these critical themes. With real commitment to change and political will, upcoming milestones like the SDG Summit and the High-level Dialogue on

Financing for Development in 2023 can and must forge a practical and feasible path for development co-operation that is fit for purpose and serves those that need it most – now and in the future.

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Note

[1] See article on “Soaring debt burden jeopardizes recovery of least developed countries,” https://unctad.org/topic/least-developed-countries/chart-march-2022.

2 Development Strategies in a changing global political economy

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The increasingly complex and polarised global landscape calls for more agile and effective development co-operation strategies. Developing countries are demanding reform of the global financial architecture, pushing traditional development actors to not only rethink development co-operation but also to truly understand why traditional development assistance and co-operation have not produced their desired outcomes. Partnerships must become more responsive to local conditions and needs, consider inequalities in access to development finance, and aim to restore trust in multilateralism. This chapter explores the problems, politics and policies that have set the stage for a potential new paradigm of development, one in which developing countries can leverage the growing competition among development actors to ensure that they have full agency to determine their own development pathways.

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Key messages

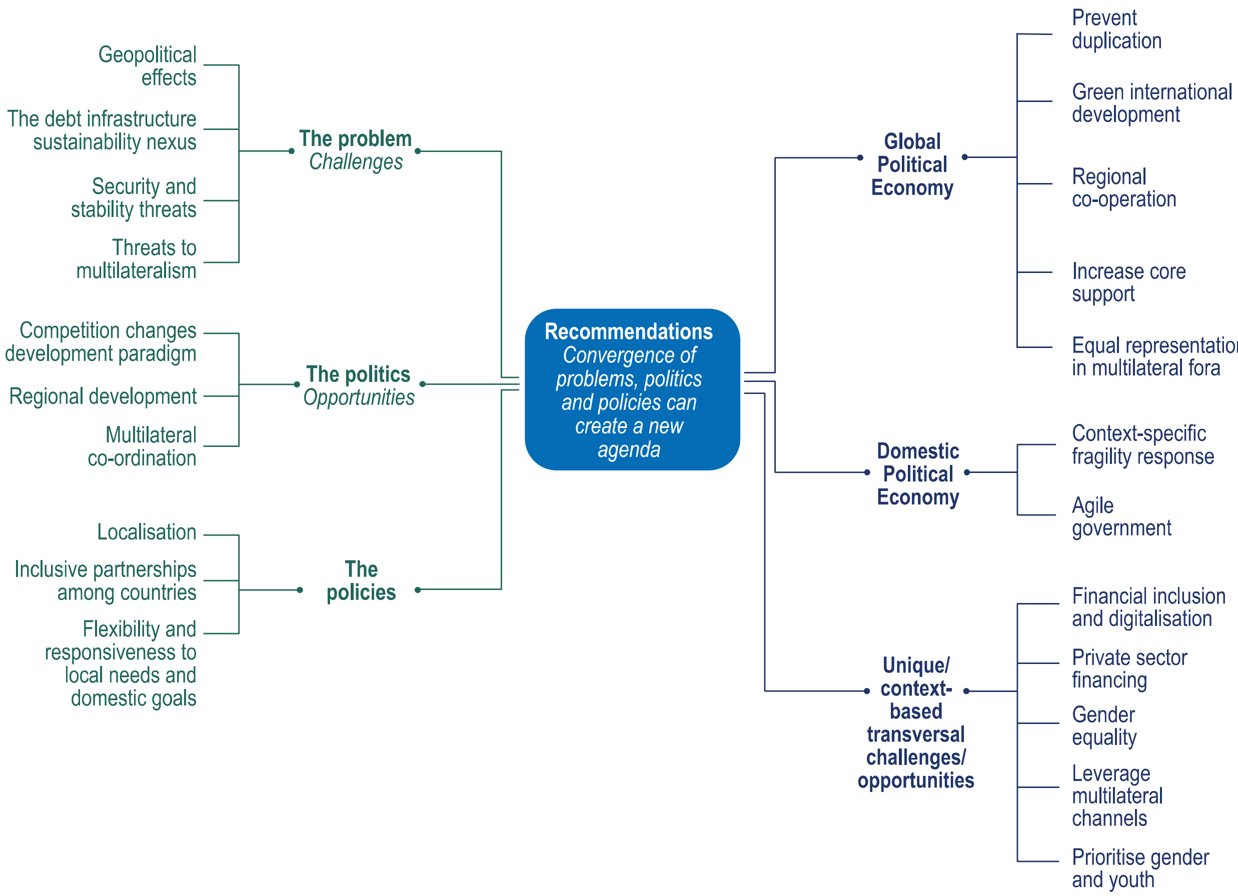
- Rising geopolitical tensions and competition among development actors have increased polarisation and pose risks for international co-operation. They also present opportunities for developing countries to choose and design the partnerships that best suit their needs and to demand a greater say in charting their development pathways.
- Development co-operation cannot be successful if it tries to apply old methods to the new and increasingly complex challenges of today. Instead, it must be based on strategic co-ordination that leverages the strengths of each player, including the multilateral system, with developing countries in the driver's seat.
- Beyond a paradigm shift, successful implementation – often the major barrier to achieving development outcomes – is key. New strategies must consider the domestic political economies of all development partners and tailor implementation strategies accordingly.

There is no doubt that international development co-operation is shifting as conflicts, emerging players, health and climate crises, and economic uncertainties reshape today's global geopolitical landscape. Tensions between major global players around economic, security and geopolitical issues are disrupting the global economy and increasing polarisation. This trend poses substantial risks for development as rising competition distorts incentives and instrumentalises development finance (Jones, 2020[1]). Yet polarisation is also providing opportunities – for recipient countries to defend their own interests and goals with more options and for regional organisations to play a more prominent role. To make progress where possible, the development community will have to adjust strategies to account for these dynamic changes (Bradford, 2022[2]). If the development community is better equipped to operate within complexity, it can take advantage of areas of mutual interest that, if acted on, can unlock desperately needed development outcomes.

In this context, what challenges do traditional development actors face and how can they best meet these? What opportunities are emerging in the shifting landscape for both donors and recipients, and how can these be turned into actionable strategies to meet ambitious development goals such as the Sustainable Development Goals (SDGs)?

This chapter surveys the current field of global international development co-operation through the lens of the policy framework developed by Kingdon (1984[3]), which holds that when three streams – the problem, the politics and the policies – converge, an ideal window of opportunity opens for new policies to be put on the agenda and adopted (Figure 2.1). It identifies the challenges (the problem), opportunities (the politics) and recommendations (the policies) that are most relevant to the goal of lasting and sustainable socio-economic development and inclusive poverty reduction. Of course, policies must not only be crafted but also implemented, and the implementation gap between development intentions and outcomes remains a serious and ongoing concern. Thus, this chapter also uses the conflict-ambiguity model of political economy introduced by Matland (1995[4]) as a tool for conceptualising why certain development policies succeed or fail when new development paradigms are implemented.

Figure 2.1. The convergence of problems, politics and policies offers a rare window of opportunity



Recent global shocks such as the COVID-19 pandemic and Russia's war of aggression in Ukraine have confirmed that the world is increasingly interconnected and more complex than ever before. Increased digitalisation, the ongoing Fourth Industrial Revolution (4IR) and its emerging technologies, climate change, migration, financial crises, and other shifts all create opportunities and challenges that reach beyond borders. Without international co-operation, it is impossible to fully seize these opportunities and unblock barriers. At the same time, the worldwide rise in nationalist populism and the backlash against globalisation are signs that countries are turning inward and retreating from international co-operation efforts.

While the current context presents new risks, even before their advent, development goals were not being met. There still are countries facing instability, hunger and extreme poverty despite genuine efforts by the development community to find and implement solutions. This has led to calls to better understand why traditional development assistance and co-operation have not produced their desired outcomes (Mélonio, Naudet and Rioux, 2022[5]). The current global shocks have exacerbated existing vulnerabilities within countries and between development actors, making development sector reform top of mind for recipient and donor countries, multilateral organisations, think tanks, non-governmental organisations, and development banks.

Nonetheless, opportunities to forge a new development agenda are emerging. There are recent examples of the three streams – the problem, politics and policies – converging in the development sector, among them the recent agreement at COP 27 to create a dedicated climate change loss and damage fund (United Nations Framework Convention on Climate Change, 2022[6]) as well as the ongoing adoption of the localisation agenda by mainstream development actors. The same geopolitical tensions and other political factors that inhibit development co-operation can, and often do, prevent convergence if they sap political will and pull major powers out of alignment on the urgency of identifying and resolving problems. But the window of opportunity is still open for a paradigm shift in the development sector, especially among recipient countries.

The problem: Challenges to international development co-operation

The first stream involves actors identifying the importance of an issue or a problem as the result of either a major event or overall increased attention to a subject. In the case of development co-operation, this first step is already underway: Development actors, both recipients and donors, have recognised the need to redefine development in response to a multitude of factors. Global shocks have highlighted the need for co-operation, as have more gradual but persistent trends such as rising inequality and social unrest. These factors have led to mounting pressure from civil society and recipient countries and from within development institutions themselves to seek change in how development is structured, co-ordinated and implemented.

To stay relevant and adopt a new, more effective agenda, the development sector must understand the impacts of the current context on development co-operation efforts and the challenges presented by geopolitical tensions, global shocks, and overall global economic and political trends.

Geopolitical effects

Over the past two decades, global trade dynamics have shifted tremendously. Before 2020, 80% of the world's countries traded more with the United States than with the People's Republic of China (hereafter "China"). This percentage has since flipped. In 2018, just 30% of countries traded more with the United States than with China, and China was the top trading partner for 128 out of 190 countries (Ghosh, 2020[7]). Escalating tensions between China and the United States over other economic and security disagreements have increased polarisation and led to higher tariffs and trade wars, with disruptive effects globally (Signé, 2018[8]; 2021[9]), including global trade diversion and supply chain disruptions (Fofack, 2022[10]). The pandemic further exacerbated trade disruptions as world trade overall declined (Signé and Heitzig, 2022[11]). The trade war between China and the United States is estimated to have cost 0.5% of global gross domestic product (GDP) (Fofack, 2022[10]), with greater losses in countries and regions that are more dependent on commodities and trade. For example, in Africa, the trade war is estimated to have caused a 2.5% decrease in GDP for resource-intensive African economies (Fofack, 2022[10]), affecting domestic and international development priorities. But polarisation has offered emerging countries more opportunities to host manufacturing plants and jobs as high-income countries move manufacturing out of China to countries and economies such as Bangladesh, India, Malaysia, Chinese Taipei and Viet Nam.

Geopolitical tensions and competition are also affecting how, how often and with whom countries engage when it comes to development partnerships. For example, trade between the Russian Federation and African countries increased significantly in 2022 (Aris, 2022[12]), and the United States and the European Union (EU) have explicitly cited the Russian Federation's widening influence in Africa as a driver of their new development strategies there (Chadwick, 2022[13]). Polarisation and competition can lead countries to focus on narrow national interests or to pursue geopolitical dominance, neither of which aligns with human rights, sustainability, or the overall social and public good goals of development co-operation.

The debt-infrastructure-sustainability nexus

Infrastructure is primarily financed by debt in developing countries, where 70% of infrastructure projects will be undertaken by the public sector and 70% of those will be financed by debt (Kharas, 2021[14]). There are three main sources of lending: 1) official financing from multilateral institutions and bilateral Development Assistance Committee (DAC) donors; 2) semi-official financing by state-supported banks such as the Export-Import Bank of China and the China Development Bank, which have financed Belt and Road Initiative projects, as well as the India Exim Bank and other financial institutions in major emerging economies; and 3) sovereign borrowing from global capital markets (Kharas, 2021[14]). The options for developing countries seeking financing are to either go to global markets, where their borrowing costs are higher than for wealthier economies, or rely more on official development assistance (ODA) of regional development banks (Spiegel and Schwank, 2022[15]).

The SDGs, meanwhile, have linked climate change and development co-operation by emphasising the need for sustainable infrastructure and power. While certainly crucial to curb carbon emissions, the push for sustainable investments has increased upfront costs for infrastructure options in developing countries, thus “biasing liquidity-constrained countries to adopt least-cash solutions rather than least-cost solutions in their infrastructure choices” (Kharas, 2021[14]).

The COVID-19 pandemic has affected investment and financing options for developing countries, making investment trade-offs even more burdensome. Foreign direct investment (FDI) has become more volatile, for example: it decreased by 42% in 2020, increased by 77% in 2021 (UNCTAD, 2022[16]) and is expected to drop by an additional 23% in 2022 (OECD, 2022[17]). Higher inflation and borrowing costs squeeze the fiscal and macroeconomic space to enact necessary changes in monetary policies, limiting not only financing options but weakening their ability to absorb the shock of rate increases (Ha, Kose and Ohnsorge, 2022[18]; Gill, 2022[19]).

Countries’ economic recoveries in the wake of the pandemic show the global inequalities in accessing financing and in borrowing costs. Advanced economy governments have the privilege of borrowing in their own currencies while developing countries cannot. Developing countries face more constraints, not only in the wake of the pandemic but in their borrowing overall. The interest cost for developing countries is three times higher than for developed countries, and least developed countries allocate an average of 14% of their GDP to interest payments compared to only 3.5% for developed countries (Spiegel and Schwank, 2022[15]). The cost of debt diverts more funds away from public investment and makes it more difficult for developing countries to plan long term.

Least developed countries allocate an average of 14% of their GDP to interest payments compared to only 3.5% for developed countries.

In the wake of global crises, many countries have seen their long-term foreign currency sovereign credit rating downgraded, further aggravating an already vicious debt cycle and highlighting persistent barriers to financing for developing countries. Negative warning announcements from rating agencies are associated with increases in the cost of borrowing – 160 points versus 100 basis points for advanced economies (Spiegel et al., 2022[20]). Sovereign ratings are also vulnerable due to their more subjective nature compared to corporate rating methodologies (Spiegel et al., 2022[20]). Rating downgrades have also been shown to have a statistically significant negative effect on FDI levels (Mugobo and Mutize, 2016[21]). For example, Ethiopia, one of the most indebted economies in Africa, faced mounting obstacles to meeting its debt obligations, including low returns from externally financed projects, a foreign currency shortage and the immediate need to deploy funds for pandemic recovery (Berhane, 2021[22]). When the government announced the country was requesting debt treatment under the Common Framework, creditors reacted by downgrading Ethiopia’s rating. This increases the cost of servicing its existing USD 25 billion debt as investors request higher interest rates for lending, making Ethiopia’s debt situation even more dire (Berhane, 2021[22]).

Security and stability threats

Violence and other threats to stability have increased over the past decade, hindering developing countries' progress. Conflict-related deaths in Africa increased almost tenfold from 2010 to 2020. In 2020, the World Bank classified 6 African countries as having high institutional and social fragility, and 14 others were engaged in medium- or high-intensity conflicts (Fofack, 2022[10]). Climate change has also exacerbated conflicts and fragility in regions already at risk, such as the Sahel (Mbaye and Signé, 2022[23]).

The increase in violence and fragility presents various challenges for development actors (Signé, 2019[24]) as governments in contexts impacted are forced to divert funds from various development priorities for military expenditures (Fofack, 2022[10]; Ndulu et al., 2007[25]). Instability also creates more incentives for governments to prioritise short-term alleviation and less ability to focus on and invest in long-term goals.

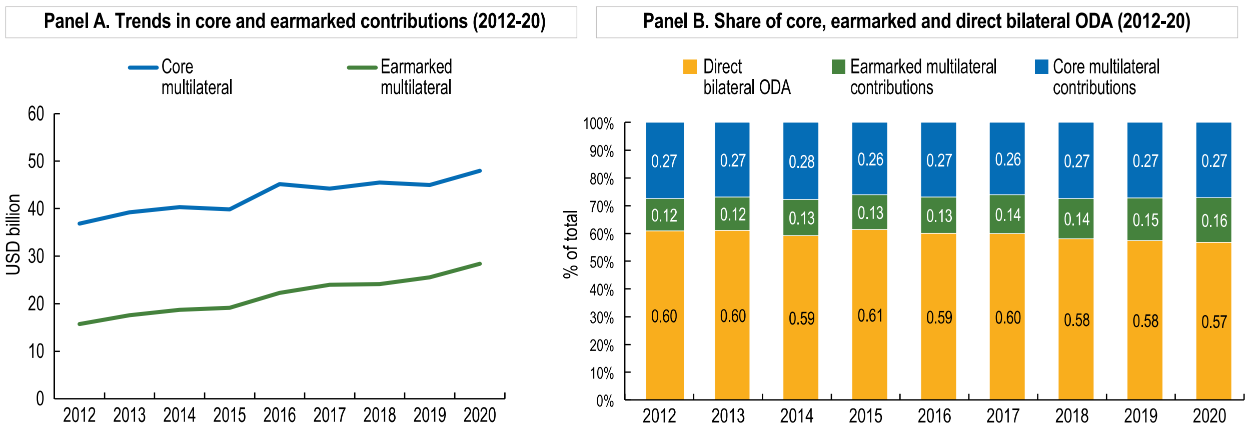
Threats to multilateralism

The rise of polarisation and of countries turning inward severely undermines the critical role of multilateralism – a particular danger when populist parties are on the rise. Without strong multilateral, regional or global institutions working towards a common goal, progress can be constrained or reversed when there are large political swings in individual countries. Polarisation undermines the ability to reach a consensus on global issues. As China and the Russian Federation become more assertive in multilateral bodies and the United States returns to these bodies after the previous administration's unilateralist agenda, polarisation is causing the foundational liberal principles of multilateralism to be challenged (Moreland, 2019[26]). Multilateralism is viewed with increasing scepticism, with multilateral efforts seen less as beneficial and more as undercutting national interests. The multilateralism of the traditional post-Cold War multilateral order cannot be relied upon to solve challenges today and will not lead to convergence on the problem, politics or policies regarding how development actors function in the future. Finding consensus is increasingly difficult as advanced economies use soft power for influence, including for votes and support within existing multilateral institutions. Consensus may be even more difficult as polarisation increases, meaning multilateral approaches must adjust to new parameters that include power competition to achieve its goals (Moreland, 2019[26]).

Funding dynamics within multilateral institutions also contribute to undermining their reputation for being collaborative and fair. In 2018, 36% of all multilateral funding came from just 3 of the 193 United Nations (UN) member states – Germany, the United Kingdom and the United States (Silva, Bernardo and Mah, 2021[27]). In 2020, DAC members accounted for 81% of the total funding within the UN development system (OECD, 2022[28]).

Internal vulnerabilities also threaten the effectiveness of multilateralism. A growing share of donors' funds are earmarked for specific purposes without sufficient consent or collaboration (Figure 2.2). Increasing shares of earmarked funds can partially be explained by the increase in urgent needs over the past several years. Yet earmarking contributes to instability, as political or economic changes in DAC member countries can lead to an abrupt reduction of funding, putting projects, especially long-term ones, at risk.

Figure 2.2. Earmarked funding represents a growing portion of multilateral development finance



Source: OECD (2020[29]). *Multilateral Development Finance 2020,* OECD Publishing, Paris, https://doi.org/10.1787/e61fdf00-en.

The politics: Geopolitical competition also presents opportunities for development

Within the challenging current context and despite geopolitical tensions, there are also opportunities to be seized that could be beneficial for development reform in the long run. These recent geopolitical developments and tensions have had a significant impact on international co-operation in terms of the types of countries that are engaged as donors (Kharas, 2021[14]; Signé, 2018[8]). The growth of South-South co-operation has challenged the narrative of the traditional donor-recipient relationship, as middle-income countries such as China and India begin to take more control over development (Signé, 2018[30]; Silva, Bernardo and Mah, 2021[27]), with China, in particular, contributing many development initiatives (Klingebiel, 2021[31]).

The division between what some term "the West and the rest", (the "rest" being China and the Russian Federation, in this context) has provided an opportunity for middle powers such as Australia, India and Japan to expand their influence in development (McCaffrey et al., 2021[32]). Collaboration between new and established actors leads to new types of partnerships where the unique strengths of each can be leveraged in a powerful way. For example, in Asia, more traditional donors such as Australia, Germany, Japan and the United States can draw on their history of development assistance to provide resources and knowledge, while newer donor countries such as Korea can provide the regional knowledge and experience that come from being closer geographically, economically and historically to the recipient countries (Ingram, 2020[33]). These new alternative partnerships are not guaranteed to be fairer or more representative. But they do demonstrate the appetite of emerging economies and recipient countries for other types of co-operation outside the traditional North-to-South paradigm.

These new alternative partnerships are not guaranteed to be fairer or more representative. But they do demonstrate the appetite of emerging economies and recipient countries for other types of co-operation outside the traditional North-to-South paradigm.

Although competition between actors poses certain risks to development co-operation, such as the duplication of efforts, it is also an accelerator for developing countries to acquire more agency and leverage. The presence of more development actors means more choices for countries that previously may have been compelled to rely on any and all aid available to them. Bilateral and multilateral partners may find themselves forced to innovate their practices and strategies, thus jumpstarting necessary reforms to the development sector overall, and recipient countries, with more options and bargaining power, may be able to better align co-operation to their individual interests and goals (Silva, Bernardo and Mah, 2021[27]). Whether or not recipient countries can take advantage of more leverage is an implementation challenge and dependent on several factors, including the domestic political economy. But the current context is opening the opportunity for new alternatives and power dynamics.

Recent steps taken by development actors also show that there is the global political will for change in the development sector. For example, individual countries, including China, the Russian Federation and the United States, have demonstrated – through visits, strategies and summits – their interest in redefining and strengthening partnerships with countries in Africa, Latin America and Asia. Such announcements and summits signal global players' political will, accelerated by competition, to redefine partnerships and development co-operation. Recipient countries are also showing political will, as demonstrated by Barbados' Prime Minister Mia Mottley, who recently called for a new global financial architecture and offered specific recommendations (Box 2.1). She stresses that the current system is unfair to developing nations and suggests that it be reformed to include the voice and recognise the agency of developing nations, especially in Africa and the Caribbean (Government of Barbados, 2022[34]). Finally, there is also political will among multilaterals. For example, the UN Secretary-General recently released recommendations for the future of multilateralism, stating that reforms to multilateralism and global governance are desperately needed (UN, 2021[35]).

Box 2.1. Prime Minister Mottley's recommendations for reforming the international financial system

1. Reform the UN Security Council, especially its panel of permanent members, which currently lacks representation for more than 1.5 billion people of African descent.
2. Democratise the system of global governance, particularly the Group of Seven and Group of Twenty (G20), by broadening representation to include the African Union as a full member.
3. Reallocate unused special drawing rights issued by the International Monetary Fund (IMF) to assuage liquidity constraints in the Global South.
4. Develop new facilities for food and agriculture, clean energy, and climate change adaptation in response to emerging global challenges.
5. Cap debt service payments to a certain percentage of exports.
6. Reform global credit rating agencies to correct their intrinsic biases that have led global investors to overprice risks in the Global South.
7. Suspend temporary surcharges by the IMF, which further raise the debt burden at a time when rising interest rates are exacerbating the fiscal incidence of sovereign debt.
8. Take advantage of the IMF's General Review of Quotas to reform Bretton Woods institutions and account for shifting economic weights.
9. Increase long-term financing and longer maturity loans to support economic development and structural transformation in low-income countries.
10. Reform the Bretton Woods institutions and hold them accountable to fulfil their mandate.

Source: Mottley (2022[36]). *The Developing World in a Turbulent Global Financial Architecture: The 6th Annual Babacar Ndiaye Lecture*, https://www.youtube.com/watch?v=dLT1YMJ0jM4.

The policies: Do not overlook the power of domestic political economy

The third and final stream involves the emergence of policy proposals, often from specialists, that can constitute potential solutions to the problem. While consensus can be difficult to achieve, especially when there are competing development priorities, it has been done: Witness the creation of the Millennium Development Goals and the SDGs. Similarly, development actors are now in general agreement that the development sector should prioritise localisation (Robillard, Atim and Maxwell, 2021[37]) and open and inclusive partnerships (Ministry of Foreign Affairs of the People's Republic of China, 2022[38]). From the perspective of developing countries, the effects of polarisation have been both positive and negative. For example, China's presence and power in Africa have helped expand connectivity and infrastructure during a time when US engagement with Africa was low (Ramani, 2021[39]). Yet despite advances, many African countries have taken mounting debt owed to China, which ultimately impedes sovereignty in the long term. Throughout these geopolitical changes, recipient countries have been able to agree on general policy frameworks regarding what the relationship between donors and recipients should look like in the future. According to recent surveys, there is consensus among developing country leaders around the idea that international development actors have a supporting role to play in all areas of development policy but that donors should prioritise flexibility, responsiveness and commitment to tailor aid and other contributions to local needs and domestic goals when considering the future of development co-operation (Wooley, 2022[40]).

Leveraging knowledge and theories about why policies succeed or fail presents an additional opportunity to reset international development. This can help donors and recipients better understand their own political economy and how it might interact with a partner's. Discussions of political economy and development typically centre around the global political economy and overlook the power of the domestic political economy. But pivoting to focus on the domestic political economy makes it possible to home in on implementation outcomes since development actors, public and private, all operate within their own political economies. The implementation theory developed by Matland (1995[4]) uses an ambiguity-conflict political economy model to explain why the implementation of a given policy succeeds or fails (Box 2.2). Policy implementation theories such as Matland's should be used not only nationally but also locally so that institutions and recipient countries can identify potential points of resistance and better understand the structural features and power distributions across social groups that will influence implementation outcomes (Hout, 2015[41]).

Box 2.2. Why some policies succeed when others fail

Policy conflict arises when individual self-interested actors come into conflict because their interests diverge; policy ambiguity is when a policy's goals, strategies or means are unclear. Examining various unique implementation scenarios through the lens of these two factors and in conjunction with other relevant factors beyond the political economy – the Fourth Industrial Revolution, agile governance, the global private sector, and the full inclusion of youth and women – can be a powerful way of conceptualising and overcoming the implementation gap that often plagues the development sector.

For example, when both conflict and ambiguity are low, policy implementation is administrative, and success depends on the availability of resources and institutional capacity. Rwanda is one example of a country that has engaged in long-term planning based on its own demographic, economic and political landscape (low ambiguity) and has relatively low conflict due to consensus over policy goals and high stability (Musiitwa, 2012[42]). Within this context, successful implementation in Rwanda will rely on financial and technical resources. The development community can therefore focus on increasing foreign direct investment and other resources to implement its agenda.

When conflict is high and ambiguity is low, implementation is political, and success depends on power. South Sudan is an example of a country that had a clear policy strategy for development out of fragility when it was created (low ambiguity) but high conflict between political parties (high conflict). This situation creates the need to resolve political conflict through inclusive and accountable political participation, which can then be the focus of development actors.

When conflict is low and ambiguity is high, implementation is experimental, and success depends on contextual conditions. Poverty eradication policies typically fall into this category. African countries generally find themselves in this situation, where most actors depend on pursuing a development goal (low conflict) but the policy or way forward for addressing these complex issues is difficult or unclear (high ambiguity). This is common when there are competing domestic priorities or grievances. In this example, development actors can play a positive role by sharing research and information and prioritising strategy development to reduce ambiguity (Signé, 2022[43]).

Finally, when conflict and ambiguity are both high, policy implementation is symbolic, and implementation depends on the strength of the coalition. This context is common for highly fragile contexts since conflict and violence may be high and coupled with high ambiguity due to state illegitimacy, lack of formal enterprise and vulnerability to shocks. In such cases, development actors should prioritise reinforcing, stabilising and strengthening authority in line with a long-term national security strategy (Signé, 2019[24]).

Note: Examples and illustrations provided by the author.

Sources: Matland (1995[4]), "Synthesizing the implementation literature: The ambiguity-conflict model of policy implementation", 10.1093/oxfordjournals.jpart.a037242; Musiitwa (2012[42]), "New game changers in Africa's development strategy", 10.1057/dev.2012.84; "US Secretary of State Blinken to visit Africa as tension with China and Russia intensifies", Signé (2022[43]), https://www.brookings.edu/blog/africa-in-focus/2022/08/05/us-secretary-of-state-blinken-to-visit-africa-as-tension-with-china-and-russia-intensifies/; Signé (2019[24]) "Leaving no fragile state and no one behind in a prosperous world: A new approach", https://www.brookings.edu/wp-content/uploads/2019/09/LNOB_Chapter11.pdf.

Towards a new agenda for international development

While polarisation is putting the convergence of policies at risk, development actors can focus on a few key policies that can have a significant impact. Within the development community, the three streams identified by Kingdon (1984[3]) as key to new agenda setting appear to be converging, opening a window of opportunity to implement changes in the development sector even when polarisation and complexity are high, including a paradigm shift both within and between development actors. Recipient countries are now seeing the effects, both positive and negative, of the new geopolitical order and are converging on the policies for a way forward – one that focuses on co-operation principles for a more level playing field such as adaptability, sustainability, inclusivity and reciprocity; the recognition of China as an influential player; and the understanding that while multilateralism is an effective venue for collective action, its flaws must be acknowledged (Custer et al., 2021[44]).

Each development actor has its own unique set of incentives, structures, strengths and tools, and each faces its own uncertain future as development co-operation changes in response to ongoing global shocks and trends. This section presents three main categories of recommendations for development actors to redefine development and successfully implement a new agenda that addresses the global political economy, the domestic political economy, and the transversal challenges and opportunities unique to the current context. The categories were chosen because they comprise issues for which a window of opportunity is opening within the development sector for new approaches that could be adopted and implemented successfully.

Address the global political economy challenge

To ensure convergence of the problem, politics and policies, major development players need to be relatively aligned on a new paradigm of development co-operation that puts recipient countries in the driver's seat for development through partnerships that are both local and agile. Current and future complexity requires agile leadership, agile systems and agile development strategies. This means reorienting systems and thought processes away from previous views of development (as static, linear, independent and directly measurable) towards an agile understanding of development as dynamic, non-linear, adaptive and uncertain. Practically speaking, this means shaping development as it unfolds and responding to emerging dynamics rather than proceeding according to a predefined, unchanging plan (Silva, Bernardo and Mah, 2021[27]).

Improve co-operation among donors to prevent duplication of efforts

In addition to agility and alignment, co-operation between development actors is necessary to prevent duplication of efforts. When competition between donors is high, as it is now amid geopolitical tension, partnership and communication among competitors are low, leading to the risk of duplication of efforts or, even worse, one actor's actions unintentionally undermining the goals of another.

Co-ordination efforts among countries should consider each country's comparative advantage when it comes to how development efforts are structured (Ingram, 2020[33]). The extent and level of collaboration between donors depend on commonalities of development objectives, the level of engagement within the region of a country or sector, and the level of alignment among donors on foreign policies (Ingram, 2020[33]). Bilateral co-operation will have to consider the level of integration possible given the political will and environment of the donor countries. Typically, the more integration there is, the higher the impact; however, more integration with closer collaboration such as shared governance or pooled resources requires significant political will. Loose co-ordination such as dialogues may have less impact but may be more suitable when political will is low (Ingram, 2020[33]).

While bilateral co-operation will continue, multilateral channels may be more effective for collaboration on strategies and financing. Donors themselves should also focus on outreach strategies and communication to identify their projects and priorities to avoid overlap and redirect resources towards other needs (Hronešová, 2018[45]). If the competitive environment persists, countries could be incentivised to avoid duplication by framing this as a way to develop competitive advantages or use their existing competitive advantages more efficiently. Collaboration should be promoted as a way for donor countries to benefit from their technical and non-financial assistance and networks (Harbour et al., 2021[46]). Emphasising that collaboration is, in fact, in each individual country's national interests can be a way to push back against polarisation.

Reinforce the value and legitimacy of multilateralism

Development actors, where possible, should reemphasise the importance and legitimacy of multilateralism as the premier venue for better co-ordination. The first step is for multilateral institutions to reform themselves to actually give developing countries equal representation in decision-making bodies. A fairer system for developing nations to make their voice heard in dialogues and in votes would help build these countries' trust in multilaterals.

Multilateral institutions should take steps to make financing more equitable as well, starting with decreasing the level of bilateral funds that are earmarked for specific purposes and recommitting to a broad and democratic approach to establishing priorities and allocating funds. The increase in bilateral aid under the umbrella of multilateralism delegitimises the need for multilateral institutions in the eyes of the rest of the development world and the public. Multilateralism is desperately needed given today's increasingly complex issues – but only if multilateral institutions act to be more fairly representative and leverage the strengths of their own unique structures.

> The increase in bilateral aid under the umbrella of multilateralism delegitimises the need for multilateral institutions in the eyes of the rest of the development world and the public.

Multilateral development financing can also be enhanced through technical reforms. Various technical recommendations have been made to increase the scale of multilateral development bank (MDB) activities. Kharas (2021[14]) has suggested that "while maintaining a AAA rating, MDBs could expand their loan books by at least (USD) 750 billion simply by using better accounting practices on how callable capital is measured. They could move towards industry standards on risk management variables like the equity-loans ratio". They further could mobilise more private capital and local counterpart funds in partnership with national banks and sell selected loan assets if these were properly priced at the outset. It would also be possible for MDBs to ask shareholders to provide them with additional equity, though this would be a last resort.

Greening international development co-operation

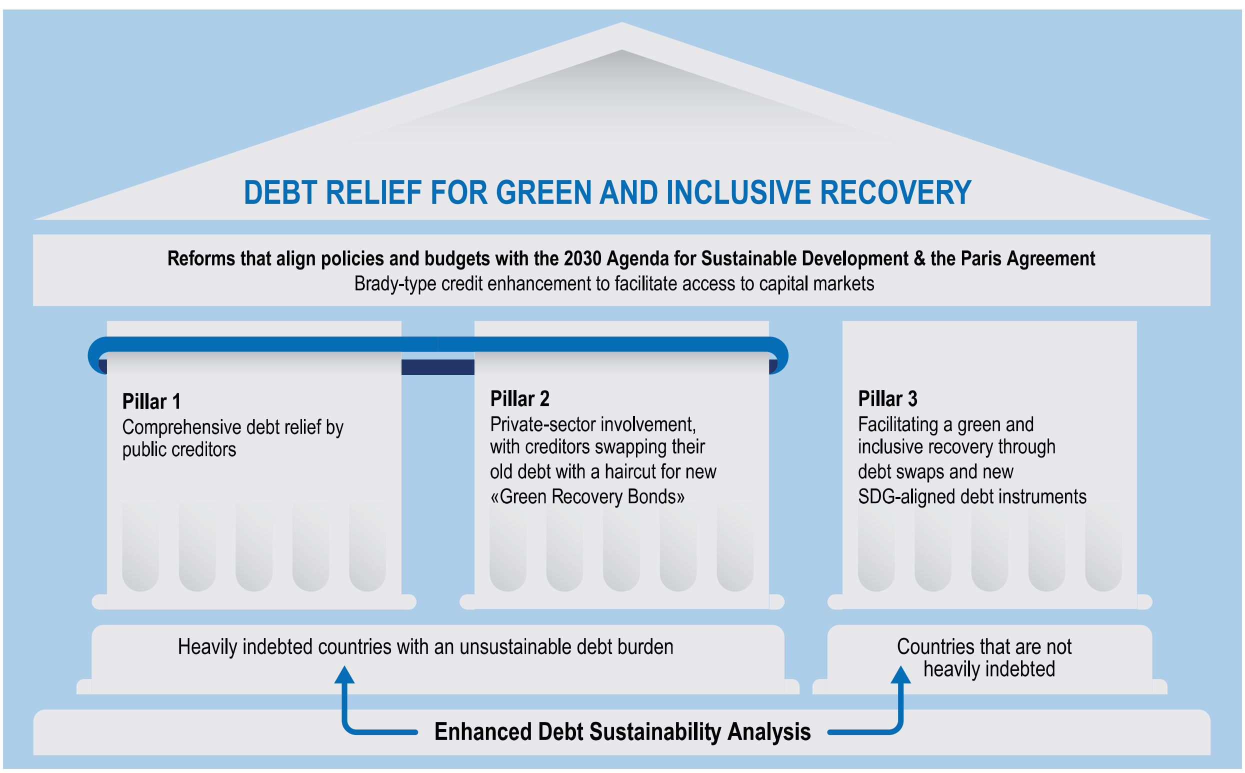
Enhancing bilateral and multilateral co-operation in a more just way is even more critical when it comes to climate change, given that there is a mismatch between advanced economies, which are contributing more to the problem, and low- and middle-income countries, which are disproportionally feeling its effects. Efforts to green development co-operation should be strengthened by approaching sustainability systematically at all stages of a policy or plan, including throughout implementation (OECD, 2020[47]). Projects and programmes are already assessed for environmental impacts before the project – especially those from intergovernmental organisations or multilateral institutions. But to avoid the risk of contradictory choices or trade-offs from leadership, sustainability needs to be mainstreamed within development strategies and programmes. For example, while environmental goals are prioritised within the Aid for Trade (A4T) initiative, they are not mainstreamed. Between 2010 and 2020, more than USD 200 billion in climate-related aid for trade commitments were made (OECD/WTO, 2022[48]), but A4T lacks an overall mainstreamed framework for environmental considerations and leaves systematic environmental considerations up to individual donors (Birkbeck, 2022[49]). Individual donor countries often have their own environmental guidelines for A4T projects, a practice that may need to be revisited.

Partnerships like the one between China and the Asian Development Bank, which co-create high-quality green development plans, should be replicated and strengthened. These partnerships should emphasise the need for private sector co-operation, especially for green infrastructure and such projects as wastewater treatment and off-grid clean energy (ADB, 2021[50]). China and the EU have led efforts to reform global green finance by creating a "set of fundamental standards for selecting appropriate investment targets for green bonds" (Jia, 2021[51]). Their classification process is now being replicated in other countries, including Colombia, Mongolia, Singapore and South Africa. These efforts in collaboration with the private sector should be strengthened and supported by development actors, as a unified taxonomy is necessary to enable developing and emerging countries to issue more green bonds. Polarisation is putting action on this priority at risk, as significant co-operation among major players is needed.

Efforts in collaboration with the private sector should be strengthened and supported by development actors, as a unified taxonomy is necessary to enable developing and emerging countries to issue more green bonds.

Greening international co-operation will also have to include tackling the debt crisis in developing countries, given that most of the top 50 most climate-vulnerable nations are also among the countries with the most severe debt problems (Jensen, 2022[52]). There is a general consensus that the G20 Common Framework for Debt Treatments must be reformed to add additional liquidity support to deliver more effective and resilient debt relief and involve private creditors that hold a large chunk of the debt (Jensen, 2022[52]). However, the Common Framework reform will not be enough to address the systemic issue. A 2020 report for Project Debt Relief for Green and Inclusive Recovery argued that public and private creditors should be required to provide debt relief for low- and middle-income countries in exchange for a commitment to a green recovery (Volz et al., 2020[53]) (Figure 2.3).

Figure 2.3. Debt relief for low- and middle-income countries can underpin a green and inclusive recovery



Source: Volz et al. (2020[54]). *Proposal: Debt Relief for a Green and Inclusive Recovery: Debt Relief for Green and Inclusive Recovery*. https://drgr.org/our-proposal/proposal-debt-relief-for-a-green-and-inclusive-recovery/.

Debt forgiveness is not the only way to increase fiscal space. A country could seek to increase its debt limit by boosting market confidence, whether through bilateral currency swap lines, access to finance with regional and global institutions with low conditionality, swapping foreign currency debt for local currency debt, or other means. Some countries will have more access than others to more of these options and some will have no choice but to seek out traditional debt forgiveness programmes. While it is critical to link debt recovery and sustainability goals, it may have to come through the actions of the creditors. The international community can and should work to improve the borrowing conditions for developing countries by strengthening information ecosystems and extending the horizon of credit ratings (Spiegel and Schwank, 2022[15]). A systematic change to the debt relief and restructuring initiatives will be needed but should include voices from developing countries to ensure that well-intentioned programmes are taken up by the leadership.

In the context of growing power rivalries and polarisation, developing countries should strengthen regional development and security co-operation

With increased polarisation putting development and sustainability at risk, developing countries should elevate their security agenda from a national to a continental or regional level. Outsourcing domestic security has failed to deliver stability and has undermined development and regional integration efforts. Instead, countries should adopt a continental and/or regional approach, which will have positive security effects and, eventually, economic effects by strengthening the implementation of regional trade agreements such as the African Continental Free Trade Area. Regional bodies have specific strengths in terms of safeguarding public goods, and regionalism can help countries overcome their deep-rooted conflicts, consolidating peace and human rights. By strengthening these bodies, developing regions can increase their international negotiating power, lower the cost of national security promotion for individual countries, and ensure long-lasting peace and security. Strengthening regional co-operation can be an effective way for developing countries to reduce the risks that polarisation brings and ensure that development paths are not dependent on the political or economic will of a single partner. A regional approach, as outlined in the African Development Bank's fragility strategy in 2015, can also build resilience against spillover effects of conflicts in one country on other nearby countries (Signé, 2019[24]).

Whether or not they interact directly with regional actors, all development actors should recognise the importance of regional actors as connectors between bilateral or multilateral actors and local implementation (Signé, 2018[30]). For example, subnational development banks are great connectors between bilateral or multilateral actors' resources and implementation in local communities since they are much closer to the local context and hold institutional knowledge about needs and projects (Suchodolski, De Oliveira Bechelaine and Modesto Junior, 2020[55]). Subnational development banks can therefore contribute to regional development by choosing a more representative pool of projects than a national bank would be able to do. Governments and investors can help subnational banks by supporting initiatives that promote risk mitigation and accelerate digital transformation, especially within the financial sector.

Address domestic political economy challenges

Development actors should also recognise the importance of the domestic political economy, particularly as it relates to implementation.

Base development strategies on local strengths and structural transformation rather than focusing on deficiencies

To successfully implement development strategies, policy makers "should hone, not neglect, small and often-overlooked innovations, since they frequently contribute to economic paradigm change in the long run – even when success is not apparent in the short run" (Signé, 2017[56]). Yet, as noted by Monga (2019[57]), development economists and institutions have been overly focused on deficiencies or gaps in developing countries, leading to the notion that economic or development progress is contingent on an exhaustive list of preconditions related to infrastructure, human capital, financing or any number of other factors. Strategies should instead be focused on the strengths of each individual country and how these can be leveraged for structural transformation. In doing so, development actors can provide actionable recommendations that are rooted in a country's situation and politics rather than a laundry list of recommendations that may not be politically or financially viable and that are treated as prerequisites for development progress.

The private sector can play a role in this area as it typically excels at identifying sectors with a comparative advantage. These can then become priorities for governments and their development partners, which can tailor their efforts to the infrastructure, human capital, reforms and other areas needed for those sectors to flourish (Monga, 2019[57]). With competing priorities, “not all innovations are created equal. Policy makers should identify and adopt the critical innovations that enhance the rules of the game and produce long-term policy and economic transformation” (Signé, 2017[56]).

Developing countries themselves should engage stakeholders to develop a long-term vision within an institutional framework and leverage endogenous innovation to achieve long-term economic transformation

States must bring their own leadership and political will to the table to implement development plans and strategies. Regardless of any genuine progress in development strategies from outside actors, if the developing state itself is not equipped with the resources, capabilities, leadership and openness to change that are needed to implement various strategies, development efforts will fall short. The evidence is clear that accountable leadership (personal, peer, vertical, horizontal and diagonal) is key to successful economic transformation in Africa, given that outperforming economies overall are associated with higher levels of accountability (Signé, 2018[58]). Studies of economic growth in Africa over a 40-year period, edited by Ndulu et al. (2007[25]), reached similar conclusions: Syndrome-free African economies and outperformance were mostly associated with the nature of political regimes (especially democratic) in the decades after 1990, with syndromes such as regulatory regimes, ethno-regional distribution, intertemporal distribution and state breakdown negatively affecting economic growth in Africa.

Recipient countries should engage various stakeholders to develop priorities and a plan that extend beyond a single leader or political cycle to reduce policy ambiguity (see Chapter 20). Regional bodies or civil society may act as effective conveners for this purpose. Often, the incentive for government leaders to sacrifice long-term goals for short-term rewards acts as a barrier to successful implementation. If strategies are embedded in government ministries and institutions independent of politics, this will minimise the risk of progress getting lost between political cycles.

The private sector can and should play a key role here, especially when it comes to working with the state to promote stability, which is of mutual interest to the public and private sectors. Governments should take the necessary steps to strengthen institutions and increase transparency to incentivise private sector investment. In situations where the resources or political will do not exist and institutions remain weak, states could benefit from regulatory partnerships in which the international community mandates and oversees regulations. To avoid overreach (i.e. outside partners meddling with domestic policy decision making), these partnerships should be based on aligning regulations to domestic legislation and context while using international partners for governance and monitoring (Signé, 2019[24]).

Leverage the strengths of ODA in crisis situations and fragile contexts, using it to steer other resources, and increase transparency and accountability of ODA flows for the public and recipients

While ODA in development finance has not grown as much as it had in private finance as of 2019, it remains a powerful development tool that should not be overlooked. ODA is well placed and well suited to act as a reliever for global shocks, particularly humanitarian concerns and health crises such as the current pandemic. It can also point other types of financing in the right direction and align them to long-term strategies (OECD, 2019[59]).

ODA is critical not only for relieving the consequences of global shocks, but also for fragile contexts. Solutions are difficult to achieve as many of the drivers of fragility are cyclical, trapping fragile contexts in a cycle exacerbated by inconsistent and ineffective aid and FDI. To address these challenges, development actors should shape strategies for fragile contexts using the ambiguity-conflict framework. This means taking into account the overall political economy of policy implementation and country-specific contexts (i.e. policy ambiguity, conflict, decentralisation and private sector support) (Signé, 2019[24]). Some development actors are developing new fragility strategies that include reconsidering levels, types and recipients of aid based on the domestic political economy. Going forward, aid should prioritise humanitarian assistance in extremely fragile states, but in fragile states with prominent civil society and private sectors, aid should focus on developing and rebuilding commercial and economic sectors within the country (Signé, 2019[24]).

Address transversal challenges

The development community should also seize opportunities presented by several transversal trends as it seeks to redefine and successfully implement a new agenda, including by capitalising on the role of emerging technologies and the 4IR and on the potential of women, youth and the private sector.

Leverage the role of emerging technologies and the Fourth Industrial Revolution

Development actors should prepare for, embrace and leverage the 4IR and its technologies to transform development. The 4IR, contributing to and growing from digital transformation, has great potential to allow countries to bridge gaps in governance, commercial and social progress (Signé, forthcoming[60]; 2019[24]). Frontier technologies can help accelerate green development in developing countries, where technological leapfrogging is possible (UNCTAD, 2022[61]). By helping to reach vulnerable populations such as youth, women, marginalised groups and rural communities, digital transformation can more effectively deliver services, disseminate information and connect these groups to the formal economy. If the goals of the All Africa Digital Economy Moonshot are met, for example, Africa will increase its per capita growth by 1.5 percentage points and reduce poverty by 0.7 percentage points (Calderon et al., 2019[62]). This growth could be even greater if coupled with human capital gains. These goals cannot be achieved, however, without the intentional inclusion of marginalised groups in the benefits of digitisation, and this will require focusing on developing technologies, infrastructure and digital skills for marginalised groups (Qureshi, 2022[63]). Connecting the informal sector to the formal economy can be accelerated through financial inclusion, which is already on the rise thanks to digital banking in African countries. Financial inclusion can lead to greater capital accumulation and investment, which can lead to formal employment growth (Ndung'u and Signé, 2020[64]).

Countries and development partners should develop and update holistic strategies for technology in development using a systems approach to assess the risks and opportunities of digitisation and emerging technologies. These strategies should emphasise updating governance structures to allow for an endogenous innovative environment as well as regulations that encourage competition and protect consumers and the market (Ndung'u and Signé, 2020[64]). Agile governance and enabling environments are critical and should be prioritised within a country's digital strategy.

The opportunities presented by advanced technologies such as artificial intelligence, blockchain and biometrics are tremendous. But they require investment in physical and digital infrastructure and digital skills to reach their potential in developing countries. Development actors should orient their strategies, financing and partnerships around these priorities. The effects of the 4IR are felt by all, which means the 4IR is an area where collaboration could overcome polarisation if interests are aligned. However, polarisation and geopolitical tensions are increasing the risk of inequality and dominance in the emerging technology sectors, which could create new power structures. To reduce this risk, the 4IR should be a central topic within multilaterals and other development co-ordination bodies. Multilateral bodies in particular can play an important role in ensuring that the norms and standards governing digital space are inclusive of all countries' realities (OECD, 2021[65]).

In 2021, the UN Industrial Development Organization launched the first "development dialogue" on its Strategic Framework for the Fourth Industrial Revolution to share with regional groups its strategy for harnessing the 4IR for development, which focuses on "the development of innovation ecosystems, skills and capacity-building, governance, partnerships, investment and infrastructure" (UN, 2022[66]). Other groups have facilitated similar conversations, including Frontier 2030 of the World Economic Forum and the UN Secretary-General's High-level Panel on Digital Cooperation (World Economic Forum, 2020[67]). Intergovernmental groups should continue to convene countries and other development actors to address the 4IR and related issues such as cybersecurity.

Give gender and youth the place they deserve in development

Another transversal issue that should be prioritised as part of a redefined development sector is the full inclusion of women and youth in terms of outcomes and decision-making bodies. While frameworks, strategies and high-level discussions often refer to women and youth as central development actors, actual action to make them true partners has been limited. Not only is there a moral obligation to not leave these populations behind in discussions or in projects – there is a compelling economic case as well. Advancing gender equity in employment is estimated to increase GDP by an average of 35% (Lagarde and Ostry, 2018[68]), and yet women are blocked from formal employment both by specific laws and restrictions in some countries and by societal expectations that can lead to them bearing a double responsibility with child care and work (UN Women, 2018[69]). Equal access to education, financial services, the Internet and mobile phones will be critical to overcoming these barriers.

Development actors should also work towards greater inclusion and representation of gender and youth within institutions, local projects and programmes. Various studies have shown that outcomes are better when women are included in political decision-making processes. For example, in India, communities with female-led councils had 62% more drinking water projects than communities with male-led councils (UN Women, 2022[70]). Youth participation in political spaces is also disproportionately low, and extremely so. People under the age of 30 make up more than 50% of the world's population, yet only 2% of the members of parliament worldwide (Inter-Parliamentary Union, 2021[71]). Young people are also underrepresented in international organisations, although the UN began to encourage youth delegations in 1981; as of 2019, only 40 of the 173 UN members had created youth delegations (Kuhn, 2020[72]). Countries should deliver on this commitment and elevate the status of youth delegations not only to the UN but also to other co-ordination bodies that discuss policy priorities and implementation.

Capitalise on the global private sector

A look at the data on aid flows makes it clear that the public sector alone cannot achieve development goals. There is no option but to turn to private sector funds. The global private sector has many advantages that should be capitalised on, including its ability to act and mobilise resources quickly. Public development actors can and should do more to support private sector financing for development. Only USD 1 billion of the USD 178.9 billion in total ODA flows from DAC members in 2021 was dedicated to development-oriented private sector instrument vehicles (OECD, 2022[73]). This is a huge missed opportunity for public-private sector collaboration in the long term, and donor countries should consider investing more in this area.

FDI should be reemphasised as an important vehicle for development finance as it can create new markets, accelerate regional value chains, and generate domestic jobs and revenue. While total FDI levels overall have recovered somewhat since their low point in 2020, growth has been more modest in least developed countries than in other countries (UNCTAD, 2021[74]). However, there is a growing understanding that FDI and multinational companies can have profound effects on recipient countries, even those that are considered fragile: "FDI in local industries has the unique advantage, compared to nation- or donor-led stabilization policies, of removing the economic conditions that contribute to groups' grievances, poverty, hunger, and political rivalry – creating short-term and long-term avenues for exiting stages of fragility" (Signé, 2019[24]). These effects are difficult to achieve, however; first, given the mismatch in co-ordination and domestic accountability for FDI and second, in light of past failures where FDI in extractive resource industries increased fragility, as was the case in central Africa and with mining operations in the Dominican Republic (Signé, 2019[24]).

Development actors can help drive FDI towards positive impacts by working directly with partner countries to develop regulatory reforms or working directly with businesses and investors to incentivise investment in specific sectors, for example, supporting green transitions, and to influence behaviour. As noted by the OECD (2022[75]), these two approaches are rarely presented together in a comprehensive strategy specific to a country's context, which leads to either duplication or misaligned assistance. Addressing co-ordination and information gaps is key for maximising FDI impact. Development actors can help investors better engage with new trade agreements, such as the African Free Continental Trade Agreement.

Private finance for development projects has certain advantages, in particular the scale and speed at which it can be deployed. Nonetheless, some precautions should be taken given that private sector players, unlike other development actors, are likely to operate under incentives and accountability structures that do not include green or inclusive development as a central goal. The development community can play a role in developing, tailoring and strengthening incentives specifically for the private sector to work towards mutual goals. Development actors should support the economic agenda of the private sector and leverage these incentives through potential solutions, including helping to modernise inclusive business tax reform, to initiate research and development investment, and to streamline credit rating systems for developing economies (Khasru and Siracusa, 2020[76]). Wherever possible, the development community should work to find areas of common interest even under different incentives and work from there to find solutions for developing greater alignment.

Private sector players, unlike other development actors, are likely to operate under incentives and accountability structures that do not include green or inclusive development as a central goal.

In addition, multilateral development actors can work to encourage a greater role for women in leadership for private sector investment in emerging markets. In 2019, 68% of investment teams in emerging markets were all male (Payton, 2022[77]) and only 7% of venture capital funding went to women-led businesses (Government of Canada, 2021[78]). It is clear that private sector financing will be necessary to reach development goals, but public and private actors should work together to co-ordinate efforts and embed inclusivity – which could start with a greater emphasis from multilaterals.

The international community should also encourage greater collaboration around development with philanthropic donors. Philanthropic giving has soared in the past few years; individuals and foundations now have a significant say in development plans, priorities and projects. As of 2018, philanthropic flows accounted for 8% of all development financial flows to low- and middle-income countries (Silva, Bernardo and Mah, 2021[27]). While increased financial inflow is positive, philanthropic financing for development can easily become problematic or create further power imbalances as these efforts may not necessarily be co-ordinated with the goals of other actors or include the same type of oversight or accountability. The development community could contribute by providing a platform that encourages greater transparency and dialogue between country leaders on the one hand and local and global philanthropic actors on the other (Ilasco, 2022[79]). An example is the philanthropy and development strategy developed by the French

Ministry for Europe and Foreign Affairs (2021[80]), which has been a successful convener to connect local foundations in France and in developing countries to find areas of mutual commitment.

At the same time, the development community should push global businesses to continue to reframe systems away from shareholder capitalism and towards a stakeholder capitalism that no longer prioritises short-term profit maximisation but considers broader societal goals connected to the health and wellness of people and the planet (Schwab and Vanham, 2021[81]). Recipient countries need to continue to work towards creating an enabling environment that respects their domestic goals but appeals to international business concerns. This includes increasing the transparency and accountability of domestic institutions, a process that digital systems could accelerate.

Conclusion

With the rapid development of emerging technologies, the global spread of diseases, increasingly integrated financial systems and the consequences of climate change, the world is facing and will continue to face no shortage of global challenges. At the same time, countries are turning inward and major development and economic players including China and the United States are becoming even more polarised. These geopolitical tensions are shifting the dynamics within the development sector. More emerging economies are becoming development actors, generating more competition for partnerships, more options and thus more leverage. With development goals yet to be met in many parts of the world, the fact remains that development co-operation is essential. Given that the need for change is generally acknowledged, that developing countries have increasing leverage, and that there is general agreement on prioritising locally led development, the three streams – problem, politics and policies – are converging. This means that a unique window of opportunity is opening to shift the traditional paradigm of development aid and co-operation.

Beyond a paradigm shift, successful implementation, often the major barrier to achieving development outcomes, will be key. New strategies and co-operation must consider the domestic political economies of both the donor and recipient and tailor implementation strategies to them. While the current level of polarisation poses a great risk of misalignment of donor and recipient countries' priorities, some areas and recommendations should take precedence during this window of opportunity. Among these are recommendations that address the global political economy, the domestic political economy and transversal challenges. Development co-operation cannot be successful if it tries to apply old methods to the new and increasingly complex challenges of today. Instead, it must be based on strategic co-ordination that leverages the strengths of each player and with developing countries in the driver's seat.

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3 In focus: Reforming climate finance

Leia Achampong, European Network on Debt and Development

Global North countries have failed to fulfil their 2009 commitment to mobilise USD 100 billion annually in new and additional finance for climate mitigation and adaptation in Global South countries. Escalating debt levels and increasing loss and damage both increase the urgency for adequate climate finance flows. The 2024 deadline for setting a new global climate finance target offers an opportunity to establish a financing architecture that limits indebtedness from climate finance; improves monitoring and reporting, including on gender-responsive finance; closes the financing gap; and sets a robust new global climate finance goal based on the needs of communities and countries.

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Key messages

- In terms of both quality and quantity, climate finance remains inadequate to cover climate-related loss and damage, climate mitigation and adaptation, and the economic and social needs of climate-vulnerable communities and countries in the Global South.
- Global North countries must not only increase overall support but also foster climate justice by favouring grants over loans to already debt-burdened Global South countries and providing climate finance that is new and additional.

Countries in the Global South have historically contributed the least to climate change but are disproportionately impacted by its effects (Callahan and Mankin, 2022[1]; Callahan and Mankin, 2022[2]; Hickel, 2020[3]). This unequal distribution of climate impacts warrants a far greater public financing effort than currently seen. Not only has the global commitment for USD 100 billion annually in climate finance never been met, it also only covers mitigation (measures to avert, reduce or prevent greenhouse gas emissions) and adaptation (measures to minimise, prepare for, and adjust to current effects and predicted impacts). Only very recently, at the 27th Climate Change Conference (COP27) in November 2022, was it formally recognised that the costs of loss and damage increase debt burdens and impact the achievement of the Sustainable Development Goals (UNFCCC, 2022[4]). COP27 pledged to establish funding arrangements, in the form of a loss and damage fund, to address the consequences of climate change that cannot be reversed through mitigation or adaptation measures (IPCC, 2022[5]). This is a significant achievement that caps a 30-year struggle, during which the associated costs of loss and damage continued to escalate (Walsh and Ormond-Skeaping, 2022[6]).

Soaring climate costs underscore a critical need for "new and additional" finance

The United Nations (UN) estimates that Global South countries need between USD 5.8 trillion and USD 5.9 trillion to implement their (public and private sector) Paris Agreement climate action plans by 2030 (UNFCCC, 2020[7]). Yet, in 2020, aggregate climate finance flows totalled USD 83.3 billion, according to the OECD (2022[8]). Of this amount, USD 68.3 billion was public finance attributable to Global North countries. The goal of USD 100 billion a year was missed again, as it has been since the goal was established in 2009.

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The pledge by Global North countries to finance climate adaptation and mitigation in poorer countries has its roots in the UN Framework Convention on Climate Change (UNFCCC). Adopted 30 years ago, this landmark agreement required the parties to provide "new and additional financial resources" to tackle the crisis (UN, 1992[9]). When the specific USD 100 billion goal was set in 2009, no baseline was established from which to count climate finance as new and additional (UNFCCC, 2010[10]). While finance that is "new and additional" has yet to be formally defined in this context, it is widely understood to mean climate finance that is not sourced or diverted from or double counted with other international financing streams such as official development assistance (ODA) and biodiversity finance.

Greater climate finance transparency can ensure promises are kept to the Global South

Global North countries should be providing new and additional climate finance while also increasing the overall envelope of international financing to guarantee that all countries have the means to address climate change and pursue sustainable development (Achampong, 2022[11]). Yet in 2020, climate-related ODA amounted to USD 44 billion, or 33.4% of total ODA flows[1] (OECD, 2022[12]). Some climate-vulnerable countries are also middle- or high-income countries and so are not eligible either for ODA (OECD, 2022[13]) or for some forms of multilateral concessional finance such as from the International Development Association (International Development Association, 2021[14]). Thus, these countries have fewer opportunities than others to access the highly concessional climate finance they require to overcome escalating climate impacts and achieve sustainable development. While the International Development Association has created new funding windows to address eligibility issues, civil society actors argue that World Bank finance streams often do not cover all climate measures or adequately integrate climate vulnerability into project valuation models (Eurodad, 2021[15]). Therefore, meeting UNFCCC climate finance goals is not only a priority, it is crucial to ensuring that countries that are not eligible to receive ODA also have access to climate finance.

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Development financing is under increasing pressure from climate emergencies. As Tiedemann et al. (2021[16]) noted, "Quasi-continuous post-disaster reconstruction and emergency repairs of climate-vulnerable infrastructure also impose strains on the availability of financing for other development goals." Nevertheless, some estimates suggest that over the period 2011-18, only 6% of Global North countries' climate finance was on top of, or additional to, their commitment to provide 0.7% gross national income as ODA (Hattle and Nordbo, 2022[17]) – a target that, incidentally, most Development Assistance Committee members have never reached (Craviotto, 2022[18]). Comprehensive monitoring and reporting frameworks on climate finance covering bilateral, multilateral, intermediary and private finance flows would facilitate greater transparency on the additionality of finance flows.

Debt-free climate finance must become the norm

Global South countries' increasing climate vulnerability has burdened them with additional debt. Their exposure to climate impacts increases their need to borrow as well as their borrowing costs (Donovan, 2018[19]), which in turn reduces their long-term fiscal stability and capacity to invest in climate-resilient public services. Therefore, it is imperative that the financial mechanisms used to provide climate finance are suited to the specific circumstances of a country and do not create even more unsustainable debt levels. Research for the International Monetary Fund has found that debt levels of small climate-vulnerable developing states quickly increase following climate-related disasters – not only because of the impact on their economies, but also because they must take on new debt to finance reconstruction (Tiedemann et al., 2021[16]). In addition, the great majority of climate finance is provided as loans, which also increases debt burdens. In 2020, USD 48.6 billion, or 71%, of public climate finance attributable to Global North countries was channelled through concessional and non-concessional loans while grants amounted to just USD 17.9 billion (26%) of climate finance (OECD, 2022[8]). The cost is substantial: Low- and middle-income countries spent USD 372 billion on total debt repayments in 2020 (Eurodad, 2021[20]), more than four times the total 2020 climate finance flows. High volumes of debt repayments choke off available fiscal finance to implement climate measures (Fresnillo, 2020[21]).

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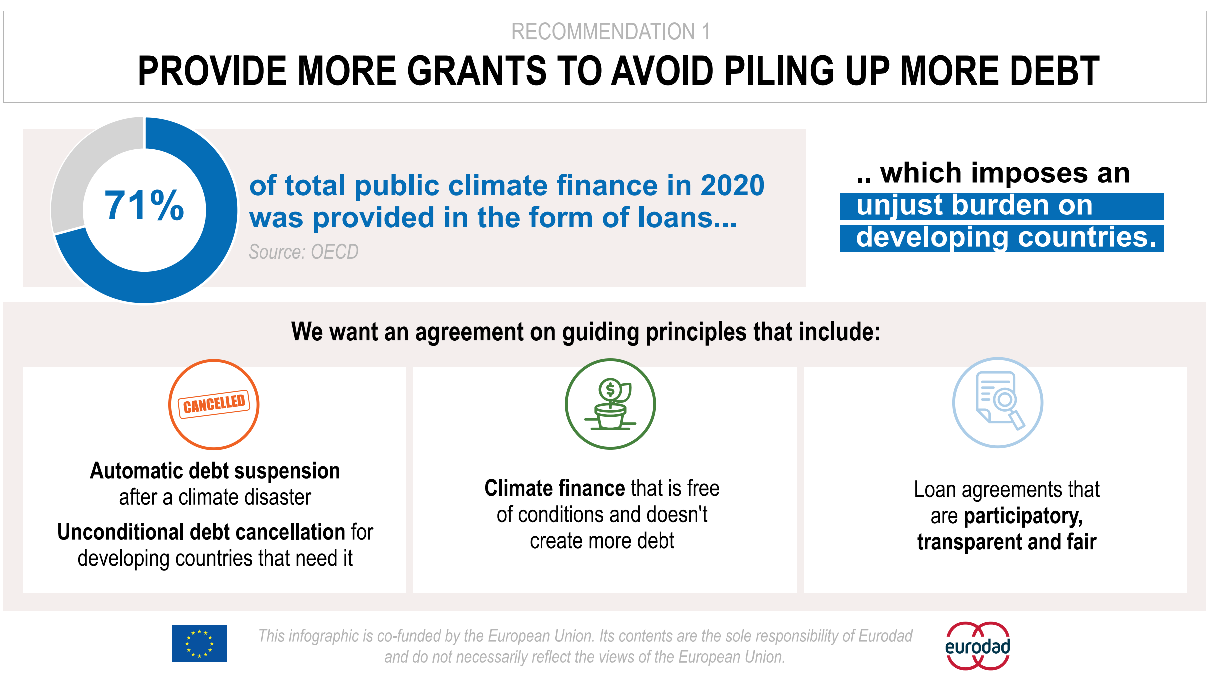
This is illustrated by Grenada, a small island developing state. It is in debt distress, with debt amounting to more than 70% of its gross domestic product (GDP) in 2021 (IMF, 2022[22]) and its ability to tackle climate change is severely constrained due to, among other factors, a lack of financial resources, technology and data (World Bank, 2021[23]). The government is required by law to maintain significant primary surpluses until the public debt is reduced to below 55% of GDP (IMF, 2022[24]). In 2021, Grenada paid USD 54.14 million to its external creditors, or 15.6% of total government revenue (Fresnillo and Crotti, 2022[25]). However, the country's 2015 Fiscal Responsibility Law exempted grant-financed capital spending from the primary expenditure growth cap (IMF, 2022[26]). In 2021, Grenada spent the equivalent of USD 9.2 million in total capital expenditure for climate resilience and disaster management, and almost entirely financed (USD 8.8 million) by an external grant.[2] While this is a fraction (approximately 1%) of the USD 800.6 million that the International Monetary Fund estimates Grenada needs for climate change adaptation and mitigation (IMF, 2022[26]), grants do allow countries in debt distress to continue pursuing climate action (Figure 3.1). Grenada will need access to further climate finance to implement all the required climate measures, highlighting that overall climate finance flows must increase to meet the needs of Global South countries.

Figure 3.1. Provide more grants to avoid piling up more debt



Note: This infographic is part of an infographic series.
Source: Achampong and Stokes (2022[27]), *Six Recommendations to Ensure the New Global Climate Finance Goal is Effective*, https://www.eurodad.org/six_recommendations_effective_climate_finance_goal.

Grenada highlights how important it is for all finance providers to assess the suitability of a particular finance instrument (Mustapha, 2022[28]). When they provide loans, it is also critical that they follow responsible lending and borrowing principles such as those developed by the United Nations Conference on Trade and Development (UNCTAD, 2012[29]) and other guidelines promoted by civil society organisations (Wijesekara, 2022[30]). Using these principles should also help increase countries' absorptive capacity for climate finance and avoid compounding debt vulnerabilities.

In addition to increasing the use of grants, providers should also provide an automatic debt service payment suspension after a climate event. Some borrowing countries, among them Barbados, are already adding climate clauses to their debt issuance to enable a debt service suspension (Cleary Gottlieb, 2020[31]). Some lenders are also exploring this option, including, for example, the Inter-American Development Bank (Waithe, 2019[32]) and the government of the United Kingdom (2022[33]).

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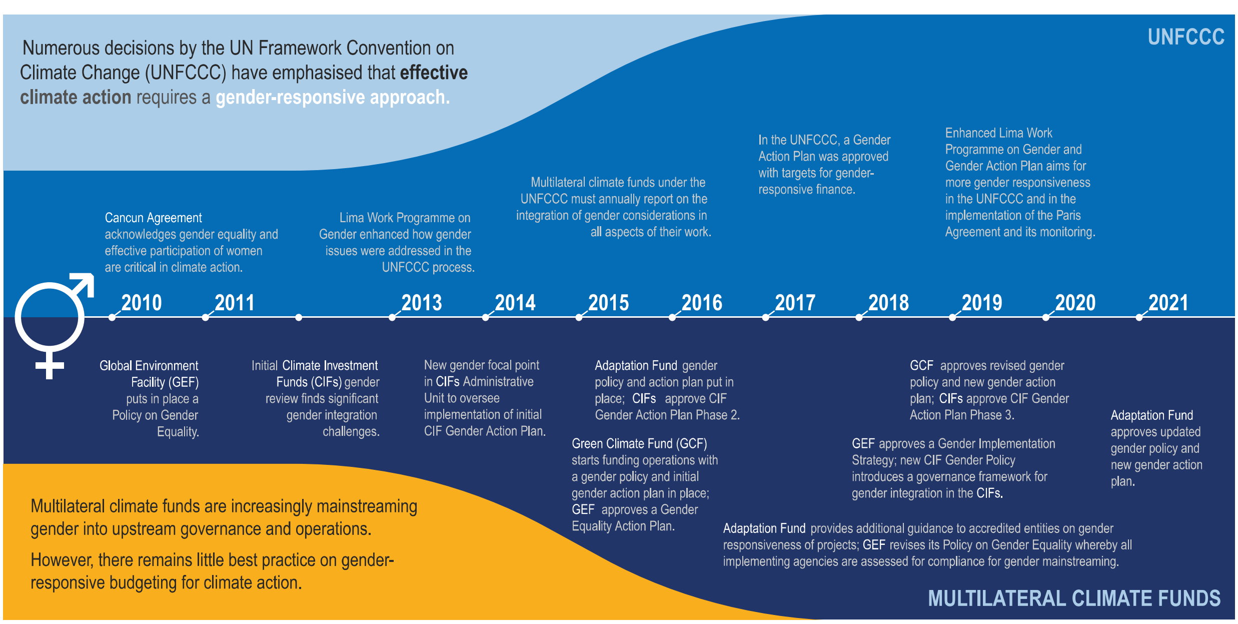
Tracking gender-responsive finance is key to measuring impact and equity

More finance is not enough. Climate finance must reach and benefit vulnerable groups including women, children, indigenous peoples and racialised communities that are disproportionately impacted by climate change (Birkmann et al., 2022[34]). Women account for 43% of the agricultural labour force in Global South countries (UN Women, 2012[35]). But in 2019, only 2% of global climate finance reached small farmers, indigenous peoples and local communities in the Global South (FAO, 2022[36]), demonstrating that climate finance is not truly economy wide as these communities benefit less from climate finance effects. Global North countries' submissions on climate finance to the OECD and the UNFCCC, however, often lack specific and disaggregated data on gender, race and intersectionality. Figure 3.2 illustrates how the UNFCCC and different climate funds have attempted to integrate gender considerations into their operations and strategies.

Figure 3.2. Gender policy development in major multilateral climate changes funds



Source: Schalatek (2022[37]), "Gender and climate finance", https://climatefundsupdate.org/wp-content/uploads/2022/03/CFF10-Gender-and-CF_ENG-2021.pdf.

The UNFCCC (2018[38]) has urged climate finance providers "to improve tracking and reporting on gender-related aspects of climate finance, impact measuring and mainstreaming". However, data gaps remain and UNFCCC finance reporting tables do not have a specific place to report gender-responsive climate finance (UNFCCC, 2022[39]; 2022[40]). Some countries voluntarily collect such data. Canada, for instance, has committed to integrate gender equality into 80% of its climate finance programming and to follow a rights-based, gender-responsive and intersectional approach; it also has developed a framework for project implementers to track gender equality outcomes (Government of Canada, 2022[41]). Gender also is part of reporting on ODA. Climate finance providers reported that gender was integrated into USD 18.9 billion of climate-related ODA in 2018-19 (OECD, 2022[42]). This suggests that Global North countries have structures in place to collect such data, though it is not clear if tracking these data is a priority. The overall data gaps make it difficult to identify trends, best practices and the effectiveness of climate finance within communities. Relatedly, Global North countries need to conduct intersectional gender analyses to determine the differing needs, interests and accessibility to finance mechanisms of vulnerable and often marginalised groups, as well as their societal power dynamics. These can help support a more equitable distribution of finance within communities and strengthen the Global North's understanding of the social and intersectional additionality of climate finance, for instance as a means to create more equitable societies (Castellanos et al., 2022[43]; Gender and Development Network, n.d.[44]).

A new global climate finance goal is an opportunity to commit to climate justice

The biggest opportunity to address current shortcomings on climate finance is the ongoing process to set a new global post-2025 climate finance goal by the end of 2024 (UNFCCC, 2022[40]). This is the first opportunity in over ten years to set a new goal that is commensurate with the rapid action needed. The process must produce agreement on a financing architecture for climate finance that limits indebtedness, improves monitoring and reporting, ensures new and additional climate finance, and sets a robust new global climate finance goal based on the needs of communities and countries in the Global South. Global North countries must also urgently achieve the current USD 100 billion annual goal: Doing so will help restore trust in the global climate finance process.

Additionally, reporting on the grant equivalence and gender-responsiveness of climate finance must become obligatory under the UNFCCC. Currently, UNFCCC reporting on these elements is voluntary (UNFCCC, 2022[40]). Knowing the grant equivalent of finance is crucial in that it enables a better understanding of the economic impact of the climate finance flow. Collecting such data should also help create greater comparability with other reporting structures such as those of the OECD, since it is mandatory to report against gender indicators and the grant equivalent for climate-related ODA. All these data should feed into regular reviews of existing and future climate finance goals to evaluate progress and ensure that goals can address evolving needs.

For their part, countries in the Global South should institutionalise engagement processes that include traditionally marginalised groups such as women, gender minorities, indigenous peoples, racialised and ethnic groups, climate-displaced migrants, and the disabled community. This is particularly important given that the Intergovernmental Panel on Climate Change (2022[5]) has found that effective responses to climate change impacts for one group could impose higher costs and negative consequences for other groups, in terms of shifts in exposure and vulnerability". Moreover, the attitudes, behaviours and power differences among stakeholders, coupled with specific narratives, have an impact on the extent to which priorities and agendas are prioritised (Shawoo et al., 2020[45]). Institutionalising engagement processes should help ensure that climate finance is able to address the needs of society as a whole and is not driven by the external interests of climate finance contributors.

Without these actions on the part of countries in both the Global North and the Global South, climate change, and indeed climate finance, will perpetuate uneven development and further entrench structural inequalities between and within countries.

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Notes

[1] Global North countries report the share of their ODA that is climate related to the OECD using the Rio Markers. These are policy markers used to monitor and report on how environmental objectives are mainstreamed into ODA flows. The Rio marker on climate change mitigation was introduced in 1998; the marker on climate change adaptation was introduced in 2010. There is no marker on climate change loss and damage.

[2] The Oanda smarter trading currency converter was used to convert Eastern Caribbean dollars to US dollars. See: https://www.oanda.com.

4 In my view: The untapped potential of innovative financing and humanitarian organisations

Jagan Chapagain, Secretary General, International Federation of Red Cross and Red Crescent Societies

The past several years have been unprecedented for the humanitarian sector. Worsening disasters and evolving crises across the globe have demonstrated that, despite our best efforts, the assumptions, approaches and structures that have long defined humanitarian responses are no longer capable of adequately meeting people's needs.

This comes as no surprise to members and observers of the humanitarian sector. Important and necessary discussions on questions of localisation and the decolonisation of aid reveal the extent to which transformation is necessary – not only for the future of the humanitarian system but also the future of our organisations and the future we strive to build for the individuals and communities we partner with.

At the International Federation of Red Cross and Red Crescent Societies (IFRC), local organisations lead our humanitarian action. The 192 National Red Cross and Red Crescent Societies that make up the IFRC network are embedded in their local communities and are intimately aware of the needs and how best to shape an appropriate humanitarian response. In this way, the IFRC network has a unique strength and capacity to directly channel resources from the international ecosystem to local and national organisations.

A recent analysis found that local and community actors deliver programming that is 32% more cost efficient than that of international intermediaries (Cabot Venton et al., 2022[1]). We know through the work of our IFRC network that localising humanitarian assistance promotes greater inclusion and equity, more trust, faster and more timely responses, more flexibility, broader access, and long-term sustainability in our operations and programming. By investing in local and national support systems, we are able to strengthen and reinforce national infrastructure – directly benefiting the people who need it most.

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Yet despite donor commitments in the Grand Bargain and significant progress made by some donors, the overall percentage of direct funding to local actors has barely moved beyond the low single digits. As the impacts of climate change accelerate, and as new and unexpected conflicts devastate entire populations, small or medium-sized crises and disasters struggle to attract visibility and funding, leaving those affected at risk of being neglected by the international community. At the IFRC, we are exploring innovative ways of covering the costs of our work to prevent this from happening.

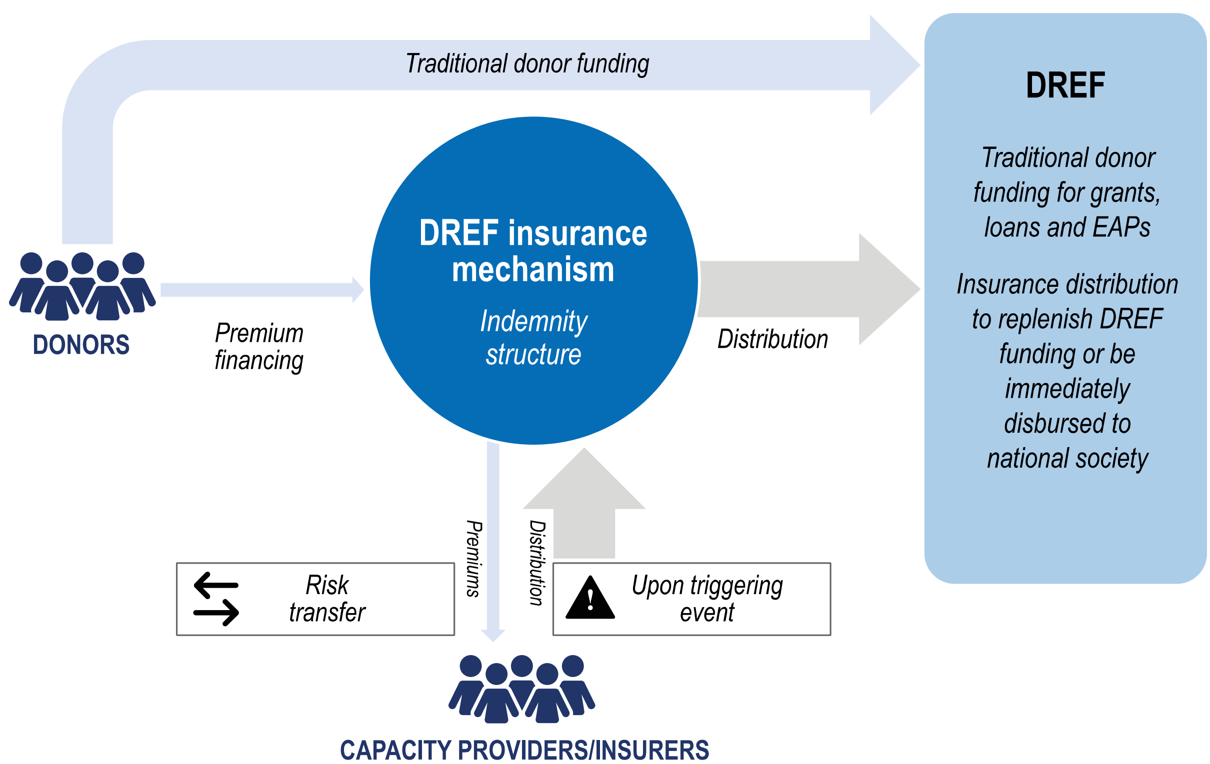
We've had to ask ourselves, how are we reacting to the challenge of doing better with less? How are we exploring innovative ideas around financing and engaging with new donors?

The blurring of lines between the humanitarian and the private sectors is an area of exciting growth that represents untapped potential when it comes to innovative financing. In a groundbreaking move, the IFRC is collaborating with Aon and the Centre for Disaster Protection to build an innovative insurance mechanism whereby commercial insurance markets leverage the contributions of traditional donors to expand the capacity of our Disaster Response Emergency Fund (DREF) to respond to natural disasters.

The DREF, established in 1985, is a central funding mechanism through which the IFRC releases funds rapidly to national societies for early action and immediate disaster response. The balance of funds required by the DREF to meet the demands of national societies has historically been funded through an annual appeal. However, in 2020, high requests for funds meant that DREF allocations surpassed available resources for the first time in history. The growing needs facing national societies around the world and the uncertainties of the future have therefore sparked a process of modernisation with the aim of making the DREF more flexible and more effective.

Through the insurance structure we are developing, donors would pay the premium instead of directly financing disaster responses through the DREF (Figure 4.1) This extends the value of their contributions and transfers the risk to the private sector if allocation requests exceed available resources. Reinsurance markets would relieve the risks of excessive natural hazards and would ensure funds are available for national societies to rely on even in periods of excessive or unexpected demand.

Figure 4.1. The Disaster Response Emergency Fund insurance mechanism



Notes: DREF: Disaster Response Emergency Fund; EAP: early action protocol.

Through this cutting-edge approach, we aim to increase annual DREF allocations to CHF 100 million (Swiss francs), equivalent to about USD 100 million, in 2025. As it is impossible to reach this target through donor grants alone, the insurance mechanism represents an enormous step forward that has the capacity to transform how the international humanitarian system responds to complex crises in the future.

Another way the IFRC has answered this call is through our cash and voucher assistance programming. Using cash reiterates our commitment to more agile and efficient methods of providing humanitarian support that promotes choice and preserves dignity for people and communities. This type of programming allows us to cut down operating costs by placing the people affected by crisis and disaster – and most importantly, their own preferences and decisions – at the centre of our operations.

Recently we developed a new Cash app, built on learnings from other emergency operations, that allows people fleeing Ukraine to self-register and be verified for assistance. This new innovative approach to cash, which has been rolled out in Romania, has allowed us to take our response to scale and at speed, in many instances as the leading agency in the delivery of cash in the Ukraine response. Over 56 000 people have been reached and assisted with EUR 17.4 million in Romania. The app has also been launched in Bulgaria, where in just four days, 20% of the known Ukrainians in the country were able to self-register.

Ultimately, by scaling up and replicating these ambitious and innovative programmes across our global network, the community-connectedness of organisations like the IFRC can be harnessed in a powerful way. The inescapable reality is that more funds will be urgently needed to confront the ever-increasing humanitarian emergencies of the world – yet financial innovation holds the key to sustainable, meaningful and impactful humanitarian work.

Reference

Cabot Venton, C. et al. (2022), *Passing the Buck: Economics of Localizing International Assistance*, The ShareTrust, https://static1.squarespace.com/static/5b2110247c93271263b5073a/t/63730c9f5000d05ac3ef5a27/1668484256347/Passing+the+Buck_Deck.pdf. [1]

5 In my view: Is the aid sector racist?

Sarah Champion MP, Chair, House of Commons' International Development Committee, United Kingdom

Is the aid sector racist? I had been reflecting on this question for a number of years. However, after the House of Commons' International Development Committee, which I chair, launched an inquiry into sexual abuse in the aid sector and we kept hearing that aid workers and recipients were also subjected to racial abuse, we felt a responsibility to act. In March 2021, we opened a new inquiry to understand the nature and prevalence of racism within the sector and to explore how the sector could be more inclusive.

The evidence we heard reaffirmed that the structure of the aid sector is beset by a fundamental power imbalance. Too often, decisions about funding and policy are taken in the offices of large, white-led organisations in the Global North though most aid programmes are delivered in low-income countries in the Global South. We heard that these power structures are remnants of colonialism; the same paternalistic ideas underpin the common portrayal of affected populations as being in need of "saving".

The prevalent idea that higher income countries are both best placed to assist people in lower income countries and less likely to mismanage financial resources can only be seen as grounded in racism, not fact. Local organisations are often branded "high risk" despite evidence suggesting that having international non-governmental organisations acting as intermediaries between donors and local organisations does not represent value for money. This approach denies local communities a voice in decisions that affect them, which has led to inappropriate funding decisions and forced dependency rather than sustainable empowerment.

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A clear example of this is the UK government's decision to decrease aid spending from 0.7% to 0.5% of gross national income. During our inquiry we heard how these cuts were taken with virtually no consultation with implementing partners or the affected communities. One witness told us that because of these cuts, programmes that provided contraception to local communities were forced to close, denying women the power to take decisions about their health and fertility, and with no apparent concern about the longer term consequences.

To address this imbalance, resources and decision-making power must be transferred to local communities. Decisions about aid spending cannot be isolated from the people who will be affected by them. That is not only a matter of principle. Programmes that are detached from the communities they serve are also less likely to be effective. In our Racism in the Aid Sector report[1] published in June 2022, the committee calls on the United Kingdom's Foreign, Commonwealth and Development Office to shift the balance of power by increasing the amount of funding that goes to locally led civil society organisations and to address the barriers to securing funding that these organisations face, such as the requirement that funding applications must be submitted in English.

Discrimination towards black, indigenous and people of colour (BIPOC) staff working in the aid sector is rife. A survey of aid workers that was submitted as evidence to our inquiry found that half of responders who identified as belonging to a racial or ethnic minority had experienced racism at work in the past year. The boards and senior leadership positions of non-governmental organisations are mostly white, with women of colour particularly underrepresented in senior roles, while most frontline delivery roles are held by BIPOC staff. The ethnicity pay gap – that is, the difference in pay between white and BIPOC staff – also remains a problem. In our report, we recommended that aid organisations with more than 50 employees should be required to publish data on their ethnicity pay gaps. Without clear and comprehensive data to illustrate the scale of the problem, we cannot begin to tackle it.

The evidence we heard suggests that some in the aid sector are not only unable but also unwilling to confront the reality of racism. We heard from the executive director of one non-governmental organisation based in East Africa who told us that her organisation had been "blacklisted" by donors after she had spoken out about her experiences of racism in the sector. There is no doubt that most aid workers have good intentions, but we can respect the excellent work they do while also acknowledging that racism persists in the culture and structure of the sector.

> Our inquiry has forced us to confront our perceptions of the sector and our own working practices, including the language that we use to describe the people who access aid.

Our inquiry has forced us to confront our perceptions of the sector and our own working practices, including the language that we use to describe the people who access aid. Practical steps towards welcoming a diversity of approaches, listening to affected communities and promoting local staff to leadership positions will help. But only by confronting the underlying uncomfortable truths can we take the first steps towards dismantling racist power structures.

Is the aid sector racist? I will let you make up your own mind.

Note

[1] The report is available here: https://committees.parliament.uk/publications/22698/documents/166821/default

6 In focus: Transitioning out of aid dependency in health

Olusoji Adeyi, Resilient Health Systems

Development assistance for health has contributed to impressive health gains over the years but has also perpetuated fragile health systems and dysfunctional institutions in developing countries. The architecture and incentives of development assistance for health have led many countries to underfund basic health services in their own budgets and become overly aid-dependent. Aid dependency can diminish country ownership over health policy priorities and service delivery. The COVID-19 pandemic has shown the perils of overdependence on external sources of finance and distant suppliers for critical health needs. Shifting aid to financing regional and global public goods rather than basic health budgets would generate greater added value, increase the accountability and ownership of health expenditures, and rebalance the power relationship between the Global South and Global North for the benefit of all.

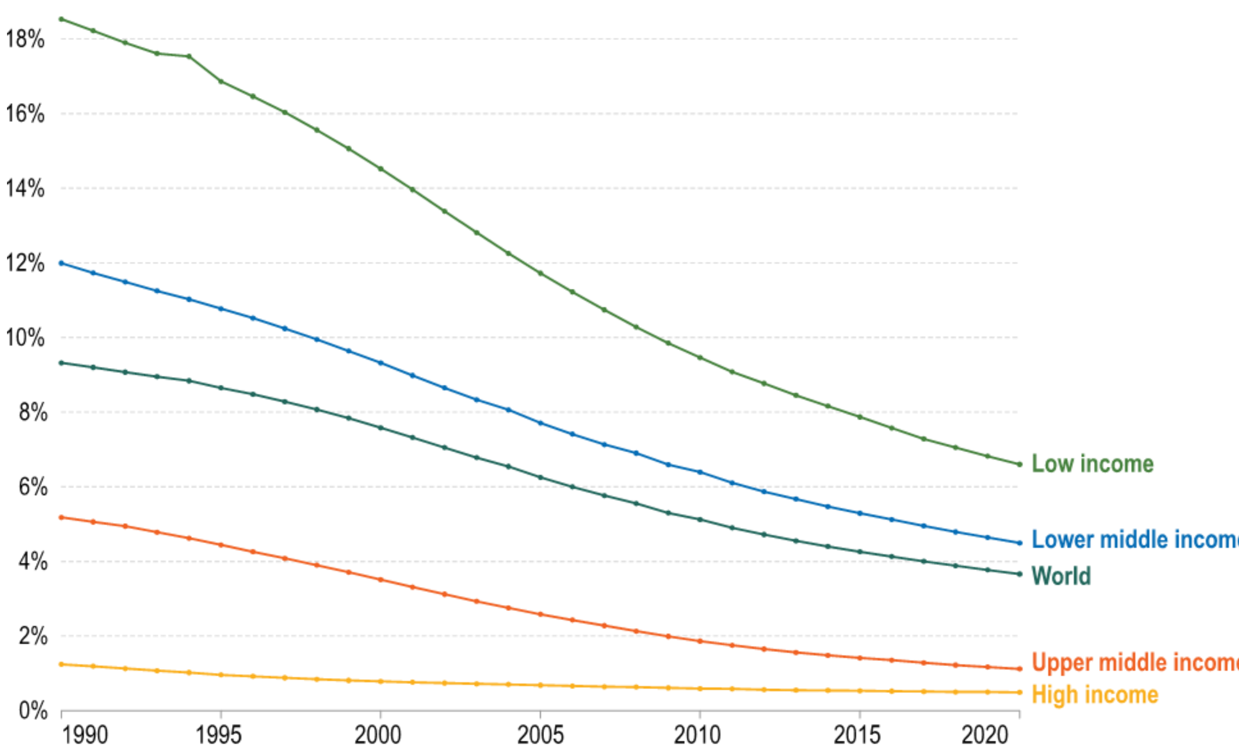
Key messages

- Since 2000, development assistance for health has accounted for a growing share of overall expenditure on health in low-income and lower middle-income countries. In the same period, government's share of expenditure on health in low-income countries fell.
- To achieve global health goals, development assistance for health should be transformed so that developing countries pay for basic health services from their own resources and development co-operation partners focus on boosting investment in regional and global public goods.

Aid helps some health outcomes but perpetuates inefficiencies and dependency

The ambitions of the global health agenda supported by development assistance for health (DAH) are lofty, including universal health coverage by 2030, achieving global health security and building human capital. At first glance, these seem rational considering recent progress. For example, several dimensions of aggregate health outcomes have improved since 1990, albeit with variations across and within regions and countries. There has been striking progress in reducing child mortality, with rapid declines and narrower gaps between high-income countries (HICs), low-income countries (LICs) and lower middle-income countries (LMICs) (Figure 6.1). To the extent that DAH partly financed technologies that contributed to this progress, it must be seen as a net positive, with results that should make both financiers and recipients proud.

Figure 6.1. Child mortality has declined across all country income levels, 1990-2020



Note: The child mortality rate measures the share of children who die before reaching the age of five.
Source: Ortiz-Ospina (2022[1]). *Global Health*, https://ourworldindata.org/health-meta.

The broader global health landscape, however, gives cause for concern: severe weaknesses in health systems; dysfunctions in multilateral and bilateral forums (Krishnan, 2022[2]); and inequities in access to life-saving diagnostics, vaccines and therapeutics. These overlapping challenges converged during the COVID-19 pandemic (Adeyi, 2022[3]; Nature, 2021[4]; Independent Panel for Pandemic Preparedness and Response, 2021[5]), which also highlighted how dependent many LICs remain on development co-operation to fund basic health services and commodities. The current approach to development finance for health in developing countries is in part responsible. The persistent dependency on development assistance for health, and countries' tendency to use it as a substitute for health commitments in their own budgets, point to the need for donors and recipient countries to adopt new relationships around health financing.

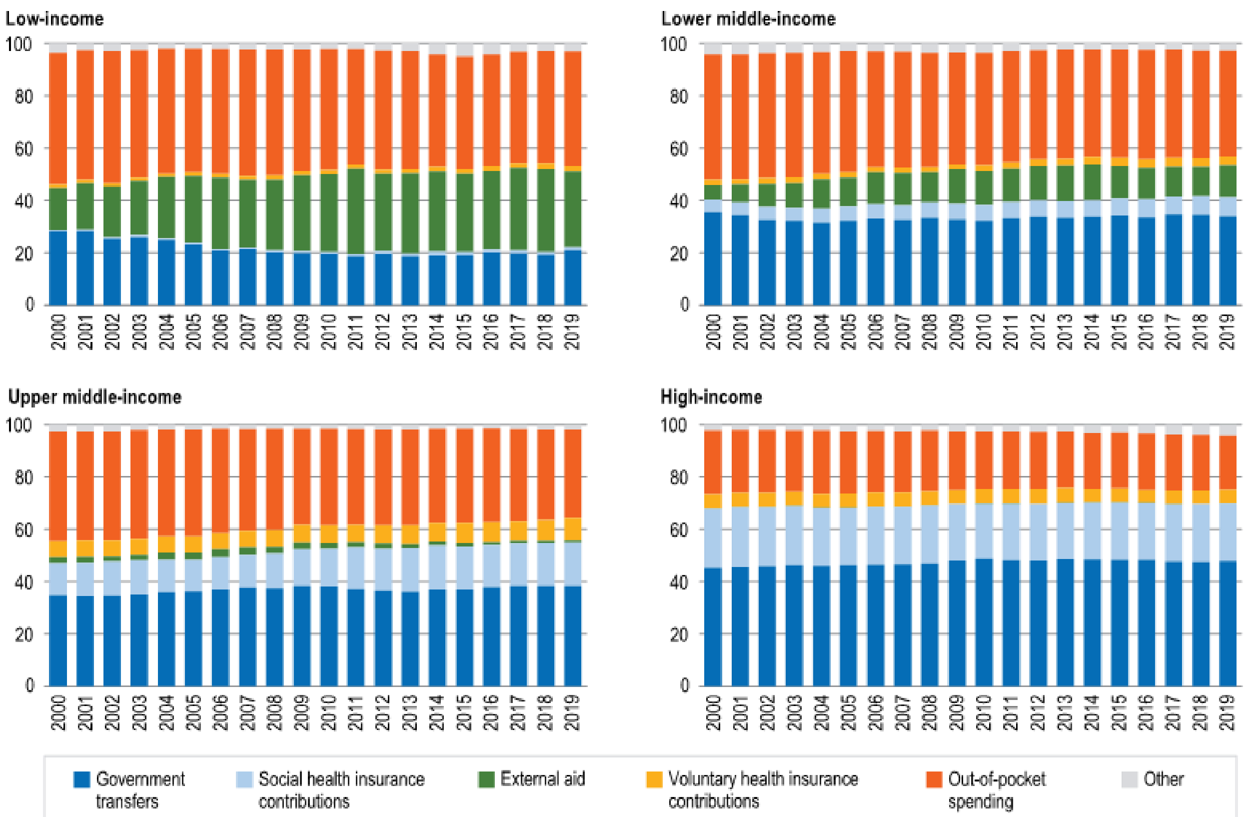
This is not a call to reduce or end this assistance but to repurpose it in ways that build developing countries' self-sufficiency and local accountability while boosting investment in global and regional public goods. This approach would mean that developing countries pay for basic health services from their own resources and according to their own priorities; that strategic decisions for the Global South are made by the Global South at regional or country level; that recipient countries are not bound to using aid dollars to purchase goods and services from donor country suppliers; and that the Global South develops its own network of institutions and expertise for health security, resilient health systems and locally sustainable financing. This transformation would also help achieve the global health goals of the 2030 Agenda for Sustainable Development.

1. Dependency on external finance leads low-income countries to deprioritise health in their own budgets

There is evidence that development assistance for health partially substitutes for domestic budgets that would have been allocated to health (Dieleman and Hanlon, 2013[6]; Farag et al., 2009[7]). Aid exceeds government health spending in many LICs. In 2019, external aid to developing countries for health rose to USD 17 billion (WHO, 2021[8]) and nearly three-quarters of health spending in LICs was financed by a combination of external aid and inherently regressive out-of-pocket spending. From 2000 to 2019, the share of external aid in total health spending rose from 16% to 29% while the share accounted for by government transfers declined from 28% to 21% (Figure 6.2) (WHO, 2021[8]).

Figure 6.2. Share of government spending declined as external aid increased in low-income countries (2000-19)

Funding source share (% of total health spending)



Notes: Other sources are compulsory prepayments to private insurance, domestic non-governmental organisation contributions and health services operated by enterprises for their employees. The Netherlands and Switzerland organise health financing mainly through compulsory insurance but with funding based on mandatory fixed premiums or a combination of payroll tax and fixed premiums. For these countries, all mandatory contributions are included in estimates of social health insurance contributions.
Source: WHO (2021[8]). *Global Expenditure on Health: Public Spending on the Rise?*, https://apps.who.int/iris/handle/10665/350560.

Sub-Saharan Africa is especially dependent on development assistance for health compared to other regions. For 2019, external health expenditure[1] was 22.3% of current health expenditures in the World Health Organization (WHO) Africa region, far surpassing the external health expenditure of 0.5% in Europe, 1.9% in the Americas, 3.2% in the eastern Mediterranean, 6.9% in Southeast Asia and 14.4% in the Western Pacific region (WHO, 2021[9]). Assistance for malaria control and elimination is an instructive example. Of the USD 3.3 billion invested globally in 2020, international financiers provided more than USD 2.2 billion, of which more than three-quarters (79%) went to the WHO Africa region. That this is the situation two decades after the Abuja Declaration, in which African leaders pledged to allocate more of their own budgets to health (Organisation of African Unity, 2001[10]), illustrates the dysfunctions and perverse incentives of development assistance for health; it undermines domestic government accountability for health.

Debt relief is not the panacea for low domestic spending on health

Debt servicing constrains the fiscal space for government health expenditures, but a range of other factors impacts on governments' ability or willingness to spend more. Uncritical advocacy for debt relief, especially by non-governmental organisations from the Global North (Oxfam, 2022[11]), perpetuates a charity-based narrative that ignores the intricacies of the international financial system and wrongly casts Global South governments as passive victims that lack agency to allocate more of their own resources to health (Adeyi, 2021[12]). Many countries that benefited from debt relief under the Heavily Indebted Poor Countries, or HIPC, Initiative (IMF, 2021[13]) or agreements with the Paris Club (2022[14]) have since accumulated high levels of debt and continued to be dependent on development assistance for health. While HICs have greater fiscal capacity and spend more on health per capita in general, there are large variations in health spending within each income group and prioritising health is largely a choice at each income level (WHO, 2021[8]).

The combination of DAH dependency and expectations of debt relief constitutes a moral hazard in that it encourages fiscal profligacy in LICs and LMICs and thus reinforces the power imbalances between the Global North and Global South. Multiple factors beyond debt burdens constrain government health spending in the Global South, among them the low tax-to-gross domestic product ratio in many countries that do a poor job of collecting domestic revenues; corruption, which diverts tax revenues from public investments and safety nets; allocative inefficiencies in the health sector; and weak public financial management.

More attention needs to be paid to factors such as these, and debt relief should be explicitly conditioned on a government stipulation to assume financing of basic health services and commodities by 2030. This would realign incentives in favour of more domestic resource mobilisation relative to gross national income, more government expenditure on health, efficient purchasing of health services within domestic resources and probity in public financial management.

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2. Power asymmetries in health financing undermine country ownership

Donors and recipient countries can do much better in terms of meeting their commitments to local ownership and enabling LICs and LMICs to rely more on their own resources to fund basic health services and commodities. Despite the pledges in the 2005 Paris Declaration on Aid Effectiveness and the related 2008 Accra Agenda for Action (OECD, 2008[15]), certain bilateral financiers perform poorly on the Quality of Official Development Assistance, a tool that measures and compares financiers on indicators most relevant to development effectiveness and quality (Mitchell, Calleja and Hughes, 2021[16]). In the specific matter of DAH, little has changed in the key asymmetries that have long undermined country ownership (Noor, 2022[17]). The development community continues to emphasise globally determined, aspirational ideals whose achievement requires large amounts of assistance for indefinite periods and to rely on global financing entities that purport to solve local problems. An example is the recent call by the Lancet Commission on lessons for the future from the COVID-19 pandemic for a new and bigger “Global Health Fund” to be headquartered in Geneva (Sachs et al., 2022[18]). The call is a distraction from the real issues. Not only would the envisioned new fund duplicate the functions of existing regional and global development banks, it would also risk perpetuating the damaging worldview that the destiny of health in LICs and LMICs must depend on decisions taken in Geneva by financiers from the Global North that are not accountable to those countries’ citizens.

Achieving global health ambitions requires forthright recognition and correction of the dependencies that development assistance for health creates and the ways in which it disincentivises country ownership and domestic accountability. This will not be easy due to the escalation of commitment bias, the legacy of power and institutional dynamics in global health, and the "reductive tendency", as defined by Gras et al. (2020[19]), in DAH. The colonial origins of these dynamics (Packard, 2016[20]; Adeyi, 2022[3]) have contributed to today's power imbalance in global health and DAH, whereby the terms of engagement are mediated through global institutions and financiers and decisions reflect their preferences rather than input from developing countries.

For politicians in donor countries, it is relatively easy to make the case for aid budgets to their taxpayers by focusing on the virtues of saving the lives of children and mothers in poorer countries, especially when such DAH is tied to goods and services sold by firms in donor countries. It is more difficult for them to make the case for financing the development of sustainable, accountable institutions in the Global South. The result is that donors continue financing what they rationally should not. There is a better approach to make development assistance for health work for donors and recipients.

Transitioning to more equitable and locally accountable health financing

While the challenges are daunting, there is a compelling case for transformative changes in development assistance for health. The solution lies in a deliberate transition from the current system to one that is fit for the 21st century. The purpose, architecture, incentives and power dynamics of DAH should evolve along four dimensions.

1. Shift aid from basic health services to global and regional public goods by 2030

Assistance should shift to addressing global and regional threats to health and where it has the greatest potential added value. Based on recent estimates for country-specific functions, this shift would mean repurposing up to 76% of current development assistance for health (Schäferhoff et al., 2019[21]). Ending DAH for basic health and inputs – including items such as those on the WHO List of Essential Medicines and Diagnostics as well as maternal health services, childhood vaccines, insecticide-treated bed nets for malaria and routine supply chain management – is an essential part of the transition. These inputs and services are elemental, necessary, cost-effective and routine, and the need for them is generally predictable. Financing these should thus be the primary responsibility of each individual country and not dependent on charity from outside.

The central focus of health-related development assistance should instead be on areas such as pandemic preparedness and disease outbreak detection and control systems; publicly funded research and development whose results are not constrained by the current regime of intellectual property rights at the World Trade Organization (Nature, 2021[4]); and institutions such as centres for disease control, institutes of public health, pharmaceutical regulation agencies, centres for health technology assessment, and referral laboratories. Financing of the Africa Centres for Disease Control and Prevention (by various parties including the World Bank, the Bill & Melinda Gates Foundation, and the Mastercard Foundation) is one example of such a high value-adding investment. Another is the investment by the International Finance Corporation (2022[22]) in Avacare Global to enable the company to expand its manufacturing and distribution of pharmaceutical and healthcare consumable products, including generic drugs, in Africa. A third example is the programme to improve preparedness capacities for public health emergencies in the Organisation of Eastern Caribbean States region.

This transition should be phased rather than abrupt and exclude extreme situations such as war and humanitarian disasters. The target deadline could be 2030 to align with the 2030 Agenda, which calls for universal health coverage by 2030 "including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all" (United Nations, 2015[23]).

This transition should be phased rather than abrupt and exclude extreme situations such as war and humanitarian disasters.

During the transition, bilateral financiers from HICs that currently procure and distribute medicines and equipment in LICs and LMICs should repurpose those funds to factory-gate subsidies, whereby the donor pays most of the commodity price to the manufacturer. The donor then steps back while the LICs and LMICs take responsibility for procuring those heavily subsidised products via their own public and private sector enterprises. The price reductions arising from the subsidy would increase the purchasing power of country budgets and shift the locus of accountability and control from foreign capitals of the Global North to governments in the Global South. This approach has been shown to work on a large scale (Tougher et al., 2012[24]).

2. Shift strategic decision making to regional- and country-level forums

Leaders of LICs and LMICs should lead and take ownership as the principal decision makers about their countries' health policies and programmes. National medium-term expenditure frameworks – not the preferences of international financiers, foundations and bilateral aid agencies – would then drive country budgets. This would help make leaders of LICs and LMICs accountable and responsible for the consequences of their actions and inactions. The premise of this shift is that economic development, including health, cannot happen without some variety of compact between the government and the governed and the recognition that it is impossible to develop someone else's country from the outside (Deaton, 2013, pp. 267-325[25]).

Shifting the locus of accountability to LIC and LMIC capitals means abandoning the cycles of lofty global declarations based on implicit but unrealistic promises and expectations of unlimited DAH for indefinite durations. Rather than utopian goals, countries would adopt challenging but more sensible goals and do the hard work to improve and finance basic health services using domestic resources. Crucially, it also means transitioning to a future in which politicians and policy makers in LICs and LMICs bear the electoral and social consequences if they do not make demonstrably serious efforts to improve health and health systems in their own countries.

Under this approach, global and regional entities such as WHO, the World Bank, regional development banks and regional centres for disease control could publish league tables of effort and achievement. There would be no need for any new entity at the global level, but existing multilateral institutions would reorient themselves to better serve countries and regions and enable the proposed transition. Country-level compacts would thrive without the distraction and fanfare of unrealistic goals set at the global level, putting an end to expectations that DAH must underpin the solution to every major problem in health, as illustrated by the Health4Life Fund, which remains unfunded (Ravelo, 2022[26]).

3. Stop conditioning aid on buying products and services from the donor country

Development assistance for health should no longer be tied to services and products from the donor country, and bilateral donors should no longer dictate which contractors from their countries should provide technical assistance to recipient countries. Tied DAH, which features asymmetry of information between financiers and beneficiaries, is subject to capture by entrenched contractors in the donor countries – what Norris (2012[27]) has termed a "development-industrial complex" – and fosters situations in which financiers repeatedly foist upon recipient countries forms of technical assistance that are irrelevant or harmful. A different approach is to put funds for technical assistance in time-bound drawdown facilities. Recipient countries would then take charge of the selection criteria and procurement of technical assistance, with the processes and results based on explicit criteria that are published in the public domain for transparency. This novel proposition is likely to generate opposition from long-entrenched providers of aid-financed technical assistance that would lose power and future contracts, including some contractors, universities and think tanks in the Global North. However, summoning the courage to manage these and related headwinds is necessary for the transition to succeed.

4. Strengthen health expertise and supply chains developed by and for the Global South

The countries and subregions of the Global South should invest in developing their own knowledge-based networks and combine these with increased self-financing. These networks would include institutions; industries (in partnerships with the private sector); deep expertise in science, technology and biomedicine; and supply chains for increased self-sufficiency in essential medical supplies. The COVID-19 pandemic has shown all countries, particularly LICs and LMICs, the perils of being overly dependent on external financiers and distant suppliers for mission-critical technologies.

The proposed transition offers a clear and specific path from the present to a much better future. It would position the LICs and LMICs, rather than the HICs and financing institutions, as the principals in planning, financing and addressing their own health challenges. The transition will not be easy: It requires letting go of the status quo, which is familiar and comfortable but dysfunctional. The new approach would set the world on a path to more durable progress in global health and eliminate dependency in the relationship between the Global North and the Global South. A brighter future is possible if all rise to the challenge.

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Note

[1] WHO defines external health expenditure as the external sources spent on health as a percentage of total current health expenditures.

7 In my view: Are feminist foreign policies translating to real action?

Theo Sowa, Independent Advisor on Gender, Equity and Resource Justice (formerly CEO, African Women's Development Fund)

In 2014, Margot Wallström, then the Swedish Minister of Foreign Affairs, announced the world's first feminist foreign policy (FFP). It took another three years before another country, in this case Canada, announced its Feminist International Assistance Policy. In 2022, a total of 13 high-, medium- or low-income countries have launched or are developing FFPs.[1]

Wallström later said that the initial response to her announcement tended to be "giggles" (Silverman, 2016[1]). In the eight years since that groundbreaking policy announcement, the giggles may have died down significantly, but many of the questions – and a certain level of scepticism – remain. Just what is feminist foreign policy? How does it differ? Is it what could be called "pinkwashing" in the face of ongoing gender inequality? Just recently, Sweden implied it would step back from its feminist foreign policy, raising a further question of how durable such policies are.

Different states have produced varying definitions (and priorities) for feminist foreign policy. After studying many of these and consulting with a number of feminists working in foreign policy and development spaces, the International Center for Research on Women settled on the following:

> *Feminist foreign policy is the policy of a state that defines its interactions with other states, as well as movements and other non-state actors, in a manner that prioritizes peace, gender equality and environmental integrity; enshrines, promotes, and protects the human rights of all; seeks to disrupt colonial, racist, patriarchal and male-dominated power structures; and allocates significant resources, including research, to achieve that vision. Feminist foreign policy is coherent in its approach across all of its levers of influence, anchored by the exercise of those values at home and co-created with feminist activists, groups and movements, at home and abroad. (Thompson, Ahmed and Khokhar, 2021[2])*

This definition provides one answer to the questions of what feminist foreign policy is and how it differs from other foreign policies. But is it pinkwashing? In my view, that depends on how the policy is structured and how consistently it is implemented. In many ways, the trend reflects a wider recognition that gender equality, women's rights and gender justice are important elements of domestic, foreign and development policies and practice. Yet, beyond the rhetoric, there continues to be a gap between words and actions. While several OECD countries have adopted such policies, the share of official development assistance (ODA) funds principally earmarked for gender equality in 2020 remains at only 5%.[2]

In my opinion, feminist foreign policy becomes pinkwashing if it remains focused merely on promoting activities that include women and girls rather than on adopting feminist analysis and approaches that counter various and intersectional discriminations including, but not limited to, gender, racial, disability, economic and political injustices.

It is pinkwashing if resources continue to underfund initiatives designed to promote and advance equalities and justice. It is pinkwashing if the policy doesn't target shifting unequal power relations consistently throughout the principles, practices and implementation of all aspects of its foreign policy – including analysis of and action on its own internal gender balances and decision-making processes and actors. It is pinkwashing if a state with a feminist foreign policy funds gender equality and at the same time supports exploitative trade activities that undermine the rights of populations and embed injustice.

Feminist foreign policy becomes pinkwashing if it remains focused merely on promoting activities that include women and girls rather than on adopting feminist analysis and approaches that counter various and intersectional discriminations including, but not limited to, gender, racial, disability, economic and political injustices.

Let me be clear. These are not risks that are inherent only to inadequate feminist foreign policies: They are risks where rhetoric takes precedence over action, and we've seen that in many areas of domestic and international policies pursued by various actors.

However, I believe that the growing group of nations adopting feminist foreign policy are undertaking exciting journeys towards change. When the scope of the policy covers diplomacy, development assistance and trade, among other areas, and consistently integrates feminist perspectives and approaches across the full spectrum of work, the potential for comprehensive promotion of equality and consistent dismantling of systems of discrimination is enormous. For example, the proportion of Canada's bilateral allocable ODA with gender equality as a principal objective rose from 2.7% in 2015-16 to 21% in 2019-20 (OECD, 2022[3]). A soon-to-be-published assessment of the impact of Canada's Feminist International Assistance Policy shows a similar trend.[3] Moreover, the share of ODA spending classified as having no gender component decreased from 40% of bilateral allocable ODA in 2013-14 to 12% in 2019-20.

At the same time, Canada's ODA going to women's rights organisations (WROs) increased from 0% of their bilateral allocable ODA in 2015-16 to 3.1% in 2017-18 and 7.1% in 2019-2020. Such support for local women's rights organisations has proven particularly important to disrupt unequal power relations and social norms and move towards sustainable change and gender equality. However, while Canada demonstrates that its policy can dramatically increase funding to women's rights organisations, the fact that Canada is a world leader with just this 7.1% share of its ODA is a cause for major concern about the inequalities both in ODA spends and in the focus and targeting of those spends. More feminist foreign policies need to result in greater support overall for local WROs.

Over the 2019-20 period, 45% of overall bilateral ODA flows had a gender equality as a principal or significant objective among OECD-DAC members as a whole (OECD, 2022[4]). Three of the top six countries with the highest percentage of ODA focused on gender equality also have or are currently developing an FFP. And yet, gender equality remains a principle focus of a relatively small portion of ODA: In 2020, 55% of ODA flows still do not focus on gender equality and only 5% have gender as a principal objective.

A formal policy may not be needed to bring feminist analysis, approaches and processes to a country's foreign policy. Strong feminist principles have run through the work of the Dutch Ministry of Foreign Affairs for many years. Its willingness and ability to listen to feminist activists, acknowledge missteps and plan with rather than impose from the outside has led to initiatives such as the Voice programme[4], SDG5 Fund and the Leading from the South partnership. Yet the Netherlands is only now developing a formal FFP,[5] which could be a helpful step towards developing more consistent approaches to dismantling inequality across the full (and much broader) spectrum of its foreign policy work.

Mexico, the first Global South nation to announce a feminist foreign policy, is an example of how the impact extends far beyond ODA and funding. Mexico has focused on using its policy to leverage advocacy and international partnerships to combat intersectional injustices, including at the recent United Nations Climate Change Conference, or COP27.

All the countries that have announced feminist foreign policies have a way to go to truly integrate feminist approaches across all elements of their work, including applying those approaches and principles in decision making in their own institutions and implementing a more pronounced and consistent shifting of power in their internal and external processes and relationships. Yet, in my view, it is far better to have a way to go on a journey that has at least started than to not take on the challenges of change or not start those journeys at all. There are lessons to be learnt from each other, encouragement to be had, and impact to be multiplied in the strengthening and growing of feminist foreign policies. As Lyric Thompson, chief executive officer of the Feminist Foreign Policy Collaborative, eloquently stated in a recent email to me:

> *We are at the proof point for feminist foreign policies. Amidst conflict and pandemic, impending climate catastrophe and record inequality, a growing number of countries, from Luxembourg to Liberia, are choosing a framework that reconceptualises global goods as in the national interest. OECD countries are increasing funding ambition of gender equality and designing new models for principles-based multilateralism, seeking to disrupt racist, patriarchal and colonial norms by centring people, peace and planet in their foreign policy goals. It gives reason to hope for a better future.*[6]

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Notes

[1] Sweden's foreign minister announced in October 2022 that the country will no longer label its foreign policy as feminist. Twelve other countries still have or are developing FFPs: Canada, Chile, Colombia, France, Germany, Liberia, Libya, Luxembourg, Mexico, the Netherlands, Scotland and Spain.

[2] The OECD released the most recent (2021) data on ODA for gender equality and women's empowerment at the end of January 2023, just as this report was going to print. Headline data show worrying drops in total bilateral aid with gender equality as a principal objective and in the amount of funding directly to women's rights organisations. It will be crucial to analyse and track this latest data against broader ODA trends and, specifically, the promises made by countries with feminist foreign policies.

[3] Draft assessment report, *Canadian Gender Equality Investments: A Quantitative Assessment of Canadian ODA*, scheduled for publication in 2022 by the Equality Fund and University of Newfoundland and Labrador.

[4] For further details, see: https://voice.global/first-global-call-for-proposals

[5] For further details, see: https://www.government.nl/latest/news/2022/11/18/feminist-foreign-policy-netherlands

[6] Lyric Thompson, in email to the author on 17 November 2022.

Part II Relevance in a complex system

8 Maximising official development assistance

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Harsh Desai, Development Co-operation Directorate, OECD

Official development assistance has existed as a concept and practice for over 60 years. For just as long, there has been debate over its purpose, efficiency, effectiveness and impact – questions more relevant today than ever before. Due to domestic circumstances, development co-operation providers face rising budget pressure. At the same time, partner countries' demands are increasing and evolving. Over the decades, the development co-operation community has built up a set of formal commitments and good practices that, if systematically implemented, could lay the groundwork for maximising official development assistance in the current constrained environment. This chapter draws on evidence from the last decade of DAC peer reviews, statistics and relevant scholarship to provide evidence on the current state of play and barriers to progress on fulfilling key commitments and implementing good practices.

The authors would like to acknowledge and thank the following people for their support in preparing this chapter. Strategic direction was provided by Yasmin Ahmad, Renwick Irvine, Rahul Malhotra, Ida Mc Donnell and Rachel Scott; feedback and input were provided by Aussama Bejraoui, Joelline Benefice, Elena Bernaldo, Emily Bosch, Olivier Bouret, Rebecca Engebretsen, Katharina Gugerell, Anita King, Gaia Manselli, Kristina Mazurenko, Andrea Pace, Santhosh Persaud, Maayan Sacher, Julia Schnatz and Jonas Wilcks.

Key messages

- Official commitments and agreed good practices are powerful affirmations of Development Assistance Committee (DAC) members' intentions and values. Fully implementing them would overcome many of the challenges development co-operation providers face today in a context of constrained budgets and increasing, evolving and context-specific demands from partner countries.
- The quantity, stability and relative value of official development assistance (ODA) are shaped by the broader financing landscape in both provider and recipient countries and by domestic budgeting priorities surrounding ODA budgeting decisions. Delivering on financing commitments will be particularly important in light of pressures to finance expenditure on global public goods and respond to crises.
- Increased focus on commitments and practices related to the collective impact of DAC members' ODA would decrease transaction costs for partner countries, enhance economies of scale, better focus ODA budgets on addressing need, and help balance humanitarian interventions and long-term development impact.
- Providing tailored, high-quality ODA requires consideration of finance types, modalities and channels. The COVID-19 crisis triggered significant changes in concessional lending and budget support, reigniting debates about the merits and drawbacks of different approaches. The fragmentation and proliferation of low-value projects increase complexity and management challenges for developing countries. Declining support to country systems is undermining the potential for co-ordination and alignment.

Official development assistance budgets are increasingly being stretched to respond to unexpected shocks and meet new financing commitments. While relatively stable, ODA levels in the last 20 years have been stagnant. In ODA provider countries, domestic economic circumstances have tightened the fiscal and monetary environments. In this context, maximising the efficiency and effectiveness of ODA is top of mind for DAC members.

Over the course of many decades, DAC members and other actors have coalesced around a suite of commitments and good practices that aim to deliver value for money by targeting the resources available and enhancing the performance of the development co-operation system. This suite of commitments and practices regarding aid quantity and quality does not represent the full range of actions that could be taken to close the gap between ODA supply and demand. However, using the toolkit that the community has built together would lay important groundwork for maximising ODA.

Using the toolkit that the community has built together would lay important groundwork for maximising ODA.

This chapter analyses a subset of these commitments and good practices that DAC members have identified as being the most challenging to systematically implement. The methodology used to identify challenges is presented in Annex 8.A and Annex 8.B provides a full list of challenging commitments and practices as identified by DAC members. The analysis draws on an evidence base made up of DAC peer reviews conducted over the last ten years, DAC statistics and other datasets, and relevant scholarship. The first section presents a snapshot of key trends in these commitments and good practices. Three groupings of commitments and practices are then discussed. The first relates to delivering on financing commitments to grow the overall budget envelope for ODA. The second focuses on commitments to improve the collective impact of development spending. The final group concerns commitments and practices on providing high-quality ODA. Beyond the quantity, allocation and quality of ODA itself, the final section discusses the importance of creating a strong enabling environment by taking policy coherence efforts to the next level. Overall, the analysis illustrates where efforts could be focused to speed up progress.

Snapshot of DAC members' performance against ambitions in the 2010s

Table 8.1 compares average DAC member performance on ODA targets and good practices, including where ODA is spent, in what form, for what purposes and with what focus for two three-year periods – 2010-12 and 2019-21. These trends are discussed throughout the chapter and could be re-examined in the future as a template for tracking progress on maximising ODA.

In some areas, there was little change: ODA as a share of gross national income (GNI), for example, has remained at 0.3% (on a net flow basis) and the proportions of country allocable ODA by country income grouping varied only slightly over the period. Least developed countries (LDCs) and fragile contexts received the top two highest proportions of country allocable ODA at both the beginning and the end of the period.[1]

Changes of note from 2010-12 to 2019-21 include a decrease in country programmable aid (CPA), which declined from 54.3% to 47.5%; an increase in humanitarian and food aid from 10.0% to 15.2%; and a doubling of in-donor refugee costs from 4.0% to 8.0% of bilateral ODA. ODA to and through the multilateral system also rose, to 43.4% from 38.0%. The share of bilateral allocable aid with a gender focus rose (45.1% compared to 29.8% at the beginning of the period), as did the proportion of ODA with a climate and environment focus, from 29.3% to 35.9%.

Table 8.1. Snapshot of trends on official development assistance commitments and practices

Comparison of data for all DAC members, 2010-2012 and 2019-2021

ITEM	DAC PERFORMANCE (2010-12 AVERAGE)	DAC PERFORMANCE (2019-21 AVERAGE)
PERFORMANCE AGAINST COMMITMENTS		
ODA as a share of GNI (target: 0.7%)	0.30% (ODA net flow basis)	0.32%
ODA to LDCs as a share of GNI (target: 0.15-0.20%)	0.10%	0.09%
Share of untied ODA (target: 100%)	86.1%	88.4%
GOOD PRACTICE: COUNTRY GROUPINGS (% COUNTRY ALLOCABLE ODA)		
Total ODA by income group	LDCs: 47.5% OLICs: 1.0% LMICs: 35.2% UMICs: 16.3%	LDCs: 46.2% OLICs: 0.9% LMICs: 36.5% UMICs: 16.4%
Total ODA to countries and territories in need	Fragile: 62.9% SIDS: 5.8% LLDCs: 27.0%	Fragile: 60.9% SIDS: 4.3% LLDCs: 25.3%
GOOD PRACTICE: TYPES OF EXPENDITURE (% BILATERAL ODA)		
Country programmable aid	54.3%	47.5%
Humanitarian and food aid	10.0%	15.2%
In-donor refugee costs	4.0%	8.0%
Administrative costs	6.2%	6.8%
Budget support	3.6%	4.6%
GOOD PRACTICE: CHANNELS		
ODA to and through developing country CSOs (% bilateral ODA)	1.0%	1.2%
ODA to and through the multilateral system (%, core, earmarked)	38.0%	43.4%
GOOD PRACTICE: SECTOR OR CROSS-CUTTING FOCUS		
Peace focus (% bilateral ODA)	12.2%	10.4%
Gender focus (% bilateral allocable ODA)	29.8%	45.1%*
Climate and environment focus (% bilateral allocable ODA)	29.3%	35.9%*
Amounts mobilised from the private sector (% bilateral ODA)	N/A	11.8%*

Note: Annex 8.A presents a detailed explanation of the methodology for the calculations. Abbreviations used: DAC: Development Assistance Committee; ODA: official development assistance; GNI: gross national income; LDC: least developed country; OLIC: other low-income country; LMIC: lower middle-income country; UMIC: upper middle-income country; SIDS: small island developing state; LLDC: landlocked developing country; CSO: civil society organisation.
Source: OECD (2022[1]), "Creditor Reporting System: Aid activities", OECD International Development Statistics (database), https://doi.org/10.1787/data-00061-en; OECD (2023[2]), "Detailed aid statistics: Official and private flows", OECD International Development Statistics (database), https://doi.org/10.1787/data-00072-en.

Delivering on financing commitments

The wider financing landscape influences the quantity, stability and relative value of ODA and impacts on DAC countries' ability to deliver on financing commitments. The value of ODA delivered at its destination is also mediated by domestic and global factors such as country debt level and currency fluctuations, both of which have been particularly acute in recent years. The confluence of several of these factors at present is constraining supply and undermining the value of ODA. There are also a number of pre-existing practical and conceptual challenges to the foundation of financing targets as well as questions regarding whether they are the most effective way to ensure that low- and middle-income countries receive support aligned with their needs and priorities, which help to explain slow progress.

Global and domestic pressures impact the value of ODA and developing countries' resources

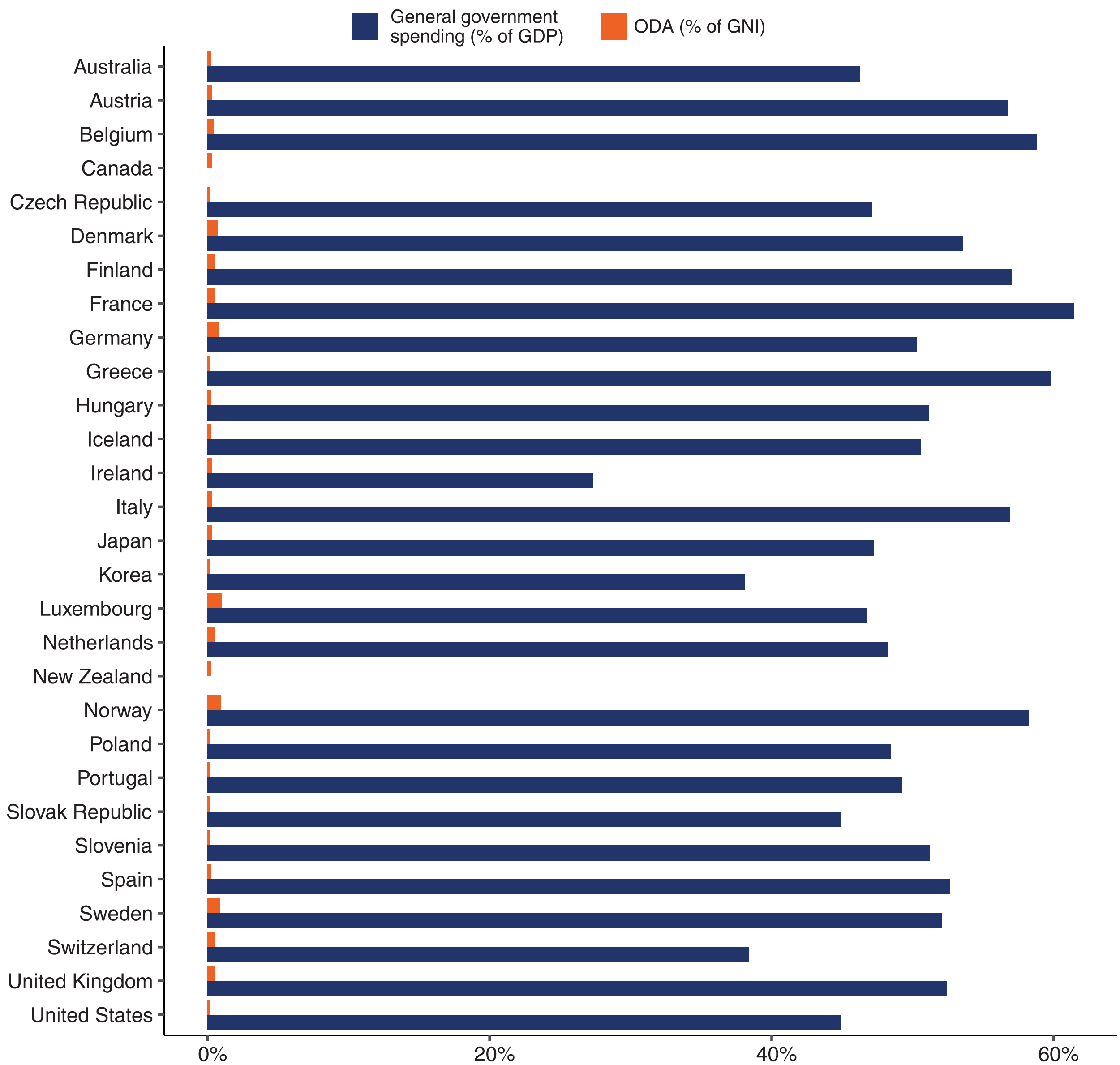
Given that ODA is a flow, most often country to country, from development co-operation providers to recipients, circumstances at its origin and its destination as well as wider global trends have an impact on its levels and relative value.

ODA is a small government expenditure item but could be affected by a gloomy economic outlook

At its origin, ODA represents a very small portion of DAC members' government spending. On average, general government spending among DAC members in 2020/21 ranged from 27% to 61% of GDP, while ODA accounted for just 0.33% of combined GNI in 2021 (Figure 8.1).

Figure 8.1. Official development assistance is a small expenditure item within general government spending

General government spending (% of GDP), 2010-21 (latest year available) and ODA (% of GNI) in DAC countries, 2021



Notes: General government spending data were not available for Canada or New Zealand. To align with the source data, official development assistance data are shown as a percentage of gross national income (GNI) and general government spending data as a percentage of gross domestic product (GDP). Data on general government spending are shown for the latest available year, which is 2020 for all countries except for the United States (2021).

Sources: OECD (2022[3]), "General government spending" (indicator), https://doi.org/10.1787/a31cbf4d-en; OECD (2023[2]), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00072-en.

StatLink https://stat.link/ip21nu

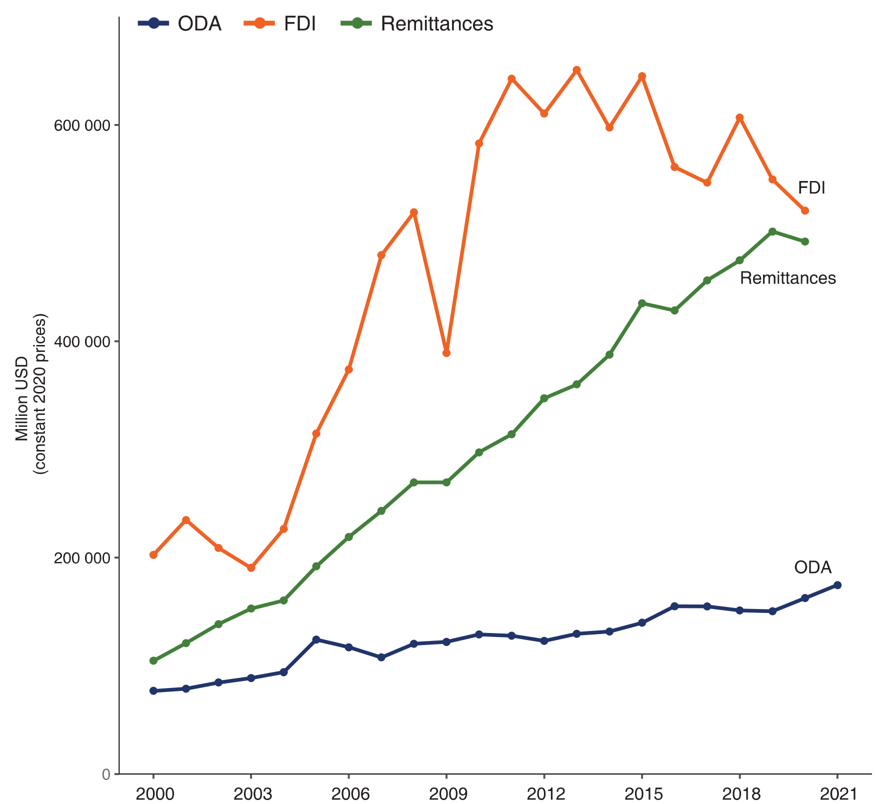
While ODA accounts for relatively low proportions of government budgets, slowing economic growth and rising inflation across OECD countries could dampen overall government spending. A number of DAC members have already announced ODA budget cuts (OECD, 2022[4]).

For developing countries, the role ODA plays depends on other external flows, domestic resources and levels of debt

At its destination, ODA is one of three major sources of external financing for developing countries, alongside remittances and foreign direct investment (FDI). While ODA represents the smallest share of the three, it has been the most stable resource over the last two decades, even increasing from 2020 to 2021 when the COVID-19 crisis caused other resource flows to decline (Figure 8.2). FDI in developing countries is expected to have declined further in 2022 by an estimate 23% from 2021 levels (OECD, 2022[5]).

Figure 8.2. Official development assistance remains a stable and predictable resource for developing countries and territories

Official development assistance, foreign direct investment, and remittances for all developing countries and territories, 2000-21



Notes: FDI: foreign direct investment; ODA: official development assistance. Flows on remittances and FDI have been deflated using the total DAC deflator from OECD (2023[2]) to enable comparison over time. Data on remittances and FDI are only available for 134 of the 142 ODA-eligible countries and territories; estimates for 2021 are not available at the time of writing. ODA data are shown in net disbursements to enable comparison over time from 2000 to 2021.

Sources: OECD (2023[2]) , "Detailed aid statistics: Official and private flows", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00072-en; World Bank (2022[6]), "Personal remittances, received (current US$)", https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT; World Bank (2022[7]), "Foreign direct investment, net inflows (BoP, current US$)", https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD.

StatLink https://stat.link/t96gke

In addition to external resources, developing countries have their own domestic resources to call upon to finance sustainable development spending. The accepted global benchmark for a government's ability to fund basic services is a tax-to-GDP ratio of 15% (Junquera-Varela and Haven, 2018[8]), which many countries in developing regions do not meet (Table 8.2). The varied composition of government revenue across regions and countries means that ODA as a government expenditure differs in importance relative to other revenue sources. That difference between countries can be substantial. For instance, non-tax revenue as a proportion of GDP ranges from 1.2% to 218.7% across Asia and the Pacific, and across Africa, grants as a proportion of non-tax revenue differ widely, ranging from less than 1% up to nearly 90% in different countries.

Table 8.2. Composition of government revenue varies significantly across regions and countries

	Tax revenue % of GDP (average and range)	*Of which are taxes on goods and services*	Non-tax revenue % of GDP	*Of which are grants (average and range)*
Africa	16.6% (6-34.3%)	51.9%	6.3%	28.9% (0.1-89.6%)
Latin America and the Caribbean	21.9% (12.4-37.5%)	48.4%		
Asia and the Pacific	19.1% (8.9-47.5%)	50.6%	1.2-218.7%	0-65.4%
OECD	33.8% (17.93-46.54%)	32.6%		

Notes: Data for each region are for either 2019 or 2020, depending on which is the most recent year available. Grants has a narrower definition than official development assistance and does not include the value of concessional loans. Blanks indicate no available data.
Sources: OECD/AUC/ATAF (2021[9]), *Revenue Statistics in Africa 2021*, https://doi.org/10.1787/c511aa1e-en-fr; OECD et al. (2022[10]), *Revenue Statistics in Latin America and the Caribbean 2022*, https://doi.org/10.1787/58a2dc35-en-es; OECD (2022[11]), *Revenue Statistics in Asia and the Pacific 2022: Strengthening Tax Revenues in Developing Asia*, https://doi.org/10.1787/db29f89a-en.

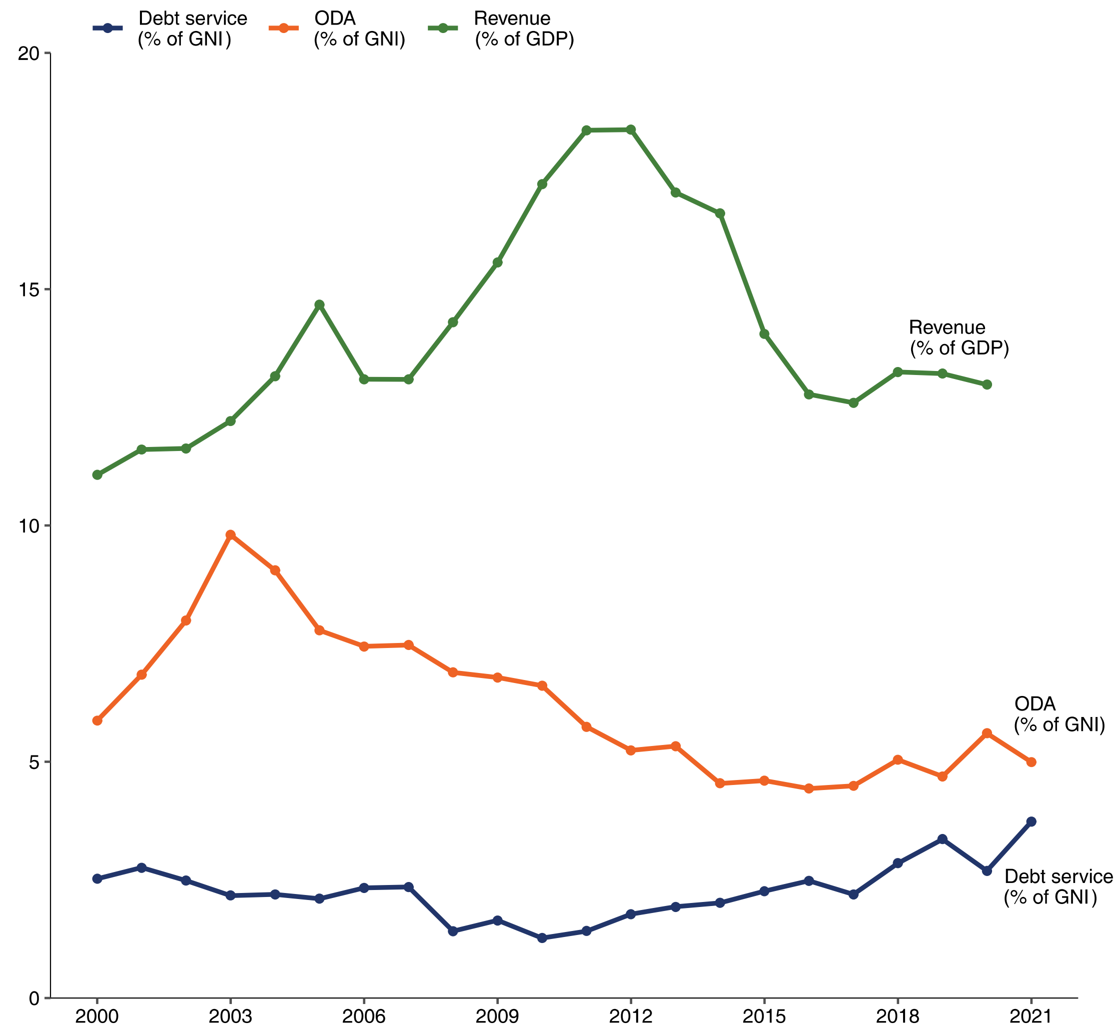
The share of ODA in overall government expenditure also varies greatly. Net ODA received accounted for over 10% of central government expenditure in 53 countries and, in 4 of these, over 100% of central government expenditure in the most recent year for which data are available for each country (World Bank, 2022[12]). This degree of dependence on ODA can leave countries vulnerable to fluctuations in ODA. Thirteen African countries experienced a one-year drop in grant revenues equivalent to at least 1% of GDP between 2010 and 2020 (OECD/ATAF/AUC, 2022[13]).

Net ODA received accounted for over 10% of central government expenditure in 53 countries and, in 4 of these, over 100% of central government expenditure.

Debt is another factor affecting ODA at its destination. At the end of 2021, the external debt of low- and middle-income countries totalled USD 9 trillion and about 60% of the poorest countries were already at a high risk of debt distress or already in distress (World Bank, 2022[14]). Debt servicing as a proportion of GNI in the LDCs began to rise in 2010 as government revenue and ODA fell (Figure 8.3).

Figure 8.3. Debt service has been increasing while government revenue and official development assistance have been declining in least developed countries

Debt service (% of GNI), ODA (% of GNI) and government revenue (% of GDP), least developed countries, 2000-21



Notes: GNI: gross national income; ODA: official development assistance; GDP: gross domestic product. Debt service and ODA are shown as a percentage of GNI. Revenue (excluding grants and social contributions) is shown as a percentage of GDP to align with the source data. All averages are weighted by GNI (in the case of debt service and ODA) or GDP (in the case of revenue). There is not sufficient data available to calculate revenue (% of GDP) for 2021.

Sources: OECD (2023[2]), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00072-en; World Bank (2022[15]), "Total debt service (% of GNI)", https://data.worldbank.org/indicator/DT.TDS.DECT.GN.ZS.

StatLink https://stat.link/pv7ns1

Illicit financial flows undermine all sources of finance. It is estimated that Africa loses in excess of USD 50 billion annually to these flows (African Union, 2021[16]) and the problem is growing (UNCTAD, 2021[17]). Illicit financial flows are a relational phenomenon requiring action not only where they originate but also in countries they transit through and at their destination, which often are OECD countries.

Ripple effects of the strong US dollar on aid and developing countries' costs

The strong US dollar, which was at its highest level since 2000 in October 2022, is partly responsible for driving up the cost of debt repayments amid the general weakening of most other currencies around the world (Gopinath and Gourinchas, 2022[18]). For developing countries, which often borrow in US dollars, paying down debt in dollars when the exchange rate is so unfavourable becomes more expensive in local currency (Estevão, 2022[19]). Even for countries that hold debt issued by the People's Republic of China (hereafter "China"), repayments are largely made in US dollars, and loans are often at adjustable rates that drive up repayments as rates rise (Bradsher, 2022[20]). Some innovations by DAC members, including increasing access to local currency financing, are helping to counter this risk (KfW, 2020[21]).

The strong dollar is also contributing to global inflation, and ODA would need to rise by about an additional USD 13 billion in 2022 to compensate. Even for countries with low levels of US dollar debt, the same basket of goods costs more in local currency in late 2022 than at the same time in 2021 because the dollar dominates so much of international trade (Rennison and Simonetti, 2022[22]).

The strong dollar is also driving global inflation, and ODA would need to rise by about an additional USD 13 billion in 2022 to compensate.

Currency fluctuations also impact the value of ODA. India offers an illustration of how significant the changes can be. The largest recipient of DAC bilateral net ODA in 2021, India received aid from multiple providers, the largest being Japan (68.5% of the total received by India in 2021), Germany (20.4%), the United States (3.8%) and the United Kingdom (3.6%). As shown in Table 8.3, exchange rates changed substantially over the course of the first nine months of 2022, with potentially significant effects for India.

Table 8.3. Spot rate comparison for currencies of major official development assistance providers to India

Date	US dollar	Indian rupee	Japanese yen	Euro	UK pound
4 January 2022	1	74.5717	115.42	1.1279	1.34955
19 October 2022	1	82.3735	149.18	0.9778	1.1256

Source: IMF (2022[23]), *IMF Exchange Rates (database)*, https://www.imf.org/external/np/fin/ert/GUI/Pages/CountryDataBase.aspx.

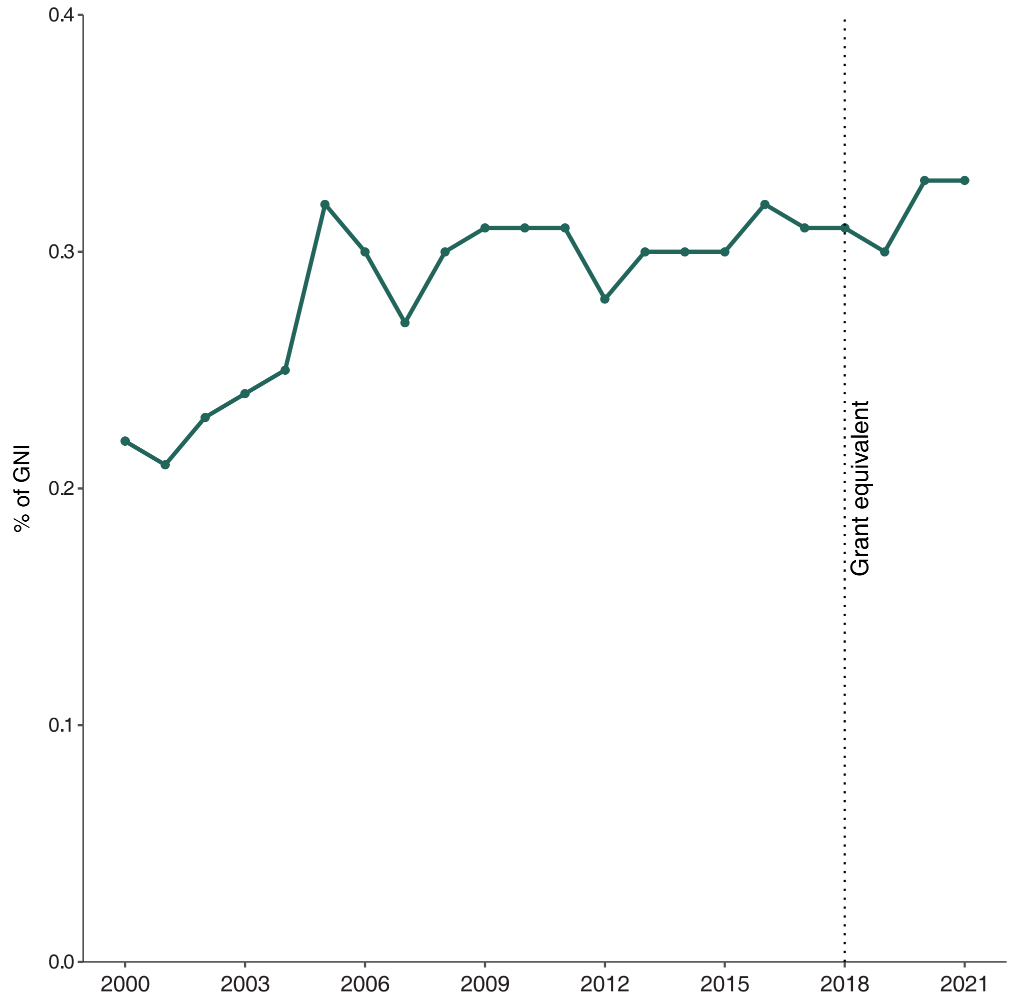
For example, without any adjustments to compensate for currency fluctuations, JPY 1 (Japanese yen) committed to India at the beginning of 2022 would have been worth INR 0.64 (Indian rupee). If that same JPY 1 was disbursed on 19 October 2022, it would have been worth INR 0.55 – a depreciation of 14.2%. Agreements between development co-operation providers and recipients regarding which party bears the risk of currency fluctuations determine whether and how much these movements ultimately affect the value of ODA.

ODA levels have failed to reach international targets

The United Nations (UN) General Assembly first adopted the target for advanced economies of 0.7% of GNI to be allocated to ODA in 1970 (UN, 1970[24]), and it has been reinforced in many subsequent international forums:[2] at the Group of Eight 2005 Gleneagles Summit, DAC members made country-specific pledges to meet certain ODA levels by 2010, and the 2015 Addis Ababa Agenda for Action cited the 0.7% target as critical to the success of the 2030 Agenda (UN, 2015[25]). Despite commitments, however, performance against the target has plateaued since 2005, with ODA at about 0.3% of collective DAC members' GNI. In 2021, ODA reached 0.33% of their collective GNI (Figure 8.4).

Figure 8.4. The ratio of official development assistance to gross national income among DAC countries has plateaued since 2005

ODA as a % of GNI, DAC countries, 2000-21



Notes: GNI: gross national income. As of 2018, official development assistance is measured on a grant equivalent basis; for previous years, ODA it is shown on a net flow basis.
Source: OECD (2023[2]), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00072-en.

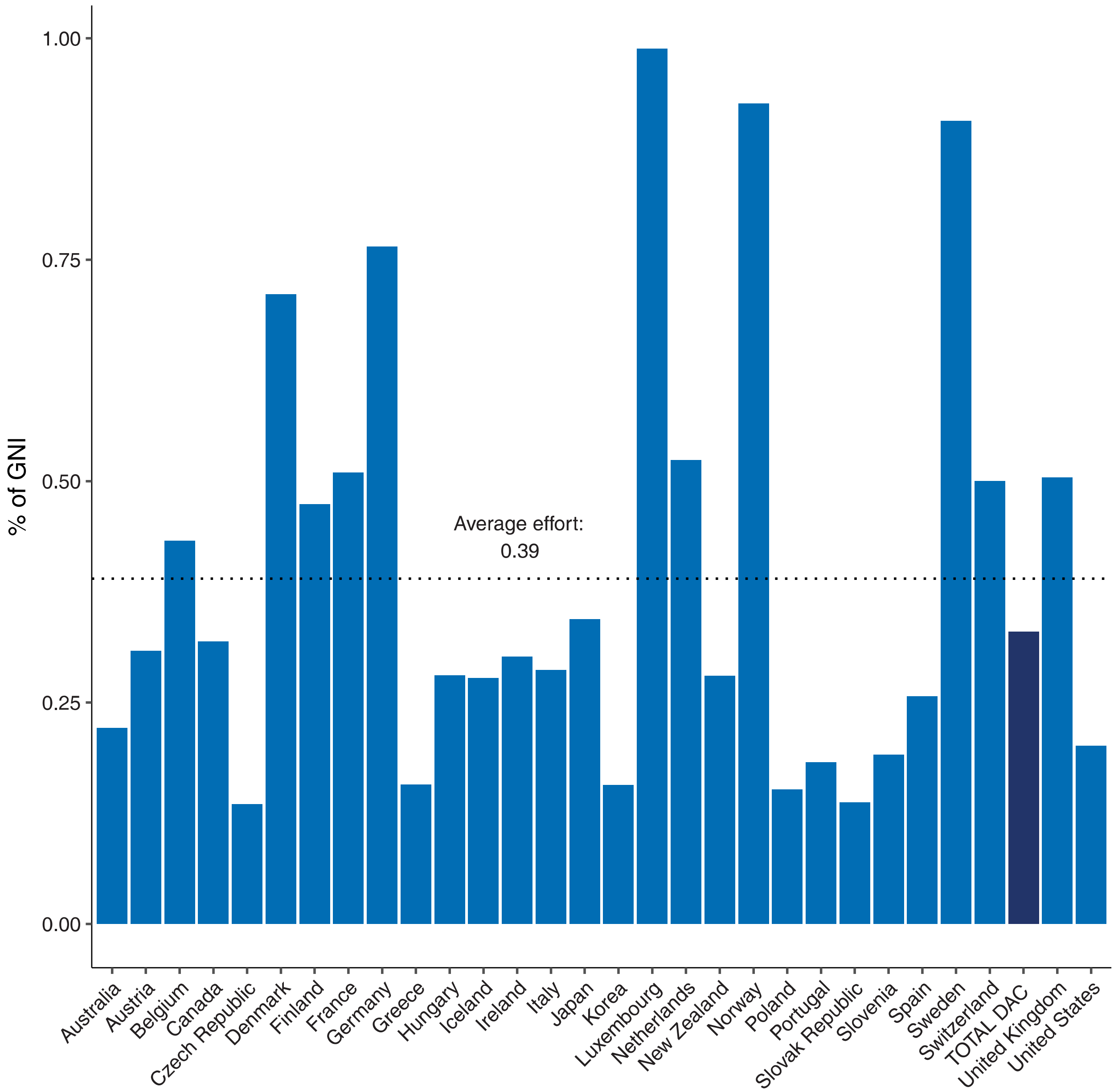
StatLink https://stat.link/fidqlm

A few DAC members consistently meet the target; the majority have never met it (Figure 8.5). But had the DAC collectively met the 0.7% target in 2021, total ODA would have reached USD 389 billion, more than double the actual amount of USD 186 billion.

Had the DAC collectively met the 0.7% target in 2021, ODA would have reached USD 389 billion, more than double the actual amount of USD 186 billion.

Figure 8.5. Achievement of the 0.7% target varies widely across DAC countries

ODA as a % of GNI, DAC countries, 2021



Note: GNI: gross national income; DAC: Development Assistance Committee. Average effort is calculated as the arithmetic mean of the ODA/GNI ratios of all 29 DAC member countries.
Source: OECD (2023[2]), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00072-en.

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Adoption of the 0.7% target has been uneven and budget cuts are hampering progress

Some DAC members have not officially adopted the target or have adopted a lower or intermediary target, and several DAC peer reviews noted that they had no time-bound plans to reach targets. Between 2018 and 2021, some DAC members' ODA/GNI ratios were trending downward. Several have already enacted

ODA budget cuts or signalled intentions to do so in 2022 and beyond (Annex 8.C). Given that ODA accounts for such a small proportion of government budgets in DAC countries, savings garnered from these cuts are and will be minimal.

Given that ODA accounts for such a small proportion of government budgets in DAC countries, savings garnered from these cuts are and will be minimal.

While budget cuts are sometimes justified as a response to declining public support for ODA, public opinion data show that a growing share of the public in most DAC countries supports increased ODA budgets. Recent crises such as COVID-19 have not led to a retrenchment of support for aid spending, particularly if that spending is perceived as contributing to tackling a shared crisis – for example, limiting the spread of COVID-19 infections (Raftery and Hudson, 2022[26]; Wood, 2022[27]; Kobayashi, Heinrich and Bryant, 2021[28]). Evidence suggests that perceptions of corruption, ineffective spending and abuses within the aid system, however, do have a strong negative influence on public opinion (EKOS Research Associates Inc., 2022[29]; Kiratli, 2020[30]; Kim and Kim, 2022[31]; Heinrich et al., 2020[32]).

Some countries are taking steps to meet financial commitments to partners. These budgeting mechanisms, aimed at offsetting the impact of changes such as economic slowdowns or sudden increases in some categories of cost, include multiannual allocations (Ireland, New Zealand), budget balancing (Denmark) and borrowing from future years (Netherlands) (OECD, 2022[33]; 2021[34]). Each approach has its drawbacks, but members' willingness to explore such mechanisms can help maintain progress towards the ODA/GNI target even when their domestic economic circumstances are difficult.

Practical and conceptual challenges undermine progress towards the 0.7% ODA/GNI target

Targets can be interpreted as caps

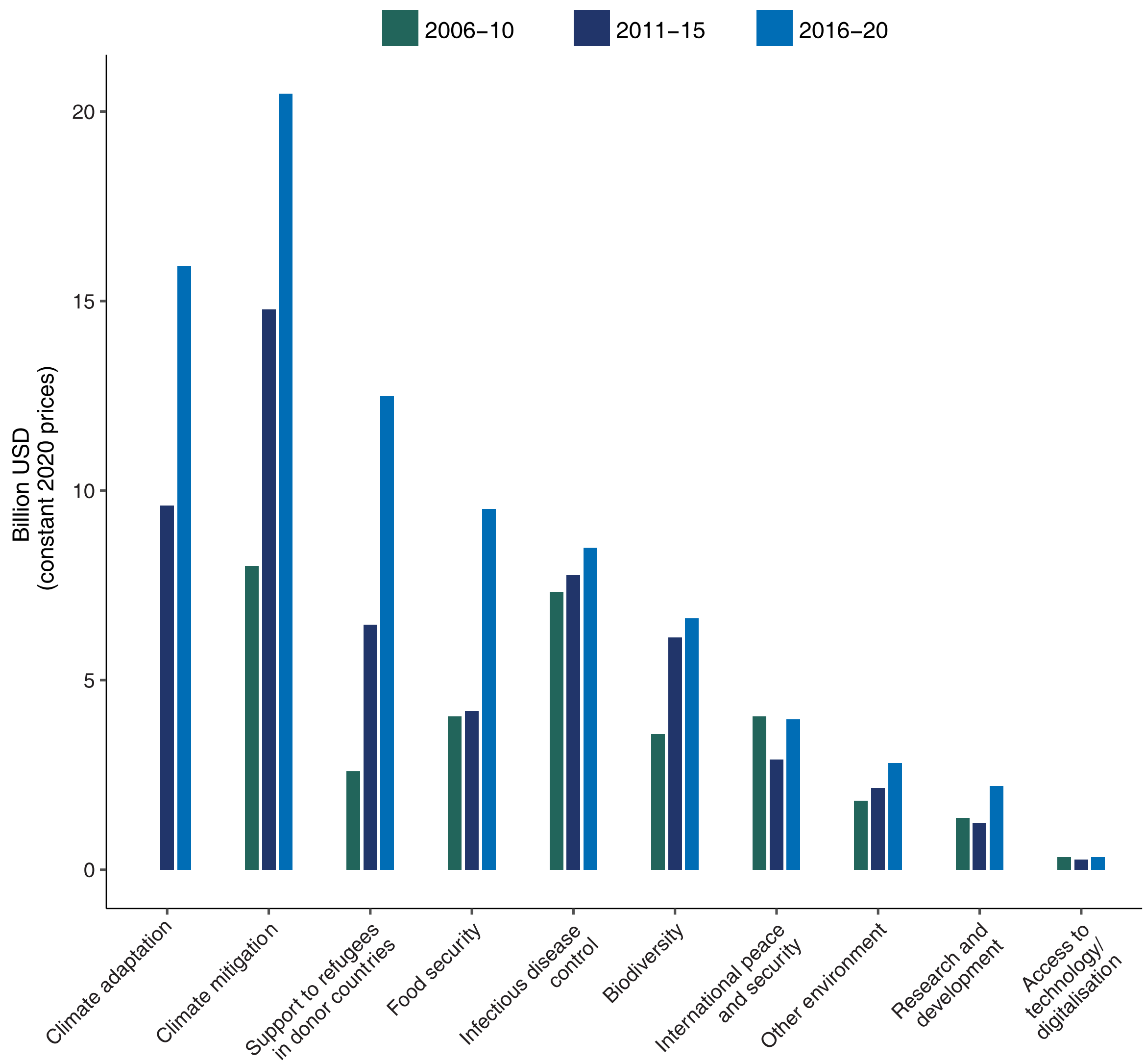
Targets can be seen as an upper limit for spending – a cap rather than a goal to achieve and exceed. For example, from 2015 to 2021, the United Kingdom had a statutory duty to meet the 0.7% ODA/GNI target. In 2021, citing the economic impact of the COVID-19 pandemic, the government announced it would allocate 0.5% of GNI to ODA (Loft and Brien, 2022[35]), and then froze spending when it came close to exceeding that amount. Norway is proposing to lower its ODA spending from 1% to 0.75% of GNI due to record oil and gas revenue (Chadwick, 2022[36]). In Denmark, the budget-balancing mechanism that works to keep ODA at close to the ratio of 0.7% is also used to ensure that the ODA budget does not significantly exceed that target (OECD, 2021[34]).

New financing targets could undermine ODA

Lack of growth in ODA is particularly significant in relation to the recent trend of increased financing for global public goods from aid budgets. While DAC statistics do not capture this expenditure precisely and in full, an analysis shows that DAC member countries' ODA spending on global public goods grew from an estimated 30% of average bilateral ODA in 2006-10 to about 57% in 2016-20. Most of the growth in spending was related to climate change, costs for refugees in development co-operation provider countries and food security. Spending on infectious diseases surged by nearly 50% in 2021 data reflecting the response to the COVID-19 pandemic (Figure 8.6).

Figure 8.6. DAC member countries' aid budgets are increasingly being used to finance global public goods

DAC member countries' bilateral ODA expenditure related to global public goods, 2006-20



Notes: Data reflect commitments because Rio marker data derived from Creditor Reporting System (CRS) reporting are more accurate on a commitment basis. There is an overlap between climate mitigation and adaptation, meaning data cannot be summed. Totals refer to total bilateral aid by DAC members. The definition used to identify categories of spending that would be counted as global public goods for the purposes of this analysis relies on previous work by academia and civil society. Estimates for climate adaptation are not available for the 2006-10 period due to limited data availability.
Source: OECD (2022[37]), "Creditor Reporting System: Aid activities", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00061-en.

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The substantial financing required to support low- and middle-income countries to tackle climate change, and particularly fulfilling the United Nations Framework Convention on Climate Change's annual commitment of USD 100 billion, could drain budgets for other development priorities in a context of relatively flat ODA budgets (Box 8.1). Among the suggestions floated to protect ODA spending is to create a new tier of spending over and above the 0.7% target (Kharas, Rogerson and Cichocka, 2020[38]) and to update the overall structure of international financing to separate ODA, global public goods financing mechanisms and crises response mechanisms (Kaul, 2020[39]). Others have proposed adding a new mobilisation target for ODA focused on poverty reduction in the LDCs and fragile contexts and a complementary "international development investment" policy for climate, though it is acknowledged that separating out flows for development and climate is difficult in practice (Melonio, Rioux and Naudet, 2022[40]).

At the same time, peer reviews have noted that climate has become a stronger component of the development narrative for many DAC members and that spending on climate helps maintain support for ODA. Many advocacy groups call for additional financing. Enhanced transparency around the relationship between ODA and climate finance could help achieve the right balance between development and climate spending while highlighting their strong interlinkages (Box 8.1).

Box 8.1. Climate finance and official development assistance: Current approaches to accounting

Tracking progress towards the USD 100 billion climate goal

At the 15th Conference of Parties (COP) of the United Nations Framework Convention on Climate Change in Copenhagen in 2009, developed countries committed to a collective goal of mobilising USD 100 billion per year by 2020 for climate action in developing countries in the context of meaningful mitigation actions and transparency on implementation. The goal was formalised at COP16 in Cancun. It was reaffirmed at COP21 in Paris, and the target was extended to 2025.

At the request of donor countries, the OECD has tracked progress towards this goal since 2015, producing a series of reports that quantify finance for climate action that is attributable to developed countries. According to the 2022 edition of the report, developed countries provided and mobilised USD 83.3 billion for climate in 2020.

The analyses are based on a robust accounting framework, an outcome of COP24 on funding sources and financial instruments, that looks at four finance components:

1. bilateral public climate finance from developed countries
2. public climate finance provided by multilateral organisations attributed to developed countries (adjusted to take into account only the developed countries' share)
3. climate-related export credits
4. private finance mobilised by bilateral and multilateral public climate finance attributed to developed countries (adjusted in the case of private mobilisation by multilateral organisations).

Balancing climate and development finance needs and promoting transparency

Fulfilling the USD 100 billion annual commitment requires not only a wide variety of financing sources but also the entire international development and climate community's effort. Providers must strike the right balance between the increasing urgency for climate action and the need to continue support to achieve the Sustainable Development Goals (SDGs) of the 2030 Agenda. Given the cross-cutting nature of climate action and its relevance across the entire spectrum of development finance, strong co-ordination at all levels and among all relevant actors is essential to meet the climate commitment while leaving no one behind.

An equally strong goal must be to actively promote transparency as the agent of accountability in its broadest sense. To deliver on such high expectations, statistical systems that track providers' efforts on climate and beyond need to ensure that the evidence they provide meets the highest standards and is as accurate and fit-for-purpose as possible.

In this regard, donors should finalise the official development assistance (ODA) modernisation process by finding a permanent solution for measuring donor effort in private sector instruments. This would not only strengthen ODA integrity but also promote development effectiveness and establish the Development Assistance Committee's leadership on transparency of development finance, including for climate. For example, such a measure would allow greater involvement of the private sector in financing for sustainable development, including for climate; improve the picture of real receipts by developing countries; and increase awareness of their impact. In addition, donors and multilateral agencies both need to further their normative role in actively promoting transparency. Better-quality and more comprehensive data are key to greater accountability and greater trust in the development co-operation system. For example, strengthened activity-level reporting on disbursements, whether in the context of ODA or other development finance, and private finance mobilisation are necessary for improved understanding of real resource flows to developing countries.

Note: Contributed by Tomas Hos, Development Co-operation Directorate, OECD, and Chiara Falduto, Environment Directorate, OECD.
Sources: UN (2022[41]), "Goal 13: Take urgent action to combat climate change and its impacts", https://www.un.org/sustainabledevelopment/climate-change; OECD (2015[42]), *Climate Finance provided and mobilized by developed countries in 2016-2020* https://doi.org/10.1787/286dae5d-en.

Perceptions regarding developing countries' capacity to spend ODA effectively to achieve development outcomes

Particularly for providers of large volumes of ODA, concerns about a recipient country's capacity to use ODA effectively factors into decisions about increasing ODA allocations. The argument that there are negative returns to growth from aid at high levels (Lensink and White, 2001[43]), coupled with questions about ODA recipients' commitment and capacity to effectively channel ODA to achieve developmental goals (Dercon, 2022[44]), are significant obstacles to achieving higher budget allocations for ODA.

Challenges to the concept of the 0.7% ODA/GNI target

The economic assumptions and calculations that underpin the 0.7% ODA/GNI target have been challenged. A more fundamental issue, however, is that the target is tied to advanced economies' output rather than the level of ODA required to meet the needs of developing countries (Clemens and Moss, 2005[45]). Amid escalating calls to dismantle power asymmetries in development co-operation, basing ODA allocations on the GNI of provider countries could also be questioned. Another conceptual challenge is that in striving to meet the 0.7% ratio, providers may place a greater emphasis on quantity rather than quality – that is, on the volume of spending rather than the impact of aid in developing countries and whether it helps meet international goals (Dissanayake, 2021[46]).

Focusing on collective impact

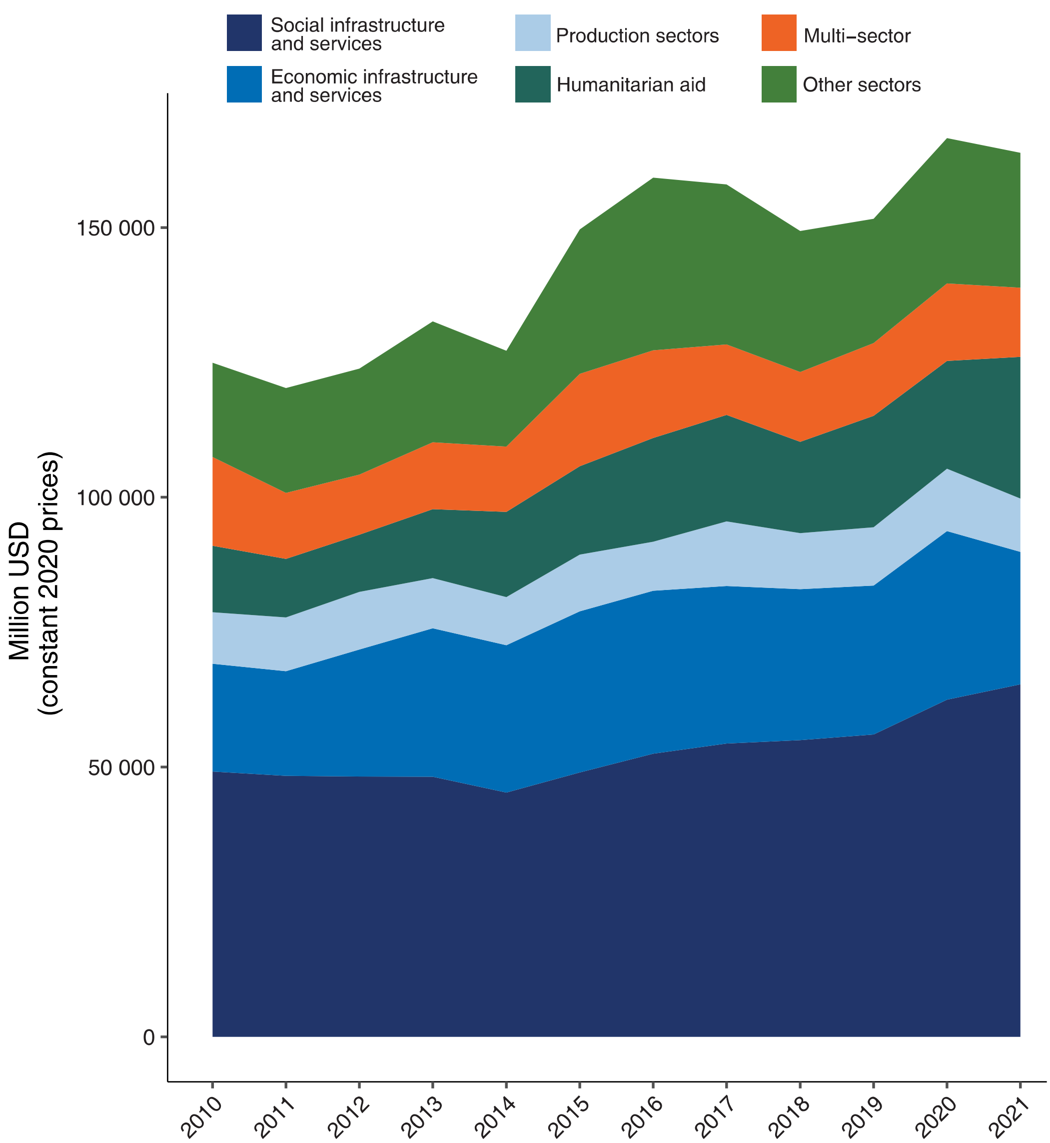
ODA is the result of budgetary decisions of individual countries and organisations. However, ODA from different providers converges in a finite group of ODA recipients and many of the commitments and good practices relate to the collective impact of ODA flows. Changes in the composition and focus of the aggregate ODA portfolio over time suggest that response to increasing crises may have significant implications for other spending, particularly CPA. In addition, an examination of the rationale and practical considerations that influence the allocation of ODA to developing countries shows that divergent approaches or the absence of a collective systematic approach result in ODA not being consistently allocated according to need. Finally, budget cuts and lack of strategic engagement are undermining the potential of allocations to the multilateral system to enhance collective impact.

Responding to crises may have implications for ODA composition and focus

Clearly articulating thematic and sectoral priorities is key to the aid effectiveness agenda in that it enables complementarity, reduces fragmentation and helps identify each provider's comparative advantage. Together these increase transparency for developing countries and can better inform their choice of partners. Sectoral allocations at the collective level have been relatively stable over time. Social infrastructure and services typically receive the largest share of bilateral ODA (OECD, 2022[47]) (Figure 8.7). ODA to this sector spiked in 2021 due to increased health spending to respond to the COVID-19 crisis.

Figure 8.7. Social sectors have historically received the largest share of DAC members' official development assistance

DAC members' ODA commitments by sector, 2010-21



Source: OECD (2022[37]), "Creditor Reporting System: Aid activities", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00061-en.

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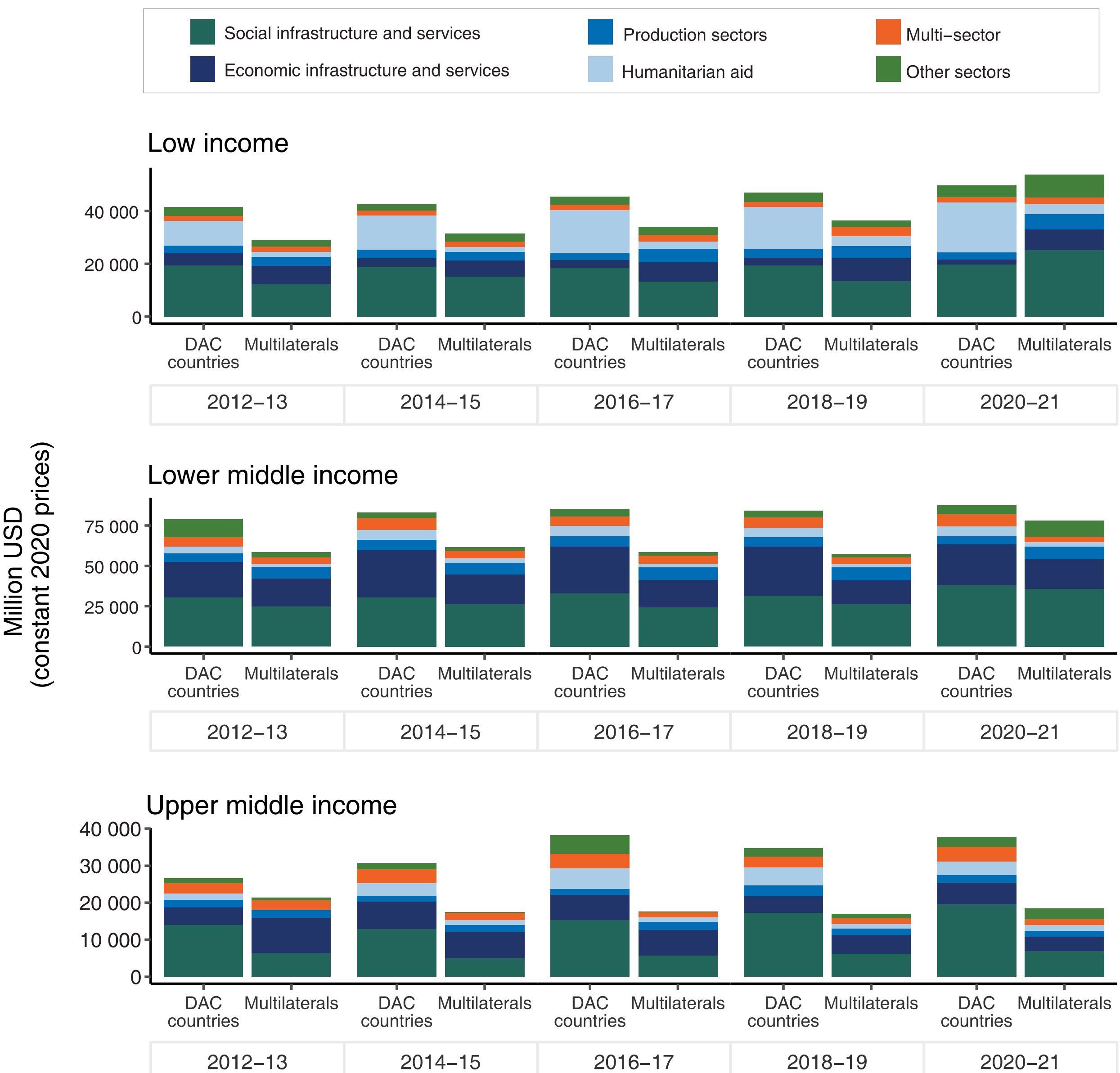
The focus on social sectors in low-income countries (LICs) has been consistent across DAC members and multilateral organisations. Support to economic sectors is greater in LMICs than in LICs (Figure 8.8).

Figure 8.8. DAC members have focused relatively more on social sectors in low-income countries and economic and production sectors in middle-income countries over time

DAC countries and multilateral agencies' ODA commitments by sector over time, 2012-21



Source: OECD (2022[37]), "Creditor Reporting System: Aid activities", OECD International Development Statistics (database), https://doi.org/10.1787/data-00061-en.

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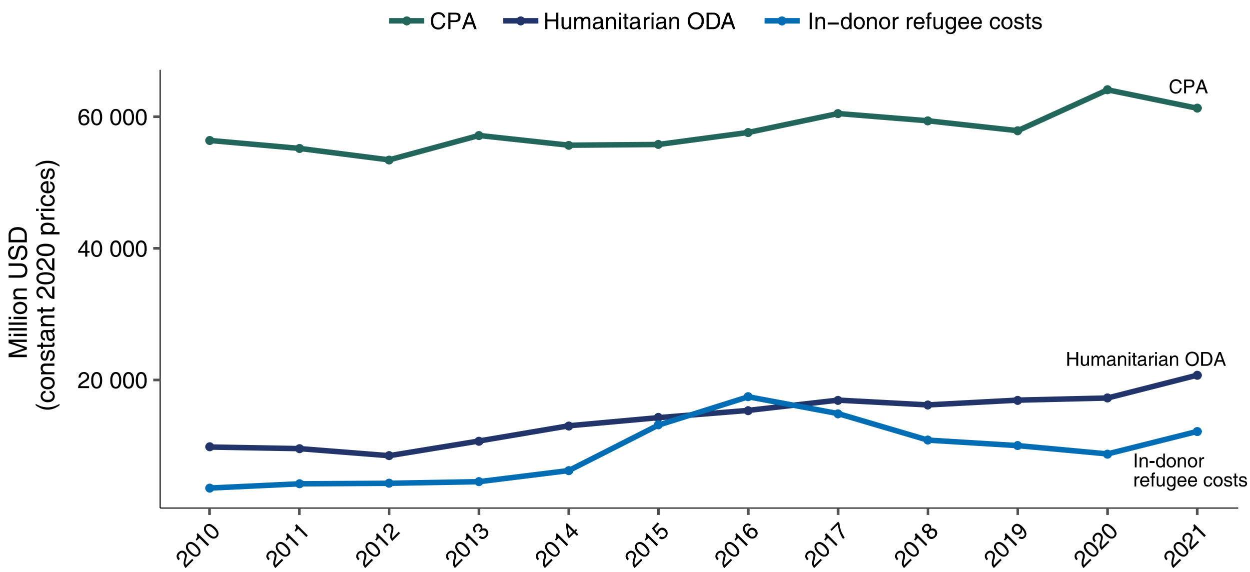
Peer reviews show that DAC members are recently more clearly articulating their priorities. Canada outlines 6 action areas in its Feminist International Assistance Policy (Government of Canada, 2021[48]); Germany's 2030 Reform Strategy for development co-operation identifies 5 core areas and 10 initiative areas (German Federal Ministry for Economic Cooperation and Development, 2022[49]); and New Zealand has outlined 12 aid and development investment priorities (New Zealand Foreign Affairs and Trade, 2022[50]).

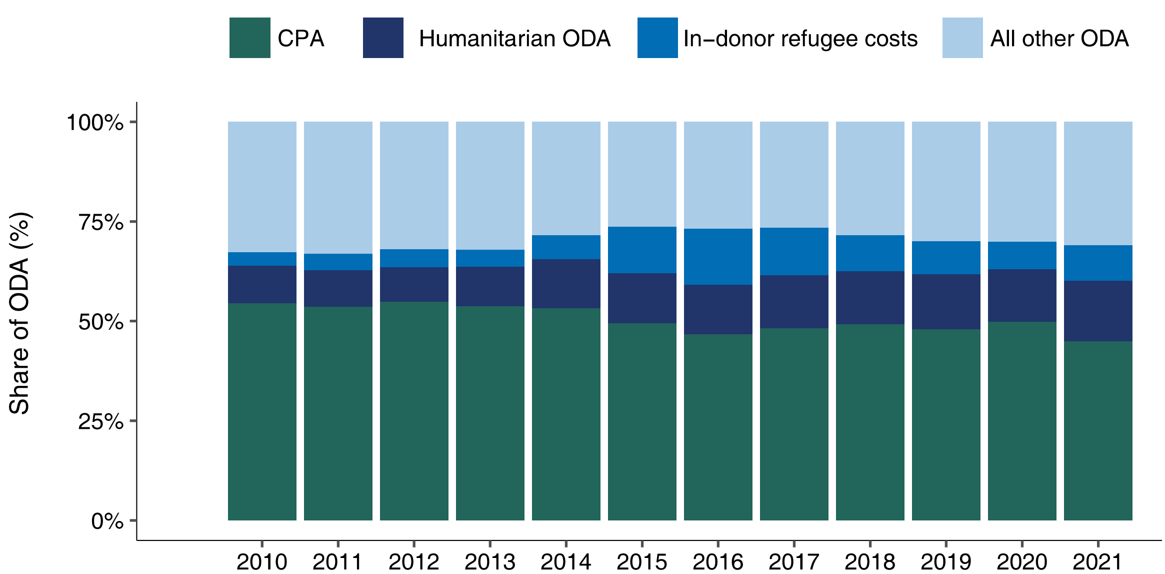
However, allocations do not always align with priorities. Some notable shifts have occurred in the overall ODA portfolio that were not signalled in individual or collective strategies. From 2010 to 2021, the volume of DAC countries' humanitarian aid grew by 111% and increased by five percentage points as a share of total gross ODA. ODA to in-donor refugee costs within DAC countries increased by 242% over the same period. At the same time, the share of bilateral ODA that is country programmable aid has been shrinking. CPA is the portion of aid providers can programme for individual countries or regions and over which partner countries could have a significant say. The increase over the last decade in humanitarian aid, which is excluded from CPA on the basis that it is not programmable, is one reason why the share of CPA from DAC countries has fallen from an average of 54.4% of bilateral ODA in 2010 to 44.9% by 2021, despite a small increase between 2019 and 2020 (Figure 8.9). From 2020 to 2021, CPA declined while ODA to in-donor refugee costs and humanitarian assistance increased.

From 2010 to 2021, the volume of DAC countries' humanitarian aid grew by 111% and increased by five percentage points as a share of total gross ODA.

Figure 8.9. Humanitarian aid and official development assistance spending on in-donor refugee costs increased much more than country programmable aid over the period 2010-21

DAC countries' country programmable aid, humanitarian ODA, and ODA spending on in-donor refugee costs, 2010-21





Notes: CPA: country programmable aid; ODA: official development assistance. Estimates capture flows from Development Assistance Committee countries only.
Source: OECD (2022[37]), "Creditor Reporting System: Aid activities", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00061-en.

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In 2021, CPA remained less than half of total ODA for the seventh consecutive year. In most of the countries where CPA increased as a share of bilateral ODA, the rise was associated with an overall ODA increase. The impacts of recent crises, including Russia's war of aggression against Ukraine, are likely to lead to a further increase in both humanitarian assistance and spending on refugees in donor countries

(Ahmad and Carey, 2022[51]). A stable or more constrained ODA budget environment could further decrease CPA and have implications for long-standing sectoral allocations that development co-operation providers, individually and collectively, will need to consider. Humanitarian budgets are also under pressure to adapt to these new pressures. Box 8.2 highlights ways in which implementing good practices and commitments can provide a basis for action.

Box 8.2. A new normative environment for humanitarian spending

Humanitarian funding requirements are estimated to have quadrupled since 2010. As the frequency, intensity and length of emergency situations requiring humanitarian support have increased, the development, humanitarian and peace communities have recognised the need to work together in new ways. This is reflected in the Grand Bargain agreed upon at the World Humanitarian Summit in 2016 and the DAC Recommendation on the Humanitarian-Development-Peace Nexus.

While some progress has been made towards these commitments, it has been uneven across Development Assistance Committee members. Peer reviews highlight the need for better co-ordination across different entities within administrations to align budget cycles, risk appetite and ways of working.

The increasing demands on humanitarian aid highlight the challenges to maximising official development assistance (ODA) in a period of sustained crisis when budgets are stretched and the need to engage local-level resources is increasingly acknowledged.

Longer term funding: Unpredictable funding flows pose a particular challenge to adequate planning and response. In a promising trend, a number of providers are shifting from short-term, project-based grants to multiannual financing (e.g. Belgium, Denmark, the European Union, Germany, Ireland, Switzerland and the United States). Pooled or multi-partner funds can be particularly useful in humanitarian situations as shown by the UN Multi-Partner Trust Fund for Sustaining Peace in Colombia; the Democratic Republic of the Congo’s DRC Stabilization Coherence Fund; and the Iraq Reform, Recovery and Reconstruction Fund.

Locally led development: As crisis situations can change rapidly, providers are being encouraged to put mechanisms in place to shift power to local actors to better navigate complex situations. Some countries (e.g. the Czech Republic, France and Spain) have made significant headway. As highlighted in peer reviews, however, the concentration of humanitarian funding in the multilateral system can sometimes leave only a small portion of providers’ budgets available to be channelled to local humanitarian actors. Peer reviews also found that legislative barriers to working with local actors and preferential bias for large, comparatively well-resourced and trusted partners were significant impediments to localisation.

Empowering those in need: The rise in cash and voucher assistance is seen as a positive development to empower recipients and became more popular during the COVID-19 crisis. Cash has become a key pillar of humanitarian support for large providers such as Norway, Sweden, Switzerland, the United Kingdom and the United States.

As humanitarian needs and budgets rise, continuing to strive to meet international commitments will help maximise ODA and its impact.

Sources: ALNAP (2022[52]), "The state of the humanitarian system, 2022 edition: Key facts and figures", https://sohs.alnap.org/news/the-state-of-the-humanitarian-system-2022-edition-key-facts-and-figures; OECD (2022[53]), *States of Fragility 2022*, https://doi.org/10.1787/c7fedf5e-en; Development Initiatives (2022[54]), *The Global Humanitarian Assistance Report 2022*, https://devinit.org/documents/1193/GHA2022_Digital_v8_DknWCsU.pdf; OECD (2020[55]), *Development Co-operation Report 2020: Learning from Crises, Building Resilience*, https://doi.org/10.1787/f6d42aa5-en; OECD (2019[56]), *Better Criteria for Better Evaluation: Revised Evaluation Criteria Definitions and Principles for Use*, https://www.oecd.org/dac/evaluation/revised-evaluation-criteria-dec-2019.pdf; Inter-Agency Standing Committee (2016[57]), *The Grand Bargain: A Shared Commitment to Better Serve People in Need*, https://interagencystandingcommittee.org/system/files/grand_bargain_final_22_may_final-2_0.pdf.

ODA is not consistently allocated according to need

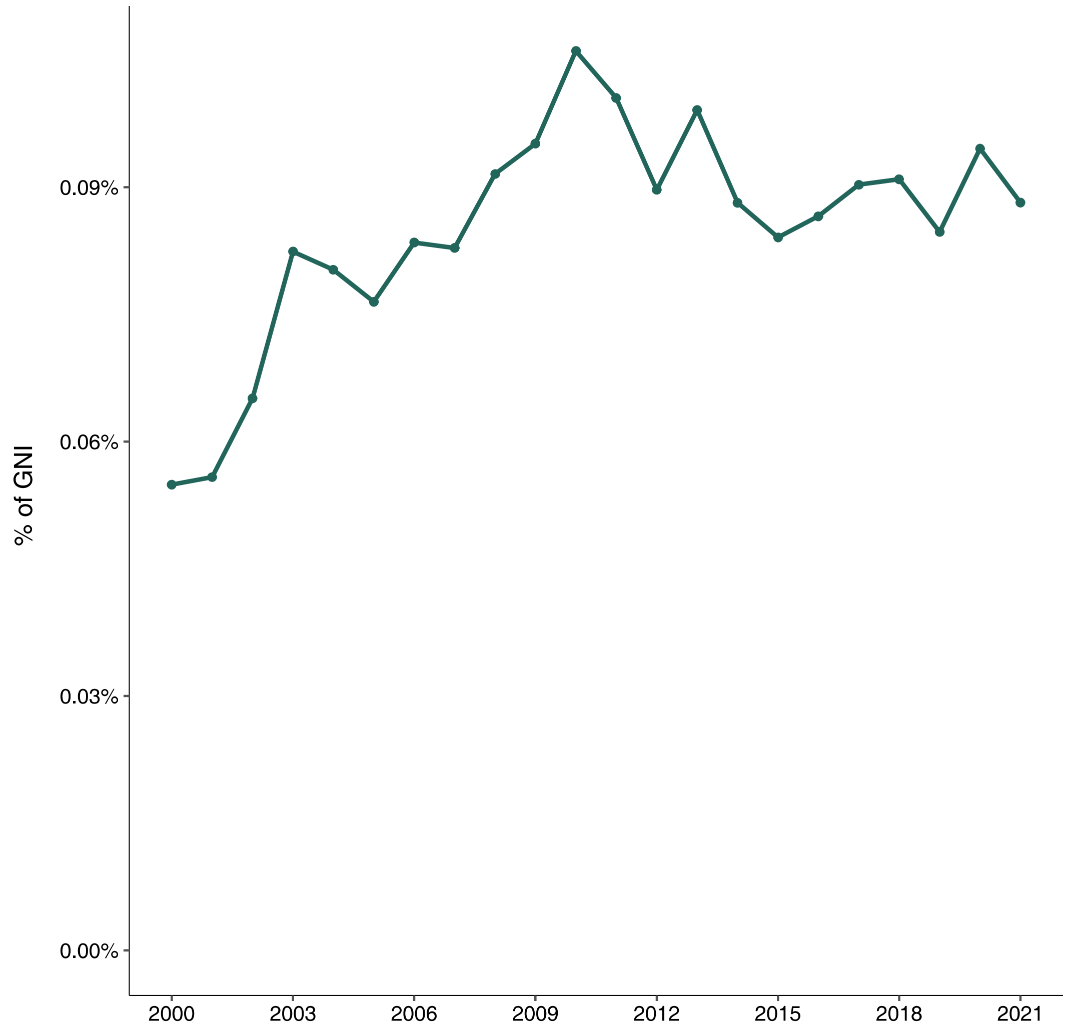
The concept of allocating ODA according to need is a helpful prioritisation logic that the development community can use to navigate trade-offs and improve the targeting of aggregate ODA. However, this prioritisation method has not been consistently applied.

DAC members have not achieved the ODA/GNI target for the LDCs

In 1981, DAC development co-operation providers committed to provide between 0.15% and 0.20% of their GNI in the form of ODA to least developed countries. In 2021, 0.09% of collective GNI was allocated to the LDCs, the level it has hovered at since the commitment was made (OECD, 2022[58]) (Figure 8.10).

Figure 8.10. Aid to least developed countries has declined over time and falls short of the 0.15-0.2% target

ODA to LDCs as a share of donor countries' gross national income, 2000-2021



Note: GNI: gross national income. ODA: official development assistance. LDC: least developed country.
Source: OECD (OECD, 2023[2]), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00072-en.

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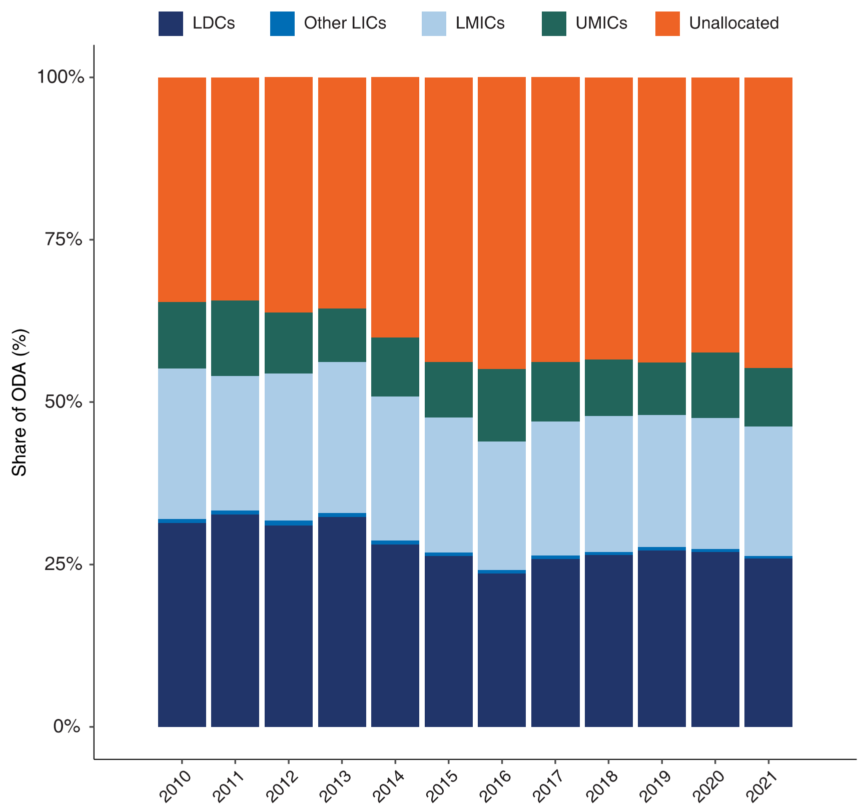
The greatest volume of ODA to the LDCs is allocated by larger providers (in descending order, the United States, Japan, Germany, the United Kingdom, France and Sweden). Smaller donors tend to give larger shares of their country allocable ODA – more than two-thirds – to the LDCs (Belgium, Denmark, Finland, Iceland, Ireland, Luxembourg and the Netherlands). Others provided less than 15% of their country allocable aid to LDCs (Greece, Hungary, Poland, the Slovak Republic and Slovenia). DAC peer reviews over the last decade have expressed concern that the focus on the LDCs was weak or weakening. This trend is also evident in private finance mobilised by DAC members: It mostly benefits upper middle-income countries, with smaller shares going to the LDCs and LICs (OECD, 2022[59]).

DAC member countries' net bilateral ODA unallocated by income group rose by 74% in volume and by ten percentage points (from 34.2% to 44.7%) as a share of total ODA from 2010 to 2021 (Figure 8.11). In 2021, the volume of aid unallocated by income group was the highest ever. In contrast, bilateral aid to the LDCs declined by more than five percentage points as a share of DAC member countries' total bilateral aid over the same period.

In 2021, the volume of aid unallocated by income group was the highest ever.

Figure 8.11. The share of DAC countries' bilateral aid that was unallocated by income group rose between 2010 and 2021

DAC countries' bilateral aid by income group, 2010-2021



Note: LDC: least developed country; LIC: low-income country; LMIC: lower middle-income country; UMIC: upper middle-income country.
Source: OECD (2023[2]), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00072-en.

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Allocation of bilateral ODA has become more focused on middle-income countries

Between 2010 and 2021, bilateral ODA from DAC countries to the LMICs increased by 15% and to the UMICs by 18%, while only increasing by 10% for the LDCs and other LICs. ODA accounts for a much larger share of external flows to the LICs (63%) than it does for other income groups (37% in the LMICs and 20% in the UMICs) (OECD, 2022[60]). However, allocations do not reflect need or dependence. Excluding additional allocations for COVID-19 response, gross bilateral ODA from DAC member countries fell for all groups of countries except the UMICs from 2019 to 2020 and the LDCs and LMICs from 2020 to 2021 (OECD, 2022[33]). An increase in concessional outflows by multilateral organisations across all income groups – a consistent pattern since 2010 – partly compensates for the decline between 2019 and 2020.

Peer reviews have found that the increase in allocations for middle-income countries is partly driven by issue-based ODA allocations (e.g. climate mitigation or providing humanitarian aid for refugees), and a recent OECD (2022[61]) report noted a similar trend for multilateral outflows. Peer reviews also found that for DAC members with a growth model predicated on lending, such a model can encourage higher allocations to middle-income countries and potentially profitable sectors (OECD, 2018[62]). The need to support global public goods is one of the arguments made in favour of higher allocations to middle-income countries. Another is that poverty and vulnerability to climate change continue to warrant ODA assistance regardless of the income category of the country in which they occur (Carbonnier and Sumner, 2012[63]). By 2030, middle-income countries will be home to almost half of the global poor (Kharas and Dooley, 2022[64]). However, it is also argued that middle-income countries' greater ability to pay for basic services and greater access to market finance should be taken into account (Manuel et al., 2018[65]). This debate suggests that development co-operation providers should strongly consider how ODA allocated to middle-income countries is targeted (Dissanyake, Kenny and Plant, 2020[66]).

From 2010 to 2021, sector allocable aid consistently accounted for the largest proportion of ODA in middle-income countries. Over the same period, sector allocable aid declined for LDCs, while humanitarian aid for the same group rose by ten percentage points (Table 8.4).

Table 8.4. The focus of DAC members' bilateral ODA across income groups has shifted over time

Share of total bilateral ODA

	2010-11				2015-16				2020-21			
	Sector allocable aid	Budget support	Human-itarian aid	Other non-sector aid	Sector allocable aid	Budget support	Human-itarian aid	Other non-sector aid	Sector allocable aid	Budget support	Human-itarian aid	Other non-sector aid
LDCs	64%	4%	14%	18%	73%	1%	21%	5%	66%	2%	24%	8%
OLICs	67%	..	29%	5%	74%	..	17%	9%	68%	..	23%	9%
LMICs	80%	4%	9%	7%	80%	2%	14%	3%	80%	4%	12%	5%
UMICs	93%	0%	5%	2%	74%	1%	13%	11%	83%	2%	11%	4%

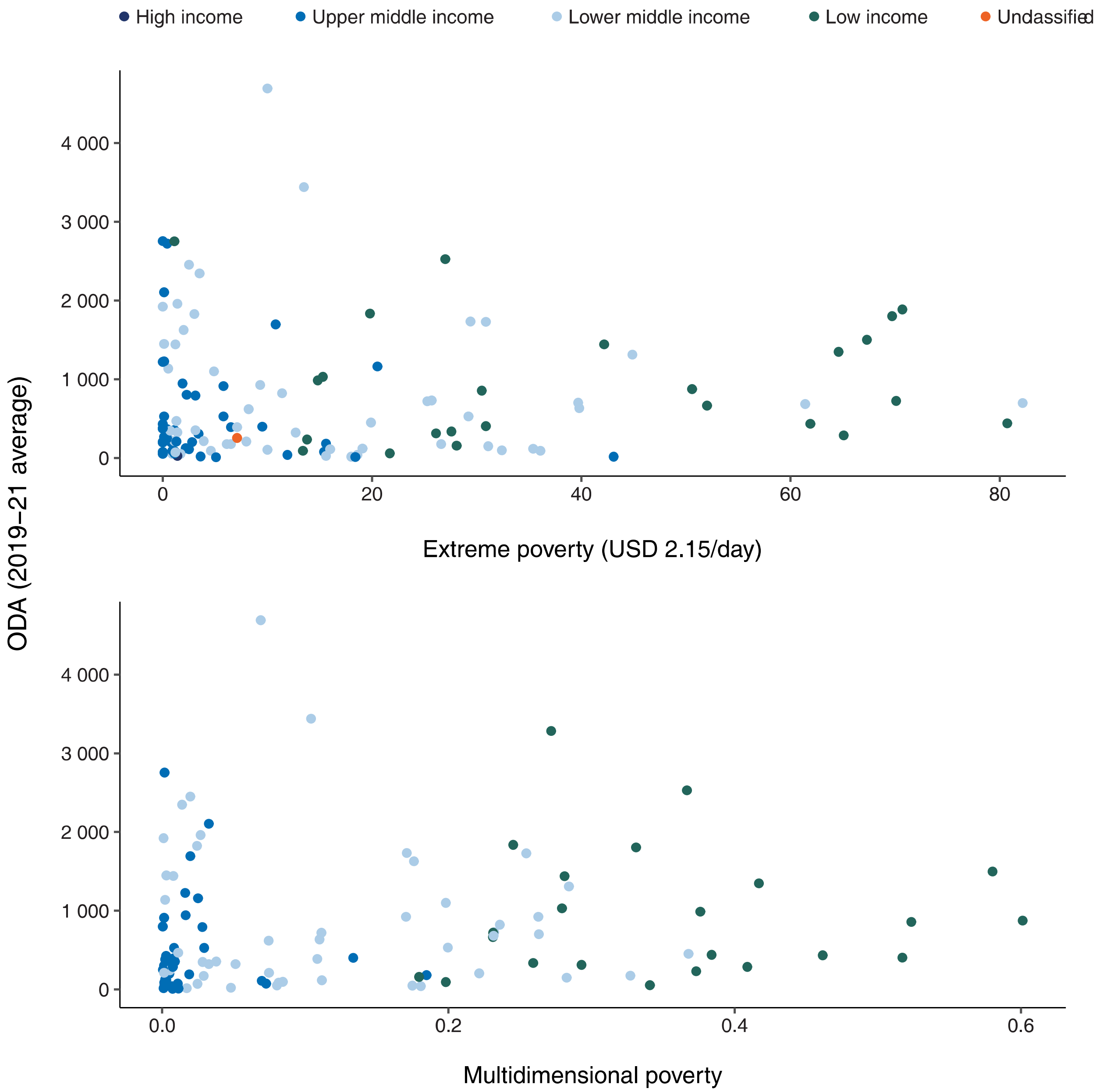
Source: OECD (2023[2]), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00072-en.

ODA is not allocated according to poverty or inequality metrics

DAC members' ODA does not show a strong or consistent relationship to extreme or multidimensional poverty (Figure 8.12).

Figure 8.12. On aggregate, DAC members are not allocating their official development assistance according to typical measures of need

DAC members' ODA relative to extreme and multidimensional poverty



Notes: See the clustering of countries in the bottom left-hand corner. Where available, the most recent year of data on extreme/multidimensional poverty is used.
Source: OECD (2022[37]), "Creditor Reporting System: Aid activities", OECD International Development Statistics (database), https://doi.org/10.1787/data-00061-en; World Bank (2023[67]), *Poverty and Inequality Platform (database)*, https://pip.worldbank.org/home; UNDP-OPHI (2022[68]), "Global Multidimensional Poverty Index 2022", https://ophi.org.uk/global-mpi-2022/.

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There are also many different conceptualisations and measures of need that can be taken into account when allocation decisions are being taken. As discussed in Box 8.3, taking these decisions is more complex.

Box 8.3. What it would mean to allocate official development assistance with an inequality lens

At their 2020 High Level Meeting, Development Assistance Committee (DAC) members committed to "tackling inequality between all people in our ODA policies and programmes more actively". However, targeting inequality has not been a key focus to date in official development assistance (ODA) allocations. Nor is operationalising this commitment a straightforward process. Early analysis indicates that DAC members' spending is not targeted to tackle inequality against each of the three potential measures of need.

1. **Levels of income inequality within countries.** An analysis of ODA allocations relative to recipient countries' income inequality, as measured by the Gini coefficient or the Palma ratio, found no clear pattern.
2. **People experiencing systemic discrimination and inequalities.** In 2019-20, 45% of total bilateral allocable ODA (USD 56 billion) supported gender equality and women's empowerment objectives; 7% (USD 6.2 billion) supported the inclusion and empowerment of persons with disabilities (Finland and Italy are notable leaders in this regard); and just 1.1% (about USD 1 billion) went to human rights programming targeting specific groups.
3. **Sectors that have demonstrated impact in reducing inequalities.** Some insights emerge from the analysis of allocations to sectors that affect income distribution (e.g. inclusive growth and living wages, education, and health) and contribute to more equitable income redistribution (e.g. progressive domestic revenue mobilisation, fiscal transfers through social protection). One such insight is that social protection spending has been consistently low. Though it nearly tripled in volume from 2019 to reach USD 2.5 billion in 2020, social protection spending still represented just 1.5% of DAC members' bilateral ODA.

The DAC's Community of Practice on Poverty and Inequalities offers a space for learning and exchange among DAC members and partners to further explore these questions and help sharpen development co-operation's focus, allocations and impact on poverty and inequality reduction.

Source: Contributed by Julie Seghers, Policy Analyst, Development Co-operation Directorate, OECD.

Categorisations of need overlap while the use of allocation models is at an early stage

Lack of progress towards targets and lack of consistency in allocating according to need may be partly explained by the fact that there are multiple and overlapping categorisations of need that can be based on national income levels, geographic characteristics, or levels of political and socio-economic development and stability (OECD, 2022[58]). These overlaps can cause tensions: For example, if fragile contexts are increasingly middle income, then increased allocations to fragile contexts may lead to a decrease in allocations to the LICs. Another tension is over allocation by absolute levels of poverty versus by levels of poverty relative to population size. Collectively, development co-operation providers will need to carefully consider these types of trade-offs.

If fragile contexts are increasingly middle income, then increased allocations to fragile contexts may lead to a decrease in allocations to the LICs.

Allocation models can be a helpful tool to account for multiple indicators of need. But to date, their implementation has been uneven across development co-operation providers. The EU has implemented a new methodology based on GNI per capita, the Human Assets Index, the Economic Vulnerability Index and Worldwide Governance Indicators. Austria, Belgium, Ireland and Switzerland all explicitly target poverty reduction. The International Development Association, housed at the World Bank, uses the Performance-Based Allocation System, which combines measures of country performance and country need (International Development Association, 2020[69]). Models are increasingly being called for that more deliberately include vulnerability (UN, 2022[70]; Guillaumont, Guillaumont Jeanneney and Wagner, 2020[71]) or resilience (Kharas, Rogerson and Cichocka, 2020[72]) in their calculations.

One proposal to achieve cross-system maximisation is to use an indicator of the extent to which individual development co-operation providers move the global distribution towards a pre-agreed model (Mitchell and Hughes, 2020[73]).

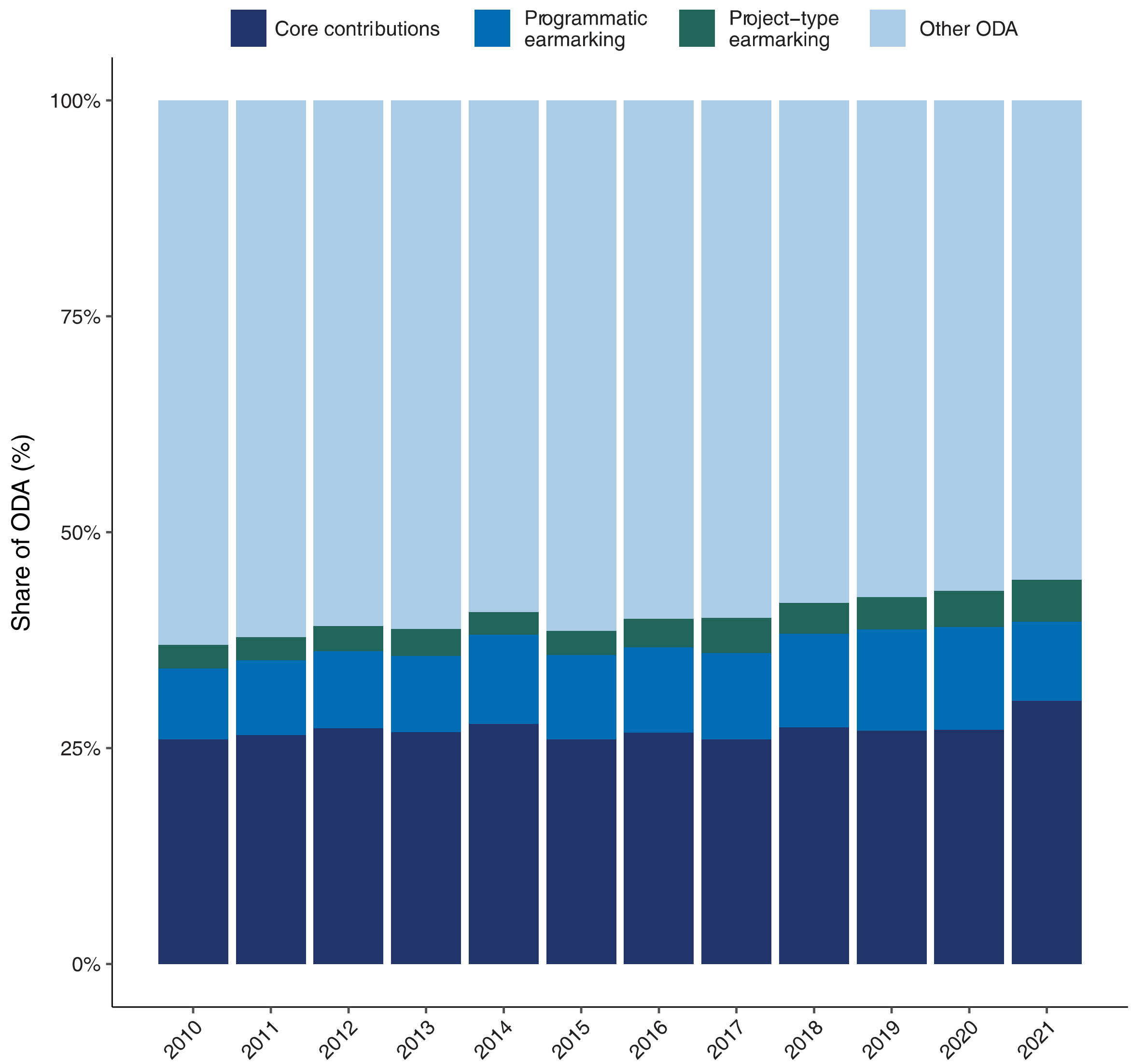
Budget cuts, increased earmarking and lack of strategic engagement undermine the value of the multilateral system

Allocations to the multilateral system can have a multiplier effect on ODA that flows through it (OECD, 2022[61]). EU joint programming, for example, aims to make aid more coherent and less fragmented, reduce duplication and pressure on individual providers through the division of labour, and achieve better value for money (European Commission, 2022[74]). Multi-partner trust funds and country-based pooled funds can also help to avoid proliferating single-donor initiatives (OECD, 2021[75]). Bilateral ODA implemented through multilateral organisations became particularly important during the pandemic response, rising by 14% between 2019 and 2020 and a further 9% from 2020 to 2021 (OECD, 2022[33]). This indicates that the multilateral system's ability to respond to emergencies and provide economies of scale is a critical function (OECD, 2020[55]).

DAC members are the largest providers to the multilateral system, accounting for 80% of total contributions (OECD, 2022[61]). Core contributions from DAC member countries to multilateral organisations rose by 7.7% in 2020 and a further 9.8% in 2021; however, the budget cuts that large providers recently announced are expected to have a disproportionate impact on multilateral financing (Gulrajani, 2022[76]). These cuts will likely lead to a further increase in earmarked contributions and in fragmentation from a proliferation of single-purpose initiatives and vertical funds (OECD, 2022[61]). These trends are out of step with the aims of the UN Funding Compact, which appealed for increased core funding (UNGA Economic and Social Council, 2019[77]). Peer reviews have found that earmarking by some DAC members is a reaction to perceptions that multilaterals are not reforming fast enough.

Figure 8.13. DAC countries' contributions have become increasingly earmarked over time, though core contributions grew as a share of the total from 2020 to 2021 to reach a historic high in 2021

DAC countries' bilateral and multilateral allocations, 2010-21



Notes: ODA: official development assistance. Please see the methodological notes for an explanation of categories of earmarking and multilateral allocations: https://www.oecd-ilibrary.org/sites/2dcf1367-en/1/3/4/1/index.html?itemId=/content/publication/2dcf1367-en&_csp_=177392f5df53d89c9678d0628e39a2c2&itemIGO=oecd&itemContentType=book#section-d1e77062.
Source: OECD (2023[2]), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00072-en.

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Only a few DAC members have an overall strategy for multilateral engagement. These take the form of official policies and strategies (e.g. Germany and Sweden) or white papers (Sweden) (OECD, 2021[75]). The absence of a strategy for this engagement, or the use of strategies that do not extend beyond the development arm of the government, become particularly problematic when multiple parts of a government are engaged with multilateral organisations.

Improving ODA quality

The 142 countries currently eligible to receive ODA are highly diverse, and tailoring support to each context is key to achieving high-quality ODA. Tailoring requires considering more than ODA levels and allocations. It is also critical to pay significant attention to financing types, modalities and channels. The COVID-19 crisis triggered a rise in concessional lending and budget support, reigniting debates about the benefits and drawbacks of each. The number of countries to which a development co-operation provider gives ODA and the level of their engagement are also key quality metrics. But evidence shows that there is significant fragmentation and proliferation and that the political economy of individual developing countries is rarely a focus. Whether ODA is tied or untied is another long-standing quality issue, with commitments reaching back to the early 2000s. Yet the urgency required to overcome outstanding barriers is lacking.

Concessional lending is an important ODA mechanism, but conditions should be closely monitored

DAC countries' lending to other countries (bilateral sovereign loans on a grant equivalent basis) increased by 35% in real terms between 2018 and 2020 but fell by 4.0% and represented just 9.7% of bilateral ODA in 2021. The provision of loans, which accounted for about one-third of COVID-19 finance from DAC members, has been criticised for adding to debt stock in a landscape dominated by market debt and bilateral lending from providers outside the DAC. However, concessional DAC lending continues to play an important role, and demand for it remains high (Custer et al., 2021[78]). Lending capacity is an important additional tool for DAC members to respond to context-specific needs and can help top up public development finance (OECD, 2018[62]; 2020[79]).

In addition to monitoring the amount of lending to particular countries and the debt levels of the countries, it is essential to tailor the characteristics of loans to the context. By transitioning to the grant equivalent methodology, i.e. counting only the grant equivalent of loans as ODA, DAC members sent a collective signal of intent to incentivise lending on highly concessional terms (OECD, 2022[33]). However, this has not had the desired effect for all income groups. For example, from 2015 to 2019, conditions for ODA lending to the LDCs hardened, with average grant elements and maturity periods falling and interest rates rising. Conditions in 2020 led to a reversal of this trend for lending to the LDCs, with higher average grant elements and maturity periods and interest rates at almost half their 2019 levels. However, in 2021, there was a hardening of terms to the LDCs again (Table 8.5). Conditions have not returned to levels as favourable as those in 2015.

Table 8.5. Conditions for ODA lending to LDCs have hardened over time

Characteristics of official development assistance loans to least developed countries, 2015-2021

	2015	2016	2017	2018	2019	2020	2021
Average grant element (new)	78%	75%	75%	73%	70%	73%	70%
Average grant element (old)	81%	78%	78%	77%	73%	76%	73%
Average maturity period (years)	35.7	33.4	32.5	32.0	28.3	30.5	27.3
Average interest rate	0.35%	0.49%	0.59%	0.67%	0.80%	0.43%	0.63%

Source: OECD (2022[1]), *Creditor Reporting System (database)*, https://stats.oecd.org/index.aspx?DataSetCode=CRS1.

Budget support increased during the COVID-19 crisis, reigniting debates about impact, conditionalities and relevance

Budget support is considered one of the most consistent mechanisms for implementing the Effectiveness Principles and an appropriate modality to support greater recipient country ownership (DEval, 2018[80]). It can achieve multiple development outcomes, including capacity building, system strengthening, supporting the social contract and improving public services for the poorest.

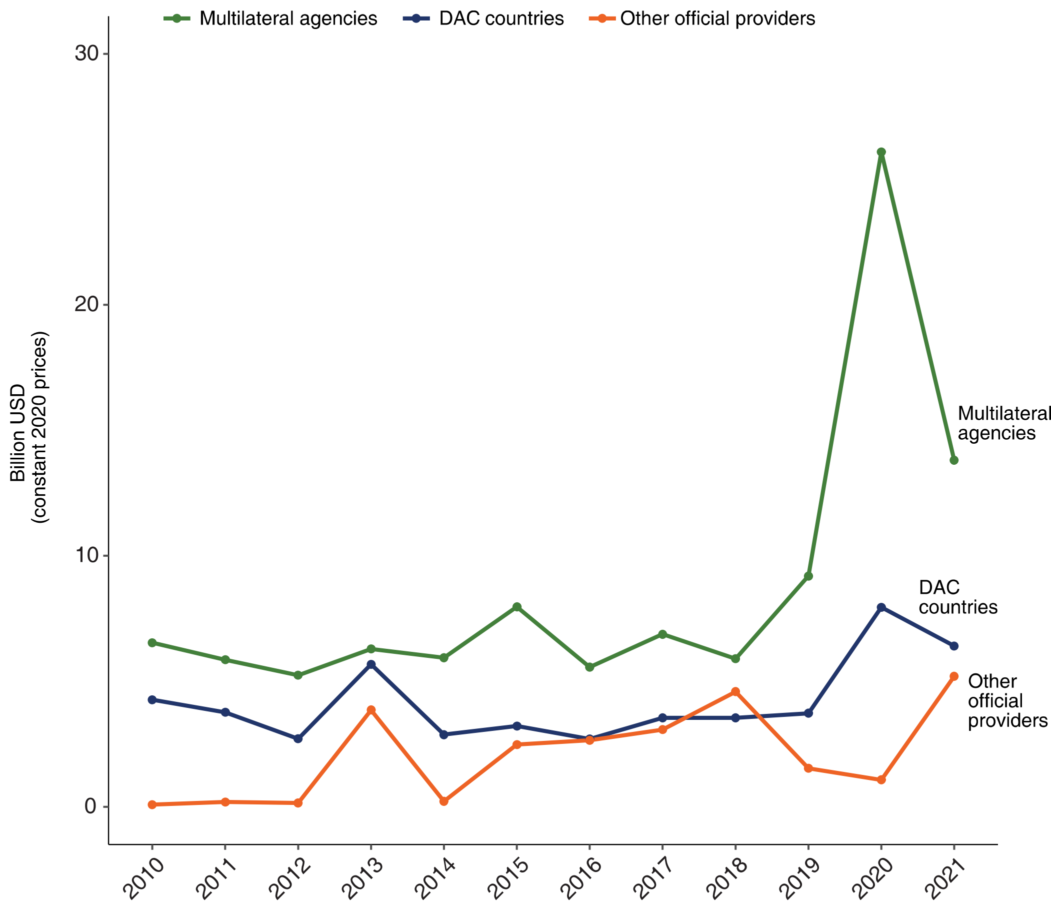
Budget support, encompassing general budget and sector support, flows directly into a partner government's budget and enables recipients to use their own financial management systems and budget procedures. By the late 2000s, multi-donor budget support comprised up to 30% of central government spending in sub-Saharan African countries, with development co-operation providers citing positive impacts on pro-poor spending and quality of service delivery (Knoll, 2008[81]); increased spending in education and health; and additional effects such as strengthening macroeconomic stability in partner countries (Rønsholt, 2014[82]).

However, opponents of budget support argue that it is a disincentive to domestic resource mobilisation and carries high fiduciary and political risks. Its use declined in recent years in the wake of corruption cases and amid perceptions of intrusive development co-operation provider influence in developing countries (DEval, 2017[83]). The volumes of bilateral development co-operation providers' budget support have significantly declined since 2013*,* making it a modality used more often by multilateral development co-operation providers than by DAC members (DEval, 2018[80]). At the time of its last peer review in 2018, the EU, a multilateral body, provided the highest level of budget support among DAC members (OECD, 2018[84]).

The COVID-19 crisis led to somewhat of a resurgence in budget support among DAC members and significantly increased its use by multilateral agencies in 2020 at the start of the pandemic. However, its use declined among providers in 2021, with the exception of other official provider providers (Figure 8.14).

Figure 8.14. Budget support from DAC countries and multilateral agencies rose significantly amid the COVID-19 pandemic, followed by a sharp reduction in 2021

Budget support from DAC countries, other official providers, and multilateral agencies, 2010-21



Note: DAC: Development Assistance Committee.
Source: OECD (2022[37]), "Creditor Reporting System: aid activities", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00061-en.

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In 2021, budget support accounted for 14% of total ODA in the LDCs and 21% in the LMICs – much higher shares than in higher income countries, reinforcing its importance as a modality for the poorest countries (OECD, 2022[33]). Conditionalities attached to budget support are a key sticking point, with early research showing that too many conditions could decrease efficiency and impact (Rønsholt, 2014[82]). The International Monetary Fund has provided COVID-19 budget support with almost no conditionality; the World Bank has been criticised for conditioning emergency funding on as many as eight policy reforms, which may have lowered demand and slowed disbursement (Landers and Aboneaaj, 2021[85]). Further research on the impact of conditionalities in different contexts could help guide the use of this mechanism.

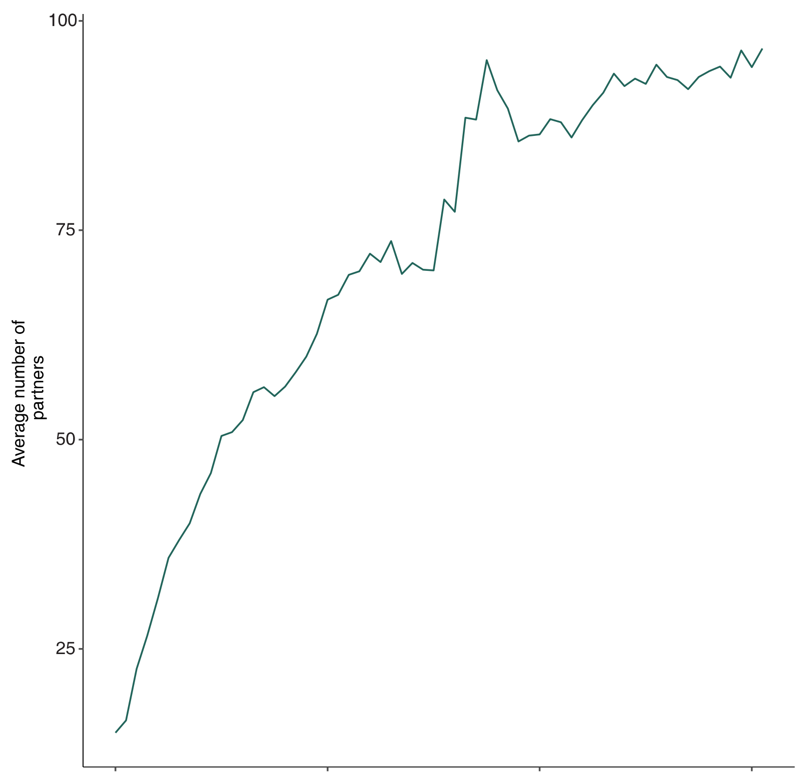
ODA spending is spread out across many countries and dominated by low value projects

Reducing fragmentation and project proliferation was a key motivation for the Busan Partnership for Effective Development Co-operation (OECD, 2011[86]), and narrowing the geographic concentration of spending is a frequent recommendation across DAC peer reviews to concentrate resources.

In 2020-21, the top five recipients of bilateral aid from all DAC donors (India, Bangladesh, Afghanistan, Indonesia and Ethiopia) together received 12% of gross bilateral ODA, with India, the largest recipient country, receiving 3%. While some DAC members have taken steps to improve their geographic concentration, for example the Netherlands (OECD, 2020[87]), these small proportions indicate that collectively, DAC members engage with many recipient countries spread over a wide geographic area. In 1960, DAC members, on average, provided aid to 15 recipient countries and territories. In 2021, the average was 97 (Figure 8.15).

Figure 8.15. DAC members have significantly increased their number of recipient countries over time

Average number of countries receiving official development assistance from DAC members, 1960-2021



Source: OECD (2023[2]), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00072-en.

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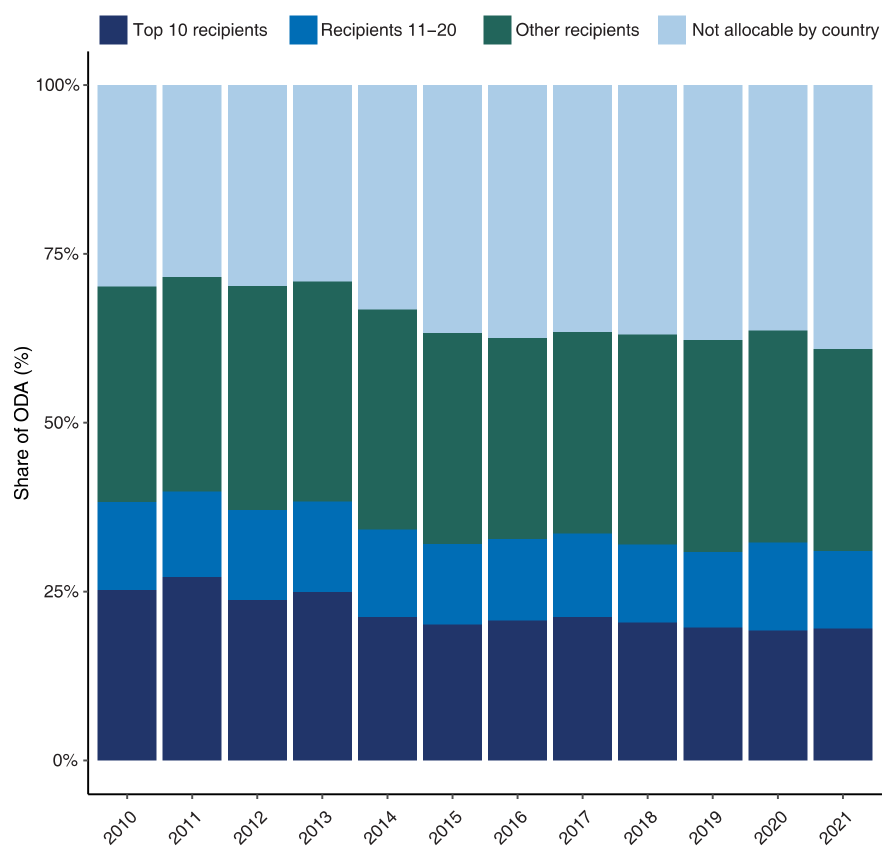
In 1960, DAC members on average provided aid to 15 recipient countries. In 2021, the average was 97.

DAC peer reviews since 2010 have noted that many bilateral organisations do not have a clear strategy to guide their choice of partner countries. While some DAC members operate on the basis of focus and/or priority countries, national interest, historical relationships and added value were often cited as drivers for their selections. Others have no stated priority countries or rely on criteria such as the quality of implementation partners to select partner countries. The increase in the number of bilateral development finance institutions may also drive an increase in the number of partner countries due to different criteria and focus for investments (Annex 8.D). In addition, peer reviews have noted that when many government departments are involved in distributing ODA, it is challenging to co-ordinate and maintain a consistent strategy. Peer reviews further note a large gap between indicated priority countries and actual allocations.

This proliferation has a significant impact on recipient countries. The share of recipient countries dealing with 60 or more agencies is growing and in 2019, there was a sharp increase in transactions, predominantly ODA. Additionally, top recipient countries have been receiving less of the share of DAC countries' total ODA over time, whereas ODA unallocated by country – in the form of regional or global programmes – has risen considerably from 30.9% of the total in 2010 to 41.0% in 2021 (Figure 8.16). Another indicator of increasing fragmentation is the reduced size of projects and, consequently, greater number of low-value projects (World Bank, 2022[88]; Melonio, Rioux and Naudet, 2022[40]). Altogether, these trends suggest an increasingly fragmented landscape of ODA.

Figure 8.16. DAC members' bilateral ODA has become increasingly fragmented across recipients over time

Spread of DAC members' bilateral ODA across recipients, 2010-2021



Source: OECD (2022[1]), *Creditor Reporting System (CRS) (database)*, https://stats.oecd.org/index.aspx?DataSetCode=CRS1.

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Support to and through country systems is decreasing and focus on the political economy needs to be stepped up

DAC members commit to uphold country ownership as the first principle of effective development co-operation. Key tenets of country ownership include working with and through country systems and aligning with country priorities. Iceland, for example, has adopted a programme-based approach at the district level, placing the emphasis on aligning with national government efforts, local ownership, and the use of district and/or public financial management and results systems (OECD, 2021[75]). Support to country strategies and systems are also methods of co-ordination and opportunities to enhance the collective impact and avoid duplication. While some DAC members have country strategic frameworks (Denmark) (OECD, 2021[89]) or multiannual bilateral partnership frameworks (Spain) (OECD, 2022[90]), numerous peer reviews have noted the lack of individualised country strategies; lack of an overarching strategy encompassing development and diplomatic activity in a country; failure to base investment plans on partner country strategies; or a multitude of small interventions and poor predictability.

Lack of strategic planning for country engagement has correlated with a falling commitment to align with and use country systems, including national development plans, results frameworks, statistics and monitoring systems (OECD/UNDP, 2019[91]). Use of country procurement systems is also low though strengthened comparative tools for assessment can support reforms and improvements (Box 8.4).

Box 8.4. Procurement systems in developing countries face common challenges but can be strengthened

Public procurement is essential to implement any public policy and to achieve the Sustainable Development Goals. Since its creation by the OECD and the World Bank in 2003, the Methodology for Assessing Procurement Systems (MAPS) has been the internationally recognised tool to diagnose public procurement systems, plan reforms and initiate improvement.

Over 50 assessments using MAPS have either been completed or are currently underway in a variety of countries and territories. Assessments are typically conducted as some form of collaboration between countries and international development partners. Countries may apply the core MAPS framework as well as supplementary modules on e-procurement, professionalisation and sustainable public procurement as a first step in designing an evidence-based action plan to improve their procurement system.

Assessments shed light on common challenges including:

- lack of active participation from the private sector and civil society in public procurement policy making
- lack of access in a timely manner to procurement data including both aggregated quantitative data and detailed contract records
- a substantial gap between the sophistication of the legal framework and what is done in practice.

Assessments also highlight recurring enablers for change, such as:

- high-level political prioritisation of public procurement
- broad coalitions for policy making that engage both internal (subnational and local) and external (private sector and civil society) stakeholders.

Each MAPS assessment is embedded in the country context, pinpointing specific weaknesses to be addressed and strengths to build on. This allows for MAPS to be used to develop reforms tailored to the country in question. A MAPS assessment in Lebanon, for example, was used as the foundation for new national public procurement legislation. In Norway, it was used for a strategic action plan to increase the sustainability of public procurement through a specific policy initiative for each weakness identified.

In addition, MAPS assessments reveal the new frontiers of public procurement challenges:

- **Professionalisation that goes beyond capacity building and establishes an attractive career path for public buyers.** The challenge for countries here is often identifying the right people and achieving strong institutional support.
- **Sustainable public procurement in social, environmental and economic terms.** The challenge for countries here is often a lack of integration between the three dimensions and a lack of shared international metrics and standards for setting goals and measuring progress.

In general, overcoming challenges requires moving procurement from being exclusively an operational, reactive consideration to also being a strategic, proactive one.

Source: Contributed by Nicolas Penagos and Jeppe Groot, Directorate for Public Governance, OECD. More information is available in OECD (2022[92]), "MAPS Initiative: What is MAPS?",www.mapsinitiative.org.

Falling engagement with country systems may also reflect the emergence of new development co-operation providers. The practice of setting targets for development co-operation providers through mutual accountability mechanisms was found to be less prevalent for new entrants than for more traditional development co-operation providers (OECD/UNDP, 2019[91]). In light of this, using country systems may be seen by traditional development co-operation providers as overly burdensome, unfair or counter to domestic national interests.

This poor use of country systems may also be connected to the prevalence and growth of autocratic regimes in ODA-eligible countries (from 68 to 75 from 2010 to 2019), though a quantitative study on ODA allocations has found that purpose codes, channels and instruments do not seem to be tailored to different regime types (OECD, 2022[93]). Moreover, nearly half of ODA for COVID-19 response was channelled through recipient governments (OECD, 2022[33]). Some have suggested that the choice to "engage" or "bypass" partner country governments is based on the ideology and incentives of development co-operation provider administrations and institutions rather than a needs-based analysis (Dietrich, 2021[94]). The practice of taking similar approaches to all or groups of recipient countries, whether based on provider ideology or another driver, has been highlighted as a key barrier to progress (Dercon, 2022[44]). Peer reviews frequently advise placing a greater emphasis on leveraging the contextual knowledge of local staff to develop country plans with appropriate resources.

A key enabler for country offices to provide more strategic direction is having a clear sense of risk appetite and management. While some members have a comprehensive risk management system, including context analysis and assessment of partner capacity as well as mitigation measures, others rely on less developed frameworks with, for example, a focus on risk avoidance or a narrower focus only on fiduciary risk. Peer reviews of many members found that their risk management was overly centralised, leading to delays and undermining their ability to react to changing situations. New or updated strategies can offer opportunities to significantly increase transparency for partners in country, both within and outside members' administrations, and provide frameworks that could enable more decision making at country office or subnational level.

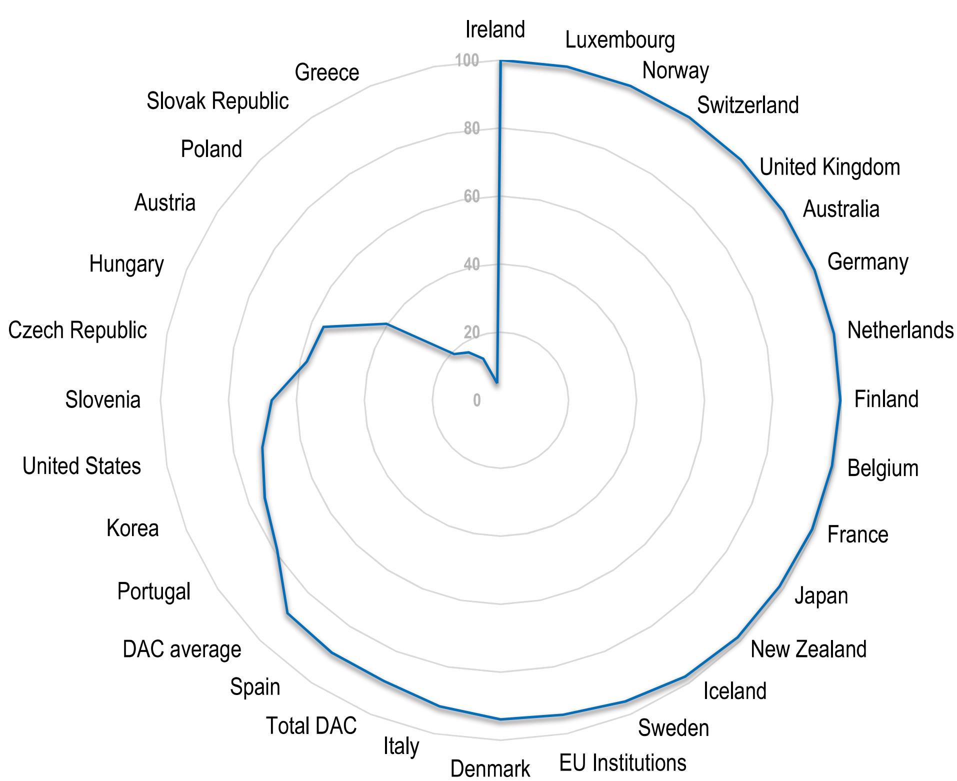
Untying ODA contributes to value for money and country ownership, but the urgency needed to overcome long-standing barriers is lacking

The premise of untying aid (i.e. removing any conditions that aid be used to procure goods or services from the provider of aid) is that it provides value for money and contributes to the goal of country ownership. By 2020, ODA covered by the DAC Recommendation on Untying Official Development Assistance represented 20% of all bilateral ODA,[3] and 91.5% of this ODA was reported as untied (OECD, 2022[95]). A number of ODA categories – technical co-operation, food aid and ODA to non-governmental organisations unrelated to procurement-related activities – are excluded from the Recommendation (OECD, 2018[96]). Figure 8.17 illustrates the uneven progress across DAC members.

By 2020, ODA covered by the DAC Recommendation on Untying Official Development Assistance represented 20% of all bilateral ODA.

Figure 8.17. DAC members have made uneven progress towards the target to untie official development assistance

Share of official development assistance covered by the Recommendation reported as untied by DAC members, 2019-20 average



Notes: Calculations exclude administrative costs, in-development co-operation provider refugee costs and other sectors not covered by the DAC Recommendation on Untying Official Development Assistance. Data on the tying status are reportable on a commitment basis.
Sources: OECD (2022[37]), "Creditor Reporting System: Aid activities", *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00061-en; OECD (2022[95]), *2022 Report on the Implementation of the DAC Recommendation on Untying Official Development Assistance*, https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2022)34/FINAL&docLanguage=en.

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Several issues have been consistently cited as impeding further progress on untying aid:

- **The failure of other providers to untie aid is a disincentive to others.** While not all official providers are transparent about the tying status of their activities (Wood et al., 2011[97]), there are suggestions that the uneven performance on meeting the Recommendation acts as a disincentive to others to either catch up or continue progress. China and India, themselves now providers of aid, have consistently won the most contracts since 2011 (OECD, 2022[95]). The two countries' success in winning contracts, coupled with high levels of tying their own aid, may lead to so-called fair competition concerns.
- ***De facto* tied aid and reporting burdens.** While aid may be legally untied – that is, legal and regulatory barriers to open competition for aid-funded procurement are removed – it may remain closed to competition through means other than legal or regulatory barriers. There are ongoing discussions around ways to combat such *de facto* tied aid. Most DAC members display high levels of *ex post* reporting after a contract has been agreed; *ex ante* reporting remains weak (OECD, 2021[98]). During peer reviews, DAC members have identified administrative burdens, limited resources and the potential of duplication with national reporting systems as barriers to reporting.
- **Barriers to entry for developing country suppliers.** A consistent theme through various iterations of initiatives is that untying should aim to support local procurement and increase local purchases. A recent OECD (2022[95]) review found that about half (54%) of the value of contracts awarded under the Recommendation in 2019-20 went to suppliers in the development co-operation provider country and that while suppliers from developing countries and territories covered by the Recommendation were awarded 44% of the total number of contracts, these contracts represented only 13% of the total value of the contracts. The overall low value of contracts won by suppliers from developing countries highlights barriers to entry such as the contract size and complexity, suppliers' lack of access to information on contract opportunities, and their inability to meet development co-operation provider requirements (OECD, 2021[98]). Some DAC members have adopted strategies such as set-asides; the UK government (HM Treasury, 2021[99]) focuses on early market engagement; and USAID (2022[100]) has simplified application procedures. Despite such efforts, barriers to entry persist.

While suppliers from developing countries and territories covered by the Recommendation were awarded 44% of the total number of contracts, these contracts represented only 13% of the total value of contracts.

Making the Recommendation more inclusive

In addition to calls for progress on implementing the Recommendation as it stands, there have also been calls to expand the coverage of the Recommendation as a means of pursuing the dual goals of value for money and country ownership across a more inclusive group of partner countries (Meeks and Meja, 2018[101]). Successive updates to the Recommendation since its adoption in 2001, including the last update in 2018, have expanded its coverage to the LDCs, countries under the Highly Indebted Poor Countries Initiative, the OLICs, and territories and countries that are only eligible for support through the World Bank's International Development Association.

The Recommendation currently covers 66 ODA-eligible countries (Table 8.6). However, 41.2% of all bilateral ODA in 2020 went to 76 countries that are not covered by the Recommendation. Further widening the boundaries of the Recommendation would thus have an impact on a large proportion of bilateral ODA.

Belgium, Canada, Finland, France, Ireland, Luxembourg, the Netherlands, Norway, Switzerland and the United Kingdom already untie all of their aid to all recipient countries.

Table 8.6. Coverage of countries and territories eligible for official development assistance, by income group

	ODA-eligible countries covered	*% bilateral ODA received, 2020*	ODA-eligible countries not covered	*% bilateral ODA received, 2020*
LDCs	46 (100%)	25.8%	0	
OLICs	2 (100%)	0.37%	0	
LMICs	13 (34%)	4.64%	25 (66%)	26.6%
UMICs	5 (9%)	0.23%	51 (91%)	14.6%

Notes: ODA: official development assistance; LDC: least developed country; OLIC: other low-income country; LMIC: lower middle-income country; UMIC: upper middle-income country. The percentages of bilateral ODA refer to ODA categories that are covered under the DAC Recommendation on Untying Official Development Assistance. The table does not show the percentage of bilateral ODA that is not allocable by country.
Source: OECD (2022[1]), *Creditor Reporting System (database)*, https://stats.oecd.org/index.aspx?DataSetCode=CRS1.

Taking policy coherence to the next level

Alongside commitments and good practices relating directly to ODA budgeting, distribution and mechanisms, DAC members have committed to strengthen the enabling environment through policy coherence. If implemented, these commitments can significantly increase (or at least avoid undermining) the impact of ODA.

Policy coherence implies active co-ordination of policies across administrations and taking into account any intended and unintended consequences of decisions, both domestically and internationally. Its potential to contribute to sustainable development was recognised in SDG target 17.14 and the 2019 OECD Recommendation of the Council on Policy Coherence for Sustainable Development, which followed an earlier recommendation adopted in 2010 (OECD, 2019[102]). Development co-operation providers face barriers on each of the prerequisites for effective policy coherence for sustainable development.

Identifying the focus of coherence efforts

Policy coherence for development originated as part of the aid effectiveness agenda and focused on identifying the transboundary impacts of domestic policies on developing countries. With the advent of the SDGs, policy coherence for sustainable development (PCSD) became the dominant framework, raising awareness that countries' push to implement the SDGs at home sometimes comes at the expense of dedicated attention to partner-friendly policies (OECD/EC-JRC, 2021[103]). Some DAC members have taken steps to develop clear strategies and action plans that aim to achieve coherence – Italy, Luxembourg and the Netherlands, for instance, have all explicitly prioritised coherence in government strategies or legislation (OECD, 2022[104]). However, conflicts of interest between sectors and between national and global development objectives have been found to be key obstacles in coherence efforts (Fafo Research Foundation and Peace Research Institute Oslo, 2018[105]; Fellesson and Román, 2016[106]).

Against this backdrop, it is particularly concerning that peer reviews frequently note a lack of strategic vision and objectives to guide government institutions on PCSD and that the focus in PCSD remains on development co-operation, trade and foreign policy without taking adequate account of domestic policies such as the environment, business oversight, defence policy and remittance costs.

Designing arbitration mechanisms and understanding policy sets

Mechanisms are needed to support debate and dialogue to generate win-win policy options, if possible, and adjudicate trade-offs (Mackie, 2020[107]). Line ministries other than those directly responsible for development need to have clear responsibility for their impact on global sustainable development (OECD, 2022[104]). This is the case in Sweden, for example, where all ministries are required to develop action plans on their contributions to the SDGs; recent evaluations in the EU and Norway also advised similar all-of-government engagement (OECD, 2022[104]). Honing in on policy areas relevant for each DAC country can be a helpful first step towards a wider application of policy coherence, as illustrated by Switzerland's efforts to return assets stolen by politically exposed persons to their country of origin (OECD, 2021[108]) or the steps the United Kingdom has taken against illicit financial flows at home (OECD, 2021[109]). However, some DAC members have been found to lack functional mechanisms, while others have mechanisms that are not utilised or resourced to reach their fullest potential. In addition, identifying current relevant policy issues for both ODA providers and different recipient countries is a substantial co-ordination task. Advances are being made in highlighting and categorising various examples of coherence challenges that could be further exploited (European Commission, 2021[110]).

Measurement approaches are yet to mature and their outcomes to be embedded in decision making

Measuring levels and impacts of policy coherence is challenging, both conceptually and due to data gaps. Quantifying the positive and negative impacts of coherence efforts, or the lack of such efforts, is complicated by numerous variables, among them the strength of the connection between countries in relation to different policy issues, levels of vulnerability and sources of resilience (OECD/EC-JRC, 2021[103]). A number of quantitative measurement approaches are being tested but are still in the early phases (German Institute of Development and Sustainability, 2022[111]; UN, 2017[112]; Parlamento 2030, 2022[113]; Center for Global Development, 2021[114]). Finland and Switzerland, for example, have developed monitoring indicators on global responsibility and policy coherence as part of their national SDG reporting (OECD, 2022[104]). The most developed attempts to model transboundary impacts of policies include the MAGNET model and the OECD ENV-Linkages model,[4] which allow for quantification of the positive and negative impacts of particular policy choices.

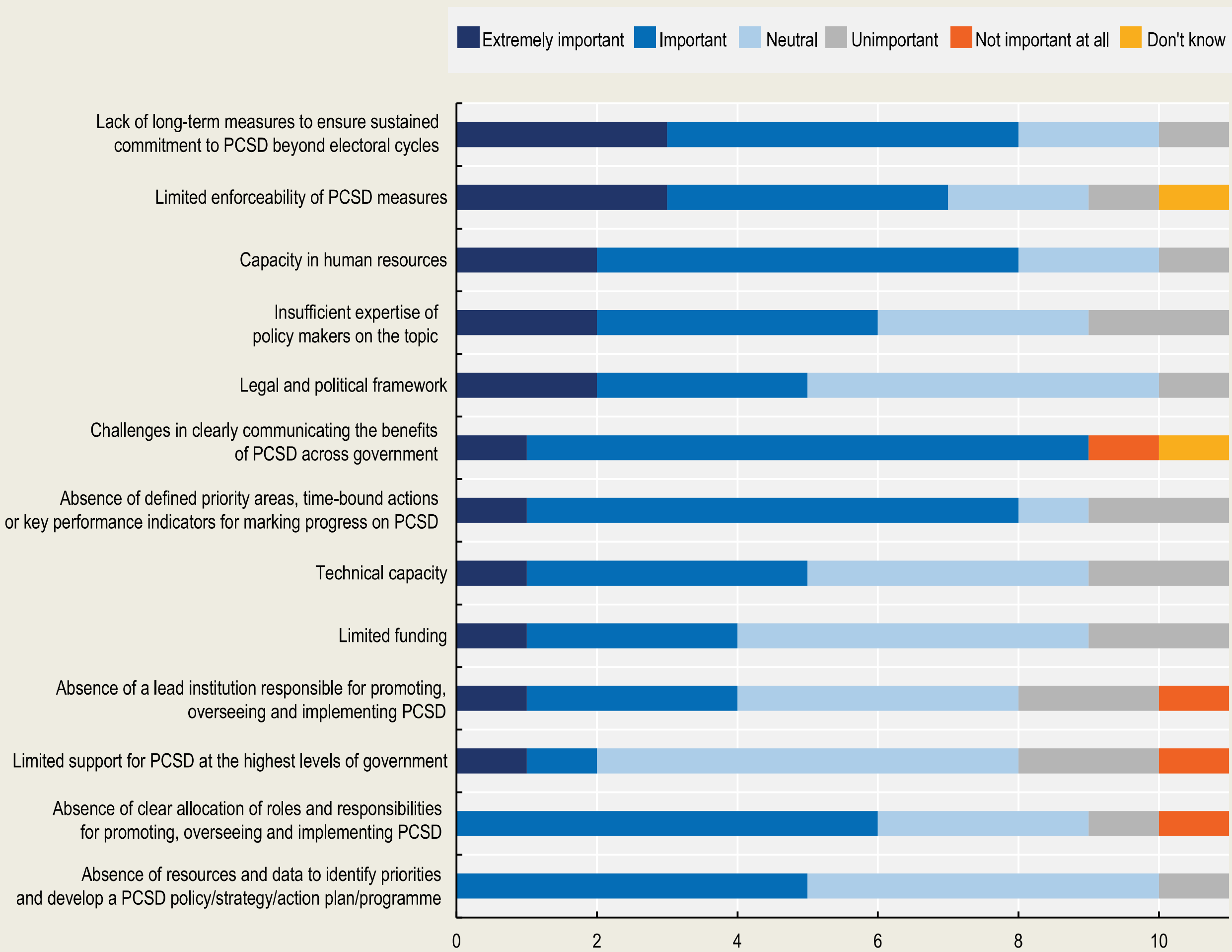
Combinations of challenges across measurement, institutional mechanisms, and vision and leadership hamper PCSD efforts, but appropriate solutions in country contexts can underpin progress (Box 8.5).

Box 8.5. Challenges and opportunities for policy coherence for sustainable development

Obstacles to policy coherence for sustainable development implementation

The 2022 Survey on Institutional Capacities and Tools to enhance policy coherence for sustainable development (PCSD) was an opportunity to consult member countries on the obstacles they face in implementing the OECD Recommendation of the Council on Policy Coherence for Sustainable Development. They reported three main obstacles across the three pillars of the Recommendation (Figure 8.18).

Figure 8.18. Obstacles to implementing policy coherence for sustainable development, by level of importance



Source: The 2022 Survey on Institutional Capacities and Tools to Enhance Policy Coherence for Sustainable Development (PCSD) is an unpublished internal document.

These obstacles are in addition to the common challenges of using qualitative approaches to assess, monitor and evaluate the impacts of policies on sustainable development, particularly transboundary impacts. Overall, the picture of PCSD implementation is one of strength in commitment and leadership for PCSD but limited at the level of capacities and tools for integrating, monitoring and assessing sustainable development initiatives.

Country projects and lessons for policy coherence for sustainable development implementation

The OECD is focusing on enhancing impactful implementation across the eight guiding principles of the PCSD Recommendation and its three pillars. Drawing lessons from recent country projects, concrete steps to address common obstacles are being identified.

Pillar 1: Commitment, vision and leadership

Italy's recent National Action Plan for Policy Coherence for Sustainable Development brings together the institutional mechanisms, evaluation frameworks and coherence tools needed to integrate sustainable development into government policy making. Importantly, the plan includes targets and measurable processes for each action to help track progress. These support the effective operationalisation of implementing the Sustainable Development Goals (SDGs) and set out an incremental path to mainstream sustainability as the standard for decision making.

Pillar 2: Institutional mechanisms for co-ordination

Poland's central government will soon benefit from a capacity-building programme developed by the OECD that aims to strengthen civil servants' skills to implement the SDGs in an integrated and coherent manner. The programme responds to identified challenges around lack of knowledge about the 2030 Agenda, insufficient communication across the government, and limited insight into the information and data resources that exist on sustainable development, among others. An online knowledge-sharing platform, where civil servants can find information that corresponds to their area of expertise and level of seniority, complements the programme.

Pillar 3: Policy impacts

Luxembourg's sustainability check tool is a self-assessment tool that ministries and public administrations will use in conjunction with each legislative proposal to assess its contributions to the national sustainable development priorities spelt out in the National Plan for Sustainable Development.

This will ensure that the long-term impacts of draft laws and regulations on long-term sustainability goals are systematically taken into account and reported and that necessary trade-offs are made when complex policies are analysed. The sustainability check tool also provides a mechanism through which relevant departments can analyse and negotiate coherence issues as they arise.

Source: Contributed by Ernesto Soria Morales and Carina Lindberg, Directorate for Public Governance, OECD.

Conclusion

In the decades since ODA began, the development co-operation community has utilised commitments and the sharing and implementation of good practices as mechanisms to keep pace with changes among both providers and recipients as well as in the wider global landscape. The unprecedented shocks of recent years (the COVID-19 crisis and the impacts of Russia's war of aggression against Ukraine) and ongoing humanitarian and climate crises hamper systematic implementation. At the same time, they underscore the importance of maximising the value, impact and quality of ODA. This moment of crisis has opened three levels of opportunity to maximise ODA:

1. **Capitalise on crisis response.** The pandemic, in particular, triggered some favourable changes in spending, including increased budget support and a softening of lending conditions to the LDCs. A window of opportunity opened to embed these changes and also question other approaches that are less favourable, such as increased earmarking to the multilateral system and a preference for humanitarian assistance over crisis prevention. While 2021 data show that the use of many of these mechanisms was not sustained, their profile has been raised and further attention could be paid to gathering evidence on their utility in crisis response as well as over the longer term.
2. **Tackle long-standing issues.** Fragmentation, limited use of country systems and poor allocation according to need are among the issues that pre-date recent crises. The strain that these place on developing countries is getting more attention. As development co-operation providers come under increased budgetary pressures, utilising the community's suite of commitments and good practices can provide helpful logics for prioritising allocations and help improve efficiency and reduce waste.
3. **Implement together to uncover gaps.** In the process of implementation, development co-operation providers will be confronted with complex issues and tensions, for example between

spending directly in developing countries and spending on global public goods. The only way to calibrate limited supply to varied demand will be to work through these challenges together with a view to maximising both individual and collective impact – coherently within individual administrations and across providers and with the full engagement of developing countries. Such a process would also likely highlight where new commitments could be helpful or identify topics and approaches that may require more systematic sharing of good practice.

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Annex 8.A. Methodological note

Methodology for identifying challenges to maximising official development assistance

This chapter relied on a broad range of source materials and data to identify:

- the commitments and good practices that are relevant to maximising official development assistance (ODA) and that Development Assistance Committee (DAC) members struggle to make progress on
- the key barriers to progress for each of those commitments and practices
- examples of progress.

These include statements made at DAC High-Level Meetings and Senior-Level Meetings starting from 2012 (Annex 8.B); syntheses of DAC peer reviews since 2012, including reviews published in the *Development Co-operation Report 2014: Mobilising Resources for Sustainable Development* (OECD, 2014[115]); and internal tracking of peer reviews for the years 2012-20, key impressions documents, and an overview of recommendations that highlight areas of challenge over time and across members. The Development Co-operation TIPS – Tools, Insights, Practices platform provided examples of good practice among DAC members. Sources representing the views of other stakeholders, notably partner countries and those relying on bilateral funding to carry out their work (e.g. the Global Partnership for Effective Development Co-operation and the United Nations Development Cooperation Forum) were also consulted, and secondary material is cited as appropriate. At least one peer review of each DAC member was included in the analysis.

The evidence used in this chapter is not exhaustive and where countries are identified by name, the text refers to evidence as it appeared in peer review documents. However, it should be noted that circumstances may have changed since a peer review, as each country is reviewed on average once every six years. Additionally, where a country is mentioned, it is to illustrate a general trend and should not be read as an assessment of individual DAC members' current performance.

The focus on challenges is not intended to discount or occlude the positive progress of countries individually or collectively in relation to particular aspects of the development co-operation portfolio. Rather, this focus is intended to provide practical input for discussion and debate on how to move forward on issues that have proven perennially difficult to resolve.

Methodology for processing and presentation of statistics

All statistics on official and private flows are sourced from the OECD's online *International Development Statistics database*, last updated on 20 December 2022. Estimates are available up to the year 2021. Unless otherwise stated, and except for the analysis of a single year, all financial amounts are deflated to constant 2020 prices, using OECD-DAC deflators and exchange rates, to enable comparisons over time. Further methodological notes on the different types, modalities and thematic areas of ODA and other resource flows can be found in the latest Development Co-operation Report profiles.

Annex 8.B. Synthesis of DAC statements on challenges to meeting commitments

A review of official summaries of High-Level Meetings (HLMs) and Senior-Level Meetings (SLMs) since 2012 indicates the challenge of upholding and/or delivering on Development Assistance Committee (DAC) recommendations while also adapting to new demands and pressures in the context of budgetary and other constraints. Issues that emerge consistently as a priority in the discussions are policy coherence for sustainable development; maximising support to countries most in need, including least developed countries (LDCs) (United Nations target) and other countries most in need; protecting the integrity of official development assistance (ODA) (including aid untying) while modernising it to meet new challenges; delivering on the Effectiveness Principles such as country ownership, long-term and predictable investments in system strengthening, and mutual accountability; learning lessons from research, evidence and evaluations; finding appropriate modalities to invest in global public goods; delivering on commitments to localisation (as per the Grand Bargain and, more recently, the DAC civil society organisation recommendation); and partnerships with the private sector and more inclusive dialogue with developing countries and other providers.

For example:

- The 2012 HLM focused on establishing a successor framework to the Sustainable Development Goals; the establishment of the Global Partnership for Effective Development Co-operation (GPEDC); accounting for all sources of development financing and reporting of ODA loans; DAC enlargement; and a process to modernise ODA. The HLM also agreed to create the Total Official Support for Sustainable Development, or TOSSD.
- The 2014 SLM focused on transparency and the traceability of new sources of financing for developing countries; the Busan commitments not being met; development finance targeting countries the most in need; TOSSD development; weak engagement from capitals around political processes in conflict settings; and private sector engagement.
- The 2014 HLM prepared for the post-2015 agenda and discussed modernising the statistical system around ODA; public and private resource mobilisation; a recommitment to the 0.7% ODA/gross national income target; reversing trends of declining ODA to LDCs; transparency; and dialogue with developing countries.
- The 2015 SLM reaffirmed commitments to financing for countries most in need and discussed further work required on effectiveness, such as fragmentation, alignment, strengthening the quality of country systems; improving statistical capacity in developing countries; and a focus on results and gender.
- The 2016 HLM agreed to adapt the DAC statistical systems to the Addis Ababa Action Agenda and the 2030 Agenda; positioned ODA as a key financing flow and catalyst for other sources of finance; discussed a focus on the private sector and blended finance, multiple refugee crises and instances of forced displacement; further committed to the Effectiveness Principles; and reviewed proposals needed to enhance the representativeness of the DAC and maximise its relevance and impact.
- The 2016 SLM advanced discussions on ODA eligibility of development finance institutions and other private sector instrument vehicles; acknowledged the importance of small island developing states as a grouping of countries most in need; discussed finance mobilised in support of the Rio Convention, reporting of in-development co-operation provider refugee costs and the GPEDC

modernising its future role; introduced a high-level panel (A New DAC in a Changing World); and agreed on the need to raise the political impact of the DAC's work.

- The 2017 High-Level Panel report on the DAC recommended that the DAC:
    - change its mandate to promote development co-operation in support of a new consensus development agenda
    - be more inclusive of other development partners to increase effectiveness
    - reform its working methods.
- The 2017 Chair's proposal for DAC reform in light of the High-Level Panel report and OECD evaluation concluded that while efficiency had improved, relevance and effectiveness had decreased. The proposal laid out six strategic priorities for DAC reform.
- The 2017 HLM featured the DAC championing of the 2030 Agenda and the Addis Abba Action Agenda in particular; raised the issue of policy coherence for sustainable development (PCSD); communicated six strategic priorities for DAC reform; reaffirmed commitments to ODA targets; updated ODA rules on peace and security; and discussed responses to forced displacement, support to countries in transition, mobilising private finance and an update of the GPEDC monitoring framework.
- The 2017 SLM welcomed the Chair's proposal for DAC reform on behalf of members.
- The 2020 HLM focused on the impact of COVID-19 and the need to champion the 2030 Agenda and tackle inequalities; highlighted the importance of meeting ODA targets to fund immediate response; discussed the need to classify all development financing flows, including debt treatment as ODA; committed to reporting on financing for climate and the environment before COP26; reaffirmed commitment to the Busan Principles and to building partnerships; underlined the humanitarian-development-peace nexus; and highlighted sexual exploitation and abuse and sexual harassment reporting and accountability mechanisms.
- The 2022 SLM reviewed the ongoing COVID-19 response and need for partnerships; discussed the interaction of development co-operation and the political landscape and working with emerging development co-operation providers and civil society organisations; focused on effectiveness, flexibility, prioritisation, localisation, knowledge sharing, peer learning and PCSD; and highlighted delivery on the DAC Declaration on Climate, Environment and Biodiversity and financing for sustainable development.

Annex 8.C. DAC members' commitment and progress towards the United Nations official development assistance target of 0.7% of gross national income

DAC member	DAC member status on adoption of ODA/GNI target	ODA/GNI 2021	Average annual growth rate (2018-21)
Australia	No	0.22	-1.31%
Austria	0.7% by 2030	0.31	6.06%
Belgium	0.7% by 2030	0.46	2.75%
Canada	Increase every year until 2030	0.32	4.82%
Czech Republic	0.33% by 2030	0.13	0.00%
Denmark	0.7%	0.7	-0.93%
Finland	0.7% by 2030	0.47	9.52%
France	0.7% by 2025	0.52	6.96%
Germany	0.7% by 2030	0.74	7.01%
Greece	No	0.12	1.16%
Hungary	0.33% by 2030	0.29	11.99%
Iceland	0.7% by 2030	0.28	0.33%
Ireland	0.7% by 2030	0.31	0.03%
Italy	0.7% by 2030	0.28	5.09%
Japan	No	0.34	6.72%
Korea	Commitment to double volume compared to 2019 (previously: 0.3% by 2030)	0.16	4.92%

DAC member	DAC member status on adoption of ODA/GNI target	ODA/GNI 2021	Average annual growth rate (2018-21)
Luxembourg	1.0% by 2030	0.99	0.41%
Netherlands	0.7% by 2030	0.52	-5.57%
New Zealand	0.7% by 2030	0.28	0.18%
Norway	1.0%	0.93	0.38%
Poland	0.33% by 2030	0.15	2.38%
Portugal	0.7% by 2030	0.18	0.11%
Slovak Republic	0.33% by 2030	0.13	1.58%
Slovenia	0.33% by 2030	0.19	6.00%
Spain	0.7% by 2030 (Draft Bill 2022)	0.25	7.74%
Sweden	1.0%	0.91	-3.90%
Switzerland	Adopted 0.5% (0.7% international commitments by 2030)	0.51	5.15%
United Kingdom	0.7% ODA/GNI was mandated by the International Development Act, 2015 In 2021, the decision was taken to temporarily reduce the ODA budget to be equivalent to 0.5% of GNI until fiscal tests are met	0.5	-9.52%
United States	No	0.18	4.32%

Note: DAC: Development Assistance Committee; ODA: official development assistance; GNI: gross national income.

Sources: OECD (2022[33]), *Development Co-operation Profiles*, https://doi.org/10.1787/2dcf1367-en; HM Treasury (2021[99]), "Government sets out conditions for returning to 0.7% aid target", https://www.gov.uk/government/news/government-sets-out-conditions-for-returning-to-07-aid-target; OECD (2012[116]), *Development Co-operation Report 2012: Lessons in Linking Sustainability and Development*, https://doi.org/10.1787/dcr-2012-en; Development Today (2022[117]), "Sweden drops 1% of GNI target, makes aid a tool of migration policy", https://www.development-today.com/archive/dt-2022/dt-7--2022/sweden-drops-1-of-gni-target-makes-aid-a-tool-of-migration-policy; OECD (2022[118]), *Review of the Development Co-operation Policies and Programmes of Spain: A Snapshot of Spain's Development Co-operation System,* https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/AR(2021)4/6/FINAL&docLanguage=En#:~:text=The%20latest%20Foreign%20Policy%20Strategy,%2C%202021%5B2%5D); Spanish Ministry of Foreign Affairs, European Union and Cooperation (2022[119]), "Council of Ministers approves Cooperation Bill", https://www.exteriores.gob.es/en/Comunicacion/NotasPrensa/Paginas/2022_NOTAS_P/20220531_NOTA048.aspx; SlovakAid (2018[120]), *Medium-term Strategy For Development Cooperation of the Slovak Republic for 2019-2023*, https://slovakaid.sk/wp-content/uploads/2021/01/strednodoba_strategia_rozvojovej_spoluprace_eng_2019-2023_644_stran_final.pdf; Chadwick (2022[36]), "Norway proposes cutting aid share to 46-year low", https://www.devex.com/news/norway-proposes-cutting-aid-share-to-46-year-low-104158.

Annex 8.D. DAC members' bilateral development finance institutions

DAC member	Development finance institution	Year of founding	Source of capital	Credit rating
Australia				
Austria	OeEB	2008	Private with state mandate	AA+ (S&P)
Belgium	BIO	2001	Public	
Canada	FinDev	2017	State-owned	AAA (S&P)
Czech Republic				
Denmark	IFU	1967	Government-owned (public/private capital)	
Finland	Finnfund	1980	Mixed ownership	
France	AFD	1941	Public	AA (S&P)
France	Proparco (AFD)	1977	Public/private	AA (S&P)
Germany	KfW	1948	Public	AAA
	DEG	1962	Public/private	
Greece				
Hungary				
Iceland				
Ireland				
Italy	CDP	1850 (2015)	Public/private	BBB (S&P)
	SIMEST	1990	Public/private	BBB (S&P)
Japan				
Korea	Korea Eximbank/EDCF	1987	Public	AA-
Luxembourg				
Netherlands	FMO	1970	Public/private	AAA (S&P)
New Zealand				
Norway	Norfund	1997	Public capital	
Poland				
Portugal	SOFID	2007	Public/private	
Slovak Republic				
Slovenia				
Spain	COFIDES			BBB (S&P)
Sweden	Swedfund	1979	Public	AAA (S&P)
Switzerland	SIFEM	2005	Public	AAA (S&P)
United Kingdom	BII	1948	Public	
United States	DFC	2019	Public	AAA (Fitch)
European Union	EIB	1958	Public	AAA (S&P)

Source: Institutional websites of listed development finance institutions.

Notes

[1] In 2021, the World Bank classified 46 countries as LDCs. The OECD classified 60 countries and territories as fragile contexts.

[2] For a history of the ODA target, see also: https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/ODA-history-of-the-0-7-target.pdf.

[3] Iterations of the DAC Recommendation on Untying Official Development Assistance were made in 2001, 2008 and 2018. The 2011 Busan Partnership for Effective Development Co-operation also includes commitments to improve reporting on untying. See: https://doi.org/10.1787/54de7baa-en.

[4] Both models are described in detail at: https://doi.org/10.1787/862c0db7-en.

9 In my view: Reinventing official development assistance: From an Arlequin tapestry to a more inspiring Kandinsky-Kasse moment

Abdoulaye Mar Dieye, UN Special Coordinator for Development in the Sahel

Official development assistance (ODA) has had an indisputable instrumental value in supporting developing countries' progress on their development paths. Yet, because it has been allocated, ex ante, in a scattered and uncoordinated manner (the Arlequin syndrome) and not been scaled up enough or targeting deliberately the root causes of underdevelopment – including the imperative of structural transformation and a focus on people's agency – it has, over time, had diminishing returns, runs the risk of having a limited impact and thus falling into irrelevance. It is, therefore, high time to revisit and reinvent the way ODA is conceived and delivered.

The real instrumental value of ODA lies in its ability to contribute to mitigating risks created by global trends and in investing in global goods and global commons that other forms of development financing are unlikely to address. These include:

- climate security
- food security
- human security
- ungoverned or underinvested spaces like borders and cross-border areas, that public policies have difficulty reaching due to limited fiscal space.

Redirecting and focusing ODA on these blind spots would contribute to accelerating, or rather stimulating, the achievement of the Sustainable Development Goals.

The impact would be even greater if developed countries were to fulfil their promise to provide ODA equivalent to 0.7% of their gross national income (GNI) as recommended in 1969 in the Pearson Commission's *Partners in Development* report – a target built on the DAC's 1969 definition of ODA and a suggestion taken up in a resolution of the UN General Assembly on 24 October 1970 (UN General Assembly, 1970[1]).

ODA has lost its punch due to the crowding out effect of the growing and much-needed life-saving humanitarian assistance, the spending on crucial security-related expenses and, in some instances, by contributing to relieving the crippling debt burden of developing countries.

The reinventing of ODA must then focus on a few avenues:

- fulfil the Pearson recommendation to provide 0.7% of GNI in ODA
- fit in a clear funding framework, defined ex ante, such as the integrated national financing frameworks (UN, n.d.[2])
- be a source of proactive and anticipatory financing rather than just a reactive mode of funding.

I see five key structural challenges that warrant our immediate collective attention if we are to ensure that ODA is not just fit-for-purpose but also future-proof:

1. **Strengthen co-creation among partners**, including governments, international and regional organisations, international financial institutions, civil society and the private sector from the outset in the design and implementation of long-term initiatives. These initiatives should leverage the comparative advantages of grant and non-grant instruments to better target the poor absorptive capacities of national counterparts, as well as neglected demographic, thematic and geographic areas.
2. **Leaving no one behind** will require a holistic and inclusive approach to marginalised groups that addresses the needs of the majority of the population who live off the land (60-80%). This includes herders, farmers, cross-border traders and fishers, of which 51% are women and 60% are youth, whose jobs (primarily informal) are concentrated in the lower segments of the value chain in labour-intensive agricultural sectors.
3. **Addressing the root causes of crises** necessitates strengthened effective targeting of neglected thematic areas such as local governance;[1] micro, small, and medium-sized enterprises; education; and green agriculture techniques.
4. **Stronger focus on marginalised geographic areas** such as cross-border regions that have a higher propensity for violent conflict and conflict contagion across borders, as well as on strengthening sources of resilience such as socio-economic linkages between the Sahel countries and the littoral countries.
5. **Shifting from accounting to accountability** requires revamping our current data collection mechanisms on ODA such as the Creditor Reporting System, which faces important limitations.[2] Existing purpose codes lack focus on important but underprioritised thematic, demographic and geographic parameters. If we are to collectively learn from our experiences and crowd-in a more effective and diverse set of financing instruments, we need to plug the data gaps and start to measure what we treasure.

The United Nations Integrated Strategy for the Sahel is aimed at addressing these structural challenges in the Sahel. If we succeed, we will stimulate the flow of more resources in a co-ordinated, scaled and impactful manner, then transform the current ODA Arlequin tapestry into a more inspiring Vasily Kandinsky-Kalidou Kasse[3] moment. A moment for people to feel the sustained impact of international development co-operation, partnership and solidarity.

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Notes

[1] Land access and use, and natural resource management – especially water management currently receiving less than 1% of ODA.

[2] Including inconsistent reporting by donors and the voluntary basis on which non-concessional loans are reported.

[3] Both Kandinsky from the Russian Federation and Kasse from Senegal – also known as the "brush of the Sahel" – believed in transcending current realities to reach the higher grounds of new and more inspiring realities.

10 In focus: Aid effectiveness in Afghanistan, Mali and South Sudan

Christoph Zürcher, University of Ottawa

Fragility poses well-known challenges for development co-operation. But evidence gleaned from 315 evaluations of aid effectiveness in Afghanistan, Mali and South Sudan over the period 2008-21 shows that aid does not make extremely fragile contexts more stable, more capable or better governed. Overall, programmes for stabilisation, capacity building, good governance and gender equality are rarely effective as they overestimate local capacity and underestimate resistance from entrenched elites. Neither money nor a fine-tuning of aid modalities will fix the problems. Providers instead should take a more realistic and modest approach and allocate aid to sectors where there is a reasonable probability of success. This will require more systematic research into the relationship between aid effectiveness and degrees of fragility.

Key messages

- Evaluations over a decade of development interventions in highly fragile situations find that interventions predominantly fail to deliver on their objectives.
- Development co-operation providers may need to rethink the principle of allocating according to the greatest need in these contexts and instead focus on interventions with the highest probability of success in the contexts in which aid is deployed.

To what extent can aid be effective in highly fragile situations? A recent systematic review of 315 individual evaluations of aid to Afghanistan, Mali and South Sudan provides robust, clear and sobering conclusions: Development aid to the most fragile contexts has not sufficiently met its objectives, whether these are stabilisation (for example, through basic service provision, mediation and conflict resolution capacity building, or the provision of economic opportunities); improvement of state capacities and good governance; or increasing women's empowerment (Zürcher, 2020[1]; 2020[2]). The most important – and most disappointing – finding is that development aid is not a suitable tool for addressing the core problems of such contexts. Aid does not improve governmental capacity, does not lead to better governance and does not provide more stability. Even where assistance was effective to some degree – for instance, in education, health and rural development interventions – results may not be sustainable. These findings should compel donors to fundamentally reconsider basic assumptions regarding their engagement in fragile contexts.

Aid did not make extremely fragile contexts more stable, capable or better governed

Systematic reviews are exercises in learning. They aim to identify and summarise all existing evidence on a given topic. This particular systematic review covered evaluations published in English or French between 2008 and 2021. In total, 315 evaluations that met a predefined methodological quality threshold were included: 142 on interventions on Afghanistan, 104 on Mali and 69 on South Sudan. All included evaluations were then distributed along ten predefined aid sectors: women's rights, health, rural development and climate change, the rule of law, stabilisation, education, sustainable economic development, nutrition, humanitarian assistance, and good governance. In the final step, the included evaluation reports were mined for evidence on effectiveness.

The review found that interventions in education, health and rural development were reasonably effective, although results were most likely not sustainable without external support. Interventions contributed to improved livelihoods and strengthened coping mechanisms but did not lead to sustainable economic growth, jobs or income opportunities. Programmes supporting macroeconomic development, macroeconomic policies, financial management and support for the private sector were mostly ineffective. Likewise, interventions for promoting gender equality had little impact. Finally, and most importantly, interventions in stabilisation, good governance and capacity building for the central government were clearly ineffective in all three countries.

Interventions in education, health and rural development were reasonably effective, although results were most likely not sustainable without external support.

Stabilisation interventions came in different shapes and forms. Stabilisation projects aimed to quickly restore basic services to the population in the hope that this would encourage the population to work with the government or aimed to provide economic opportunities that work as a peace dividend. Other projects aimed to directly strengthen the mediation and conflict resolution capacity of communities and political actors; another type supported political institutions and processes; and some regarded support for civil society actors as a possible contribution to stabilisation. The sample analysed in the review contained 28 evaluations of stabilisation interventions. None of these interventions proved to be effective. This is in line with the wider academic literature on stabilisation, which suggests that aid is seldom a viable tool for reducing violence (Sexton, 2016[3]).[1]

Interventions to promote "good governance" were also found to be largely ineffective. Good governance is a very broad sector and includes public sector and regulatory policy reform, promoting democracy, election support, anti-corruption programmes, and the rule of law, among other things. Together with stabilisation and capacity building for the government, it is at the core of what donors are trying to achieve in fragile contexts. Again, the evidence is clear. Thirty of the evaluations that covered good governance initiatives suggest that effectiveness was very low in these extremely fragile contexts. Factors that explain the lack of impacts included entrenched, patronage-based practices within the government; a lack of buy-in from the government; donor-driven, top-down project design with little regard for the core institutional requirements and demands of the partner institutions; and lack of political will from the government.

Likewise, capacity-building measures for governments in extremely fragile contexts largely missed their mark. The review found that donors overestimated both existing state capacity as well as the recipient government's political will for reforms. As a result, programming for capacity building was overambitious, unsustainable and ineffective. The hope that the government would become a partner in service delivery never materialised. The least effective were capacity-building measures in so-called politicised fields, which offer opportunities for lucrative corruption and are therefore vital for maintaining the rentier and patronage state.

Donors overestimate capacity and underestimate resistance by entrenched elites

The meta-evaluation found that three main factors explain why development co-operation often fails to achieve its aims in extremely fragile contexts. First, in highly fragile settings, political power does not reside with formal political institutions but rather in patronage networks. Patronage depends on rent-seeking, predation and widespread corruption. Elites in such a system are thus not interested in political reforms that would endanger this particular way of exercising power. Second, donors consistently overestimate existing state capacity and design programmes based on largely imagined capacity. Third, the lack of basic security, typical for fragile situations, renders many aid programmes ineffective.

In sum, the systematic review demonstrates that interventions in stabilisation, good governance and capacity building for the government were not effective. This is a very disappointing finding and one that urges donors to come to terms with the fact that while development aid can help improve basic livelihoods and service provision – albeit to a limited extent and not sustainably – it has little political transformative capacity in these very fragile contexts. Aid will not make a fragile state more stable, more capable or better governed.

Development co-operation providers must mind the opportunity costs

Every aid dollar that is spent on an ineffective intervention is one that cannot be spent on an intervention that might be effective. Continuing to allocate resources to sectors where the probability of success is low is not only ineffective, it is also ethically wrong because it binds resources that otherwise could be used to improve people's lives; for example, to provide shelter, increase food security, improve access to health, or teach children how to read and write.

Perhaps the most important implication of this systematic review is that aid managers should always consider opportunity costs when taking allocation decisions. It may be very tempting to allocate aid resources to where the greatest needs seem to be – a lack of security, a weak government, appalling gender inequalities. But once the evidence shows that the probability of success in these sectors is extremely low, then aid resources must be allocated to sectors with a reasonable probability of success, even if the needs are perceived as smaller in these sectors or when these sectors are not aligned with the ideological priorities of Western donors.

Of course, an aid strategy that would prioritise aid sectors with a higher probability of success over aid sectors with a low probability of success has its own challenges. For example, if aid is predominantly provided to sectors such as health, education or livelihoods, there is the risk that aid dependencies will be created, without an easy exit option. Furthermore, focusing aid on such sectors will do little to transform the predatory state structures that are at the core of fragility.

Rethink, reset and be realistic about what aid can truly achieve in fragile settings

This systematic review highlighted such conundrums. It provided no silver bullets, but faced with the evidence from the review, the aid community can no longer ignore the problem. What is needed now is an honest discussion about a new aid strategy in fragile contexts, one that starts with the acknowledgement of the limits of what aid can accomplish in these settings. This finding is not entirely new. There is a solid academic literature that argues that external actors rarely succeed in strengthening institutions in fragile states and territories (Bliesemann de Guevara, 2010[4]; Ottaway, 2002[5]; Chowdhury, 2017[6]; de Waal, 2015[7]); that fragile states are often trapped in fragility (Pritchett, Woolcock and Andrews, 2013[8]; Collier, 2007[9]; Carment and Samy, 2019[10]); and that aid faces many challenges in fragile states (Gisselquist, 2014[11]). Yet, there is still the prevailing sense among many scholars and practitioners that aid effectiveness might somehow be increased by fine-tuning aid modalities, by better adapting aid to local contexts, by increasing aid flows or by staying engaged for a longer time. This systematic review strongly suggests that this is not the case.

The evidence also shows that aid only has a fair chance of being effective in highly fragile contexts when programmes are modest in their ambitions and relatively small, do not assume unrealistic partner capacities, are aware of the context, and do not spend aid money too fast or in highly insecure regions controlled by insurgents. The most important lesson is that aid should avoid sectors where it is most probably not effective and prioritise sectors where aid has a fair chance of being effective.

What is needed now is an honest discussion about a new aid strategy in fragile contexts, one that starts with the acknowledgement of the limits of what aid can accomplish in these settings.

Such principles amount to a new paradigm – out with grand visions and in with local, tangible and small gains. Abandoning grand visions in favour of tangible local gains may be a bitter pill to swallow for many aid agencies and aid practitioners, who are often driven by a genuine desire to use aid as a lever to transform societies so that structural impediments to development are removed. Unfortunately, the evidence shows that aid has little transformative power in the most fragile contexts. This is a very uncomfortable truth, but one that can no longer be ignored.

Defining a new approach for supporting the most fragile places will be a long process. One thing that donors can do now is further engage in collecting evidence. More systematic reviews of aid to highly fragile contexts are needed. Systematic reviews of aid to less fragile states are also needed to determine whether aid effectiveness increases once fragility becomes less severe. Systematically varying the fragility score can indicate whether and how aid effectiveness across different sectors is correlated with initial fragility.

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Note

[1] For a systematic review of the effects of aid on violence, see Zürcher (2020[1]).

11 In my view: Funding more proximately is not risky but not doing so is

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Many myths about foreign aid persist in North America and Europe, two continents that dominate the funding structures supporting international humanitarian aid and development. One especially persistent myth is that local civil society organisations (CSOs) are too risky to work with. Such local groups get branded as “risky” because many are unable to meet donor requirements – embedded in complex compliance systems – and are thought to lack capacity (Barbelet et al., 2021[1]).

In my view, we are thinking about risk and lack of capacity all wrong. The risk isn’t in funding local CSOs. Local organisations have capacity. The risk lies in not funding them.

Why?

When we fail to fund more proximately, we fail to support the communities that are relied on to do the critically needed work on the ground. Community-based organisations are the most effective first responders to crises and are the most accountable to their communities. Time and time again, in the world’s most insecure and complex environments, in places like Afghanistan, Somalia, the Syrian Arab Republic, Ukraine, and Yemen, we see local organisations do the heavy lifting – and risking their own lives – in crisis implementation.

Local CSOs have local knowledge, contacts and the ability to access a country’s most remote areas. Given this critical role, the humanitarian aid and development community can no longer continue to relegate these local groups to serving as implementation partners. We all know that by the time this funding reaches local organisations, not only is it heavily restricted, but there are very few actual dollars left. We must end the short cycles of funding restricted to programme delivery, with little (or no) indirect costs allowed (Boyes-Watson and Bortcosh, 2021[2]). This perpetuates financial insecurity and keeps local organisations trapped in a disempowerment loop, facing a nearly insurmountable barrier to growth and maturity.

We all know that by the time this funding reaches local organisations, not only is it heavily restricted, but there are very few actual dollars left.

I also question if complicated compliance systems built by government donors are serving the purpose for which they were designed: ensuring that their funds are well spent to save lives and lift communities out of poverty. Or are they forcing recipient organisations to divert funds towards managing the compliance systems rather than directly serving communities in need? Such massive, inefficient, costly compliance systems stack the deck against local community-based organisations being able to successfully compete for funds.

In ignoring local resources, the aid system disempowers the very communities it targets

In 2016, donors committed to the Grand Bargain[1] promised to see that 25% of humanitarian funding goes to local actors by 2020. Today, just 3.1% of humanitarian funding goes directly to local CSOs (Development Initiatives, 2021[3]). This is unacceptable. In order for the commitment to be put into action, we must address the current system that disempowers locals. Little to no attention is given to the feasible and accessible local resources inherent in the very communities targeted by aid. The risk lies in continuing to ignore contextualised socio-economic realities. So when donors say that locals do not have the capacity to implement, it is an incomplete statement. What locals don't have is the capacity to implement what does not work for them! The current world system of aid is resistant to the indisputable fact that local organisations are best able to match aid objectives to the fundamental aspirations of the locals because they are conscious of the local sensitivities, and their solutions are tailor-made to work within local historical contexts. The resulting community transformation is amazing, yet only a few development co-operation providers are willing to shift power and do what we know works. They are shamefully holding on.

There are concrete actions that can be taken to redefine risk and build on the capacity of local organisations:

- Interrogate existing funding models, put into action the commitments to truly fund more local organisations and seriously work on meeting the Grand Bargain's 25% target.
- Ensure that all United Nations (UN) and international non-governmental organisations are adhering to the principles of the Pledge for Change.[2]
- Support new financing infrastructure that is led by local civil society instead of putting funds into the UN country-based pooled funds, which were not developed and designed to build the capacity of local organisations.

Funders can also elect to fund courageously and with trust (increasing their "risk appetite"), making large, flexible, multi-year commitments to proximate and indigenous organisations in support of equitable partnerships. They can rethink the existing costly and inequitable compliance apparatus. And they can help shift global power by supporting the Pledge for Change, which builds on prior commitments such as the Charter for Change[3] and the Grand Bargain. Specifically, the signatories of the Pledge for Change commit not only to national and local organisations taking the lead on work, with international non-governmental organisations in more of a support role, but also to funding the national and local organisations so they can do so. Signatories include CARE International, Oxfam, Plan International, Save the Children International, Christian Aid, ActionAid and the International Rescue Committee.

To conclude, to minimise risk, we must fund more proximately. To do this with fidelity, those who hold the purse strings must ensure that funds – including those envisioned in the Grand Bargain's 25% target – are not simply absorbed by the same actors as before. Realising the goal means shifting power and resources to local indigenous groups and communities and holding ourselves accountable to the commitments we make.

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[1] For more details, see: https://interagencystandingcommittee.org/about-the-grand-bargain.

[2] For more details, see: https://pledgeforchange2030.org.

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12 In focus: Enablers of locally led development

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Increased reliance on local partners for programme delivery during the COVID-19 crisis and a focus on redressing North-South power imbalances in development co-operation have rekindled interest in localisation. To date, however, there is no commonly accepted definition of localisation and while there are many good examples, a stronger evidence base on the benefits and challenges of locally led development co-operation is needed to inform next steps. Drawing on DAC peer reviews, discussions with DAC members and the wider literature, this case study argues that current ways of working will need to be adjusted if they are to be more conducive to localisation, including in terms of financing and operational practices, anticipating and mitigating risks, and actions that balance power relations with partners.

Key messages

- The COVID-19 pandemic forced development co-operation actors to rely primarily on local actors and this, alongside an increasing focus on redressing racism and power imbalances in the aid system, is driving a renewed push for localisation.
- Development co-operation providers are seeking to localise their practices - with a view towards long-term sustainability - by promoting local actors' perspectives, priorities and preferences.
- To be able to rely more on local partners, development agencies need to adjust how financing is provided and managed, build relevant institutional capacities internally, and identify and recalibrate power imbalances in partnerships.
- Development co-operation providers should consider developing a shared understanding of localisation based on a robust evidence base.

The objective of localisation is grounded in a range of justifications – normative (aid recipients should set their own priorities); instrumental (a quicker and more effective and efficient response to development issues); and emancipatory (referring to the need to adjust structural power imbalances in the sector) (Brown, Donini and Knox Clarke, 2014[1]; Boateng, 2021[2]). Most actors in the development community commit to these objectives and justifications and just recently, at the Effective Development Co-operation Summit in December 2022, 15 Development assistance Committee (DAC) donors endorsed a statement specifically supporting locally led development (USAID, 2022[3]). However, there is no shared definition of localisation. Nor are there guiding principles or a collective sense of whether it is a method, an outcome or both.

While calls for development co-operation to be more localised are not new, two crucial recent contextual drivers are responsible for its re-emergence on policy agendas. First, compounding global threats (the COVID-19 pandemic, rising inequalities, the climate crisis, food insecurity and war) disrupt traditional aid delivery models. Development co-operation providers have had to adapt to radically altered settings and move beyond incumbent ways of working, relying increasingly on local knowledge, capacities and access, especially during and after the pandemic (OECD, 2020[4]). Second, demands for decolonising development highlight a pressing need to address underlying power asymmetries that impede local leadership.

Stronger evidence on the benefits and challenges of locally led development is needed

For the purposes of this case study, localisation is understood as a process that drives effective development co-operation by recognising, respecting and empowering the ownership, agency and knowledge of local actors, both state and non-state, to achieve sustainable, locally led and inclusive development outcomes. While this case study uses the term localisation, other terms – such as locally led, participatory, bottom-up and community-led development – generally speak to similar objectives.

Localisation has a long history, with roots in the push for participatory approaches beginning in the 1960s (Mansuri and Rao, 2013[5]), the aid effectiveness agenda's ownership and alignment principles from the early 2000s (OECD, 2005[6]), and subsequent Grand Bargain localisation commitments in 2016 (Inter-Agency Standing Committee, 2016[7]). Over this period, there have been many good examples of localisation in practice (Baguios et al., 2021[8]). At the same time, differences in interpretations of the objectives and practice of localisation make it difficult for development co-operation providers to coalesce around a shared vision that would enable co-ordination between providers and accountability for results. There also appears to be what Mitchell (2021[9]) called a state of "functional inertia", where development actors are aware that localisation is needed but are unable to operationalise their vision. In addition, there is a specific need for evidence on the benefits and challenges of different approaches to localisation, including how development agencies' and ministries' institutional practices may either enable or hamper the achievement of locally led and inclusive development outcomes. Collectively building such an evidence base during this phase would help inform individual agency practice to push past the inertia. It would also develop a shared understanding of localisation as both a process and an outcome, which could be used as a basis for accountability that all stakeholders accept and see themselves reflected in.

Regardless of their interpretation of localisation, all providers can focus on three areas: financing practices, institutional frameworks and more equitable partnerships, informed by a thorough political economy analysis.

Long-term core funding is more likely to foster sustainable outcomes and local ownership

Sustainable development outcomes require a predictable and flexible approach with a long time horizon. Project-based funding can undermine local actors' genuine autonomy and signals a prioritisation of short-term outputs over long-term outcomes. To stay competitive in a constrained financing environment, local actors are compelled to keep overheads low. This comes at the cost of long-term sustainability; strengthened staff capacities, retention and security; and collective local action and inhibits local actors' ability to be independent, self-reliant and collaborative partners. In contrast, core funding aligned with local partner priorities would enhance autonomy and sustainability. Reflecting members' collective recognition of the importance of a flexible and long-term approach, the DAC Recommendation on Enabling Civil Society in Development Co-operation and Humanitarian Assistance calls on adherents to “promote and invest in the leadership of local civil society actors in partner countries or territories by … increasing the availability and accessibility of direct, flexible, and predictable support including core and/or programme-based support, to enhance their financial independence, sustainability, and ownership” (OECD, 2021[10]).

Localisation could also increase cost-effectiveness by circumventing intermediary actors such as international non-governmental organisations and private contractors and prioritise working with local actors directly (Van Brabant and Patel, 2018[11]). By the same token, it can be argued that localisation creates perverse incentives to treat local capacity as a cheaper means of reaching donors' predesigned goals rather than building a political, social and economic environment where locally designed solutions and resilience priorities can emerge and be supported (Barbelet et al., 2021[12]).

It can be argued that localisation creates perverse incentives to treat local capacity as a cheaper means of reaching donors' predesigned goals rather than building a political, social and economic environment where locally designed solutions and resilience priorities can emerge and be supported.

Localisation also calls for support for diverse partnerships tailored to local conditions

Localisation calls for trust and consistent support for a range of partnerships, including with state actors. For instance, Iceland's bilateral development co-operation strategy is effective thanks in large part to its long-term, locally aligned approach. The formal district co-operation programme in Malawi (Mangochi Basic Services Programme) grew out of its successful project-based collaboration in 2012. Iceland's on-plan and on-budget alignment with district development plans, harmonisation with national government efforts, and an 11-year and still ongoing commitment contributed to the Mangochi District Health Office being ranked the best health office in 2019, 2020 and 2021 (Government of Iceland, 2022[13]).

Localisation not only requires higher investments in the short run to nurture sustainable outcomes in the long run, it also requires recognising that effective local ownership and engagement might not be easy to cultivate (Mansuri and Rao, 2013[5]). There are trade-offs between speedy implementation and extensive local tailoring of interventions (Cooley, Gilson and Ahluwalia, 2021[14]) as well as between high short-term costs and long-term sustainability. Development co-operation providers must be clear about which trade-offs they are willing to accept.

Providers need to reframe risks, shift institutional culture and build internal capacities

A challenge for Grand Bargain signatories is that localising effectively requires making radical changes in their institutional operations and policies (Grand Bargain Localisation Workstream, 2019[15]). Standard risk mitigation practices can restrict local actors' access to funding or act as barriers to their entry. Limited staff capacity (both absolute capacity and skills) to work effectively with a large number of local partners is a key constraint. This has led to the emergence of alternative mechanisms, such as working through intermediaries (usually established implementing entities) that mitigate risks by assuming financial accountability for procurement contracts or downstream grants. Public resource legislation[1] and other legislative safeguarding provisions also obstruct localisation efforts at a policy level (Patel and Van Brabant, 2017[16]).

To localise well, development co-operation providers need to invest time and resources in building internal capacities, adjusting operational frameworks and addressing disincentives to localise. While fiduciary and financial risks are valid concerns, there are thornier risks to localisation itself that have not been systematically addressed. These include the divergence between partner country governments and local civil society interests; conflicts between locally owned priorities and aid agencies' normative interests and values; the need to maintain neutrality during crises; and the risk that increasing competition among local actors could erode their incentives for collaboration.

The United States Agency for International Development (USAID) has made several laudable commitments – to allocate 25% of its funding to local organisations by 2025 and also to place local actors in the lead for either design, implementation or evaluation of 50% of its programming by 2030 (Power, 2021[17]). These pledges are consistent with the agency's long history of deliberately trying to address systemic barriers to localising development co-operation around partnerships, procurement and risk (OECD, 2022[18]). In recent years, USAID also has sought to lower barriers for new and non-traditional partners, for example, through the New Partnerships Initiative (USAID, 2022[19]); develop contracting and leadership capacities at both agency and local levels; and increase focus on value and co-creation, among other objectives (USAID, 2019[20]).

Some providers are starting to progressively redress power imbalances

While there has been a great deal of discussion about power imbalances in the development sector, progress to correct them has been slow (Peace Direct, 2021[21]). By endorsing the development Effectiveness Principles, DAC members recognise the importance of country partners setting their own priorities and of providers furthering these priorities by using national systems. Development co-operation providers still tend to hold substantial strategic authority and operational responsibilities around resource allocation, and governance primarily resides with the implementing agencies. The Doing Development Differently manifesto recognises that "those who would benefit most [from development interventions] lack power, those who can make a difference are disengaged and political barriers are too often overlooked" (Building State Capability, 2014[22]).

In the context of localisation, the discussion of power revolves around two questions: the extent to which local actors have access to decision-making spaces and whether their voices count. Moving from local involvement to local leadership is a process that entails giving local actors responsibilities at the strategic as well as at the operational level and enabling their meaningful influence throughout the development process. In an internal practice note on localisation, the Australian Department of Foreign Affairs and Trade explicitly elaborates on this process, describing key characteristics of localisation along a trajectory of progress (early, partial and late) wherein power is progressively handed to local stakeholders by shifting decision making, resources, and the responsibility and authority for design and implementation.

Moving from local involvement to local leadership is a process that entails giving local actors responsibilities at the strategic as well as at the operational level and enabling their meaningful influence throughout the development process.

It is also necessary to acknowledge power imbalances, institutional racism and colonial legacies that impact relations between development co-operation providers and local actors (and between different local actors) and undermine efforts to localise. As a first step in building a decolonised development co-operation system within its overarching foreign policy, Belgium has commissioned a study to map structural colonialism in current development structures in Belgian aid. More open, honest reflections may be needed to address these sensitive issues.

Anticipating how localisation may shift local political and economic dynamics can help avoid common pitfalls

Moving towards an equal partnership model can be perceived as giving up control or as detrimental to the vested interests of providers and intermediaries. Localising development co-operation likely means that some actors could lose out financially. However, providers can emphasise that localisation is not a financial zero-sum game. Localisation does not prevent opportunities for sharing, cross-border research and co-generation of knowledge. Reimagining the role of the intermediary and exploring models to change the structure of bilateral aid delivery could enhance the case for a new aid business model, one in which local priorities and ownership steer development outcomes. Relevant thinking around alternative approaches to bilateral aid delivery has already begun. Two significant examples are the RINGO Project and the SPACE (Social Protection Approaches to COVID-19 Expert Advice Service) initiative funded by Australia, Germany and the United Kingdom. Together, these set out 11 alternative models of bilateral aid delivery and reimagine the roles of international non-governmental organisations and other intermediaries in development co-operation with a view to promoting greater local leadership (Cabot Venton and Pongracz, 2021[23]; Rights CoLab, 2022[24]).

Localisation requires a thorough political economy analysis of both provider and recipient systems to identify latent risks it might pose to different actors, including those that might, at first glance, appear to benefit. As providers start to expand support to local actors, ensuring that on-the-ground power asymmetries are not exacerbated or reinforced is essential. Tensions around issues of legitimacy and representativeness must be carefully managed; a systems approach that strengthens both local and national government capacities is key (OECD, 2022[18]). In contexts that are restrictive for civil society, greater care is needed to achieve the right balance – one that promotes civic space and plurality of funding. Compliance requirements should not promote or reinforce accountability solely towards providers. Rather, they should look to build long-term capacity, without which localisation could risk undermining national systems.

Localisation requires a thorough political economy analysis of both provider and recipient systems to identify latent risks it might pose to different actors, including those that might at first glance appear to benefit.

As conveyed in the development Effectiveness Principles, working through national systems can help strengthen them, and standardised frameworks to assess fiduciary capacity (such as the Public Expenditure and Financial Accountability Programme) exist across the development community. Introducing similar common capacity assessment frameworks across the DAC for non-state actors such as civil society organisations could further reduce compliance burdens and transaction costs for smaller actors (OECD, 2012[25]) and harmonise attempts to localise. Despite attempts at donor harmonisation, there is still ample room to pursue harmonisation further (OECD, 2020[26]).

Collective understanding of localisation, built on insights from experiences, would boost accountability

The development community as a whole must move towards a shared understanding that can underpin various interpretations and approaches to localisation and reflect the needs of local actors and the realities of development co-operation providers. This will allow for flexible, inclusive, equal and trust-based partnerships to be operationalised. There is much room to accord greater value to local and indigenous knowledge and recognise and centre existing capacities. Frameworks developed by Van Brabant and Patel (2018[11]) and the Network for Empowered Aid Response (2019[27]), a network of local and national civil society organisations from the Global South, speak to similar dimensions of localisation as indicators of success or progress, suggesting immediate areas that development providers could consider when looking to adapt ways of working. These frame localisation as a combination of participation, agency and ownership; meaningful influence; and strengthened capacity for long-term resilience. As such, they provide opportunities to identify complementarities and challenges and guide conceptualisation for localisation.

The development community as a whole must move towards a shared understanding that can underpin various interpretations and approaches to localisation and reflect the needs of local actors and the realities of development co-operation providers.

By working on funding structures, institutional capacities and cultures, and power imbalances, development co-operation providers can start building the necessary evidence base that is a first step towards accountability. This work has started with some powerful examples from established providers, including the recent commitment to furthering the localisation agenda through the joint donor statement adopted at the Effective Development Co-operation Summit (USAID, 2022[3]). Sharing lessons and insights across the community would contribute significantly to the creation of collective principles to guide a rethinking and remaking of partnerships. Meaning and accountability in the operationalisation of localisation – a nebulous concept at present – are critical to prevent a tokenistic application of what is an immense opportunity to maximise collective development impact.

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Note

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13 In focus: International non-governmental organisations pledge to shift power and resources

Rose Caldwell, Plan International UK

Danny Sriskandarajah, Oxfam GB

The international aid system has long functioned as a hierarchy dominated by the Global North. Urgent reform is needed to acknowledge and address inherent paternalism and racism, build equitable partnerships, and work for transformative change. International non-governmental organisations also must change, as recognised by the signatories to the Pledge for Change. Plan International, Oxfam GB and other Global North organisations worked with Adeso, the Centre for Humanitarian Leadership and other civil society actors in the Global South to start shifting more power, decision making and money to the people and places affected by crisis and poverty. Some progress is already evident but including others in the traditional aid hierarchy is necessary to foster wider change and make good on their unfulfilled Grand Bargain promises around localisation.

Key messages

- International non-governmental organisations that sign the Pledge for Change commit to actions focused on shifting power, decision making and money to places and people receiving aid. Signatories have begun translating the pledge into practical actions.
- Development co-operation providers can support the achievement of the pledge's aims by aligning their own support and actions to its goals, encouraging other partners to align, and committing to support the signatories in fulfilling the pledge.

The need to "localise" and "decolonise" the work of the development sector is an idea that has become increasingly widespread over the last decade. Yet substantive behavioural and systemic progress on this issue has been slow and patchy at best. Now, a small number of international non-governmental organisations (INGOs) have committed to moving beyond rhetoric in a new "Pledge for Change", a set of commitments to shift power, decision making and money to the places the most affected by crisis and poverty (Pledge for Change, 2022[1]).

The pledge, launched in October 2022, is an important step towards reforming an international aid system that has long functioned as a hierarchy dominated by those in the Global North – a system that many say has upheld and perpetuated the unjust, unequal power systems that stem from a history of colonialism and patriarchy and in which racism is embedded (Barnett, 2022[2]; Peace Direct et al., 2021[3]; Robillard, Atim and Maxwell, 2021[4]). It is a system that too often has prioritised accountability to Global North donors at the expense of accountability to aid recipients, has largely blocked local actors from accessing direct funding and leadership opportunities, and has allowed a humanitarian elite to dominate the discourse that sets the agenda for action. It is a system that reflects neither our common humanity nor the solidarity that we, as the leaders of two large INGOs, espouse. Six years ago, dozens of agencies and donors agreed to a set of commitments around localisation as part of a Grand Bargain (Inter-Agency Standing Committee, 2022[5]). But thus far, though talk of shifting power has firmly entered the development lexicon, we have yet to see meaningful change to our system or indeed an increase in the resources that can help smaller and local organisations scale up. The *Global Humanitarian Assistance Report 2020* found that just 0.5% of tracked funding in 2019 directly financed local and national NGOs – a far cry from the Grand Bargain's target of 25% by 2020 (Development Initiatives, 2020[6]).

Though talk of shifting power has firmly entered the development lexicon, we have yet to see meaningful change to our system or indeed an increase in the resources that can help smaller and local organisations scale up.

The Pledge for Change process differs from past processes for change in this area in several key ways. First, it is about us as INGOs taking responsibility for the role we can play, from the way that we tell stories to the way that we can help resources flow more directly and in more empowering ways to Southern partners. It is also notable that we as INGOs have been convened by Adeso, an East African humanitarian and development organisation, and we have tried to engage peers from the Global South throughout the process.

Second, the initial two-year development phase of the process deliberately involved a small group of chief executive officers, all of whom have a personal commitment to decolonisation. The process created a space for this group to imagine change with their peers and to co-ordinate and collaborate in such a way that all members had a real say in the final product.

Third, the pledge commits these chief executives to not only track and publicly report the progress of their own organisations over the next eight years but also to press for wider implementation across the sector. Focusing on three key areas – equitable partnerships, authentic storytelling and influencing wider change – the pledge represents a historic, Southern-led commitment to transparently share progress and learning, with clear goals and metrics setting out how change will happen between now and 2030.

The seven INGOs that represent the first cohort of signatories to the pledge have stated their belief that being locally led and globally connected will deepen their impact on people's lives, reducing aid dependency by enabling communities to embed resilience. They have committed to ensuring that their involvement strengthens rather than detracts from local civil society by allocating more resources to helping local and national organisations take the lead. They have agreed that their storytelling, while reflecting the harsh realities of poverty, conflict or disaster, must avoid casting aid recipients as helpless victims, reinforcing harmful stereotypes. Some of the stories told and images used by development sector actors have distorted reality, failed to reflect the contribution of local partners and co-opted rather than amplified the stories of aid recipients. The signatories of the pledge believe that putting the global majority's voice at the heart of decision making is not just a moral imperative, it is an essential step to tackling many of the challenges the world is facing. The pledge is a commitment to a stronger aid ecosystem, one that is based on principles of solidarity, humility, self-determination and equality.

Our instinct for preservation is often in conflict with our desire for transformational change

The journey towards creating this set of commitments was far from straightforward. Unpacking the reasons for this, we hope, can offer important insights for others in the sector who are keen to work towards transformative change.

Perhaps one of the reasons why genuine progress in shifting power and resources has been slow to emerge is that progress largely depends on those with the greatest interest in maintaining humanitarian hierarchies being prepared to dismantle them. As large, established INGOs, our self-preservation drive – our instinct to protect the privileges, resources and influence bestowed upon us by our dominant position – can often be in fundamental conflict with our desire for transformative change. Indeed, grassroots, bottom-up action has been the driving force behind most significant localisation shifts thus far. But the fact remains that buy-in from Global North entities is critical to rebalancing skewed humanitarian and development power dynamics.

> Buy-in from Global North entities is critical to rebalancing skewed humanitarian and development power dynamics.

While it was relatively easy for participants in the process to coalesce around their shared commitment to changing the system, it proved more difficult to balance what we agreed to be morally and ethically right with what was practically achievable within the given period; that is, what was versus what was not in our control. Many donor policies, for example, involve onerous compliance and reporting requirements that are prohibitive for many civil society organisations, especially smaller national and local ones. It is also often not clear what an organisation has to do to become eligible to receive funds or where to go to find out, so organisations without dedicated staff capacity for managing donor relationships are at a disadvantage. This, we agreed, is why the third component of the pledge – influencing wider change – is so important: It seeks to address those parts of the system that will be critical to change but are not under the direct control of INGOs.

The process has so far taken more than two years, with each organisation needing to achieve buy-in internally and engagement undertaken with Global South actors, to ensure that the resulting pledge would be relevant and meaningful across the sector. Intensive consultation and thoughtful and often challenging exchange, involving a diverse range of expertise and perspectives, were necessary to unpack and overcome existing barriers and to achieve mutual understanding on what are we are collectively trying to achieve. The changes put forward by the pledge go to the very heart of the INGO operating model, and agreement did not always come easily. All organisations involved in its creation are now working alongside experts from the Re-Imagining the INGO, or RINGO, lab[1] to define a set of common metrics that will enable us to regularly and transparently share annual baseline reports and review progress towards a set of clear goals for change by 2030.

Starting to translate our commitments into practical action

Oxfam, Plan International and others have already begun to implement practical changes to our operating models to enable more locally led responses. Over the last two years, Oxfam GB has chosen to work directly in fewer countries, but to invest more where we do work, especially in providing core support to local partners and allies. We hope that doing this will help to build a more resilient local civil society, strengthen our shared impact and recalibrate power dynamics to create radically transformative partnerships. Oxfam GB has also now started sharing indirect cost recovery resources – funds that cover an organisation's overhead expenses – with local partners and is helping local actors to negotiate indirect cost recovery as part of grants given by other agencies. We are also giving greater amounts of unrestricted funding to our country offices.

At Plan International, we are building deeper and more honest reflections on the inherent power dynamics within our own organisation and in our partnerships with local and national organisations. Recognising that shifts at the individual as well as organisational level are required if we are to achieve transformative change, staff are participating in training and reflection on power, privilege and bias, and these are already changing the questions we are asking ourselves and the day-to-day decisions we are taking. We are establishing a clearer vision for how we can build more equitable partnerships, in alignment with our feminist leadership principles, that better transfer resources and power to local and national organisations for greater impact. We see this as a first step to increase the proportion of our partnerships in which all partners have equal voice and decision-making authority and where accountability is mutual, including through progressively removing our internal barriers to partnering equitably. We have also developed a set of anti-racist communications principles that are guiding how we tell stories and the pictures that illustrate them, which are helping us start to create a culture of anti-racism, reflection and learning.

These are some of the first steps of a long ongoing journey that is critical to our shared mission of ending poverty and tackling inequality and injustice. But it is a journey that INGOs cannot make alone. We will need other actors to join us, including donors, Global South civil society actors, philanthropic organisations, co-ordination groups and networks, and academic institutions. INGOs can become full signatories of the pledge and other actors can become supporters, committing to support the signatories in achieving the pledge's aims and holding them accountable as they do so.

It is a journey that INGOs cannot make alone. We will need other actors to join us, including donors, Global South civil society actors, philanthropic organisations, co-ordination groups and networks, and academic institutions.

We hope that donors will rapidly accelerate delivery of commitments under the Grand Bargain and increase the proportion of funding provided directly to local and national civil society organisations. Funding requirements need to enable rather than inhibit the deep involvement and leadership of the communities where aid is delivered in decision making around what aid is spent on and how. Ongoing, concerted action led from the most senior level in every institution, including governments, United Nations agencies and others alongside INGOs, is needed to understand and transform the systemic power imbalances in all parts of the aid system. As INGOs, we are committed to ongoing collaboration and to continuing to challenge both ourselves and others as we move forwards on this journey together.

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Note

[1] See https://rightscolab.org/ringo/

14 In focus: Voice and agency of civil society in the Global South

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Brian Tomlinson, AidWatch Canada

Nikhil Dutta, International Centre for Not-for-Profit Law

Civil society organisations in the Global South have long advocated for donor policies and practices that value their rich knowledge and organisational experience; recognise their need for predictable finance and support; and institutionalise regular dialogue. The 2021 DAC Recommendation on Enabling Civil Society in Development Co-operation and Humanitarian Assistance, the first international legal policy instrument on enabling civil society, acknowledged these concerns, calling on donors to strengthen civil society leadership and effectiveness in partner countries. Recent outreach to Southern organisations by an OECD working group on the Recommendation has generated specific recommendations around alternative mechanisms for funding, collaboration and support that help donors create new and more fruitful relationships with local civil society that are built on mutual trust and respect.

Key messages

- Donors should implement trust-based, respectful funding modalities with local and national civil society organisations in the Global South, including core and/or programmatic support for locally led development efforts.
- Southern civil society organisations are seeking pathways to strengthen their leadership in development by participating directly with donors in developing shared goals for their communities, exercising agency in decision making for all aspects of programming and on the allocation of funding.

In July 2021, OECD Development Assistance Committee members unanimously adopted the Recommendation on Enabling Civil Society in Development Co-operation and Humanitarian Assistance (OECD, 2021[1]), the first-ever international legal policy instrument on enabling civil society. It outlines 28 key actions to respect, protect and promote civic space; support and engage with civil society; and incentivise civil society organisation (CSO) effectiveness, transparency and accountability. Taken together, these will strengthen effective and locally led development for national and local CSOs in partner countries.

The Recommendation is the strongest level of donor accountability in the OECD, and its implementation is crucial to fostering the enabling environment for CSOs as development actors in their own right. The Development Assistance Committee's (DAC) Community of Practice on Civil Society is leading this implementation with the aid of several toolkits. The first of these is focused on funding relationships that promote and invest in the leadership of local civil society actors in partner countries, in line with the recommendation that donors increase "the availability and accessibility of direct, flexible, and predictable support including core and/or programme-based support, to enhance [the] financial independence, sustainability, and local ownership" of CSOs in the Global South.

The CSO working group on the Recommendation sought Southern CSO perspectives and proposals to inform the development of this first toolkit. This case study discusses some of their reflections and proposals for transforming these relationships.[1]

Current systems and practices in official donor and intermediary financing disadvantage Global South civil society organisations

The relationships between national and local actors in the Global South and donors, and the intermediary international civil society that are largely based in the Global North, have always been complex and multi-layered. But Southern CSOs have also experienced these relationships as inherent power imbalances since they must overcome major barriers and compliance hurdles to access donor funding. Such relationships often disempower partner CSOs, reducing them to being implementers in their own country of externally predetermined programmes for which the partner CSOs must produce results.

A fundamental challenge is a lack of trust and respect flowing from the persistence of colonial mindsets and racism in development co-operation. The assumption seems to be that Southern organisations are in some way deficient and must be micro-managed and/or closely accompanied to produce the results the donor wants. This lack of trust informs all aspects of the relationship from how programmes are developed, run and assessed to imposing frameworks for what the donor defines as success. The fundamental relationships of local CSOs with communities and other social actors – tested and innovated through direct experience – are rhetorically acknowledged by donors but devalued and undermined in practice.

Highly dependent on external donor finance in poor countries and fragile contexts, local CSOs often have to contort their organisational mandates to meet ever-changing donor priorities. These shifting priorities make the sustainability plans often required by donors pointless.

The fundamental relationships of local CSOs with communities and other social actors – tested and innovated through direct experience – are rhetorically acknowledged by donors but devalued and undermined in practice.

Donor funding modalities, particularly calls for proposals, encourage dysfunctional competition and accentuate the marginalisation of local CSOs when what is required is creative collaboration to maximise local skills, knowledge and solidarity. Calls for proposals clearly favour big (international) organisations.

Lack of trust also informs the common methods of financing Southern CSOs: short-term project grants; disbursements in bits and pieces; holdbacks; and limited or no support for overheads – all of which disrupt effective programming and often require CSOs to get unsustainable lines of credit or short-term loans. Organisations have to run multiple projects, sometimes with creative accounting, just be able to sustain their basic infrastructure and governance.

CSO advocacy work, which is central to leadership by Southern organisations, is often treated as problematic by donors. This crucial role receives less funding and is constrained by rigid programme agreements and performance indicators, which are inappropriate for iterative work on policy and advocacy.

Official donors overwhelmingly rely on subcontracting arrangements for local CSOs through international non-governmental organisations (INGOs). The role of the INGO is to manage the funding for the donor, and it often enforces donor conditions (eligibility criteria, audits, etc.) with local CSO partners. These arrangements undermine independence, autonomy, ownership and leadership by civil society in partner countries.

Fiduciary accountability is essential, but donors make the conditions of accountability so onerous that local NGOs have difficulties meeting these standards and so they often have to partner with an INGO, creating a dependency on its good will. This rigid hierarchy of top-down accountability to funders makes it difficult for Southern CSOs to be fully accountable to the people and communities the organisation works with and seeks to support.

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Reforming donor systems of finance: Models and ideas for alternative donor practices

Southern CSOs have long sought donor policies and practices that move from current top-down, neo-colonial practices to a real power shift for civil society in the Global South. Southern CSOs have proposed significant reforms in financing arrangements. These include those that build upon and incentivise the rich knowledge and organisational experience born in the Global South; recognise Southern-based self-regulatory and quality assurance mechanisms, setting high standards for CSOs as development actors; and ensure long-term organisational sustainability and flexibility for effective humanitarian and development interventions.

In assessing partnerships with donors and INGOs, Southern CSOs are asking three critical questions:

- Do we have **a say in your [donor] vision for our communities** and can we arrive at shared goals through dialogue instead of through donor preconditions?
- Do we have **agency in real decision making** over how all aspects of the programme are being designed and carried out?
- Do we have **a real say on budgeting and share in decisions on its allocation**, not only for programmes but also including areas such as overhead?

To respond positively to these questions, donor policies and practices must change in ways that strengthen the leadership and sustainability of CSOs in partner countries and develop approaches that are systemic, deep and holistic. Some examples and ideas for alternative funding models and donor practices include:

- **Values-based approaches** (solidarity, ownership, horizontal alliances) to donor financing should treat partner country CSOs as allies for democracy and avoid instrumentalising them as market-based subcontractors for implementing donor priorities.
- **Embedding feminist principles** in donor financing policies and practices should be considered to be a way to ensure an organisational cultural shift in practices.[2]
- **Institutionalising country-level dialogue and consultation between donors and CSOs** at the country level can improve mutual understanding. Such regular engagement between individual donors or a group of donors and country CSOs (through their national platforms) can help demystify each for the other and allow donors to inform themselves about local civil society conditions and value the ways local CSOs engage with local volunteers and bring their local knowledge into CSO programming.
- **Co-creating donor country priorities** in close consultation with local civil society ensures that donor programme priorities take advantage of civil society's expressed needs, knowledge and particular strengths in each country, ensuring that programmes and initiatives respond to and reach local communities.
- **Full transparency should be a requirement** when INGOs partner with local NGOs as donor intermediaries, including timely access to the full picture of donor-allocated funds. This incentivises INGOs to be accountable to the local partners. It should also include eligibility requirements that balance power relations within funding chains.
- **Making donor framework agreements available to Southern CSOs** can embed a long-term relationship based on trust and the knowledge and strengths of strong Southern-based CSOs. A key aspect of trust is shared reporting from organisation to donor as well as from donor to organisation – i.e. mutual accountability within a framework agreement.
- **Openness to failures in donor partnerships.** The notion that failure is not an option is unrealistic and counterproductive, especially when an organisation is developing new ideas, innovations, or transformations in social and economic relations.
- **Supporting multi-year Southern CSO programming with organisation-specific core financing is essential.** Without these, many local NGOs cannot be sustained over the long term – which is the time frame required for change. Core funding is key to retaining effective dedicated staff.
- **National CSO platforms that promote self-regulation, quality assurance standards and compliance mechanisms enhance donor due diligence in assessing risks.** In contrast, donor-driven organisational assessment tools are often inappropriate to country contexts.

- **Support for Southern CSO advocacy** should be an integral part of donor financing priorities and programmes for strengthening civil society leadership capacities in the Global South.

Donors should work to incentivise and collaborate with country-based coalitions or consortiums of CSOs that are working together to maximise their skills, community reach and knowledge, as well as their capacities to engage the donor.

- **Reassessing the roles of donors and Northern CSOs in partner countries** is essential to strengthen the leadership of Southern CSOs in development action. Donors should acknowledge and collaborate with a diversity of Southern CSOs with the proximity, local knowledge, long-standing experience and community sensitivity needed for effective programming and results. Direct funding should be available to Southern CSOs at the country level.
- **Financing models, including CSO-managed pool funding, should be considered to strengthen coalitions of locally led CSOs in partner countries.** Innovative mechanisms, which are already being tested in some countries, could allow several smaller organisations to join together to receive funding to implement joint and holistic actions towards a shared vision, bringing together multiple skills grounded in local knowledge and evidence. Such initiatives can strengthen the ability of participating CSOs to meet all donor compliance requirements, spreading the risk of ineffectiveness, and also leverage peer accountability that further enhances the sustainability of the community actions.
- **Southern CSO-led intermediary donor platforms, with appropriate donor finance,** are well placed to implement initiatives with CSO counterparts in the Global South and offer a governance and programming framework for full transparency, participatory budgeting, and work sharing and planning.
- **Supporting organisations to work on alternative financing ensures sustainability,** including support for building reserves as well as for social enterprise ventures, capital assets such as an office building and developing local philanthropy. Such support allows organisations and donors to transition in their funding relationships without jeopardising the CSO's sustainability.

The Recommendation on Enabling Civil Society in Development Co-operation and Humanitarian Assistance (OECD, 2021[1]) provides a unique opportunity for DAC donors and CSOs to examine current practice in donor finance modalities as they impact on Southern-based CSOs and enable more equitable and transformative partnerships through new approaches to locally led development. CSOs have a strong interest in ensuring that the ambitions and commitments of the Recommendation are fully realised through dialogue with the Community of Practice on Civil Society and with all DAC donors at the country level.

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Notes

[1] The discussion among CSO colleagues in the Global South was facilitated by Anabel Cruz with support from Brian Tomlinson and Nikhil Dutta. The full report is available at: https://21a29bf8-528b-4043-b9dc-caa23e5a1907.usrfiles.com/ugd/21a29b_7cf05364b3564a73b39ca79b42c84e4b.pdf.

[2] See, for example, the *Principles for Feminist Funding* published by the Canadian Women's Foundation at: https://canadianwomen.org/wp-content/uploads/2020/05/Feminist-Philanthropy.pdf.

15 In focus: Stepping up support for and use of Southern research

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Research is key to informing better policies, providing the evidence to measure progress and making development co-operation more effective. But most of the research funded, published and valued is carried out by researchers from the Global North. Southern and local researchers, despite their deeper local knowledge and grounding, are under-represented. This undermines the potential of research to transform development practices and support the localisation agenda, and to shift power and responsibilities of development efforts toward local and national actors. Both the research and development communities will benefit from creating equal opportunities for local researchers, providing them with resources and support, and leveraging their on-the-ground knowledge in programme design and evaluation.

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Key messages

- Researchers in the Global South have fewer opportunities, outlets and resources than their Northern counterparts and struggle to influence development co-operation decision making because of funding modalities, procurement practices and preferences for research by prestigious institutions in the Global North.
- While Southern leadership to mobilise Southern research is critical, development co-operation providers financing for research and the research community should use the current focus on localisation and decolonisation as an opportunity to change the ways they work and partner to address the disparities.

Development policy research can help make official development assistance (ODA) better suited to needs, including during emergencies such as the COVID-19 pandemic,[1] and ensure that interventions are implemented effectively based on knowledge of local contexts and potential barriers.[2] Sustainable Development Goal Target 9.5 calls for enhancing scientific research and technological capabilities, making ODA support for research particularly important given that lower income countries invest relatively little in research.[3]

However, development research is dominated by Northern institutions and tends to be conducted by educated male elites. Women and minority groups are under-represented, and Southern researchers overall face multiple and compounding barriers to contribute to development policy making and programme design and evaluation. This disparity limits the availability of locally grounded and based evidence which informs continued public debate.

Global North institutes dominate development research

Research has an important role to play in improving the effectiveness of policy and development co-operation. It can help – and has helped – identify and specify development priorities; assess the barriers to implementation and inclusion, impact, and effectiveness; assess targeting; address health priorities; and innovate in education approaches, among others. To realise its potential, research needs to be well positioned for impact. Research projects need to invest in regular engagement and communication with both the intended stakeholders and the users of research. Assessments of research quality that integrate relevance for policy can support such efforts.[4]

Development research is dominated by Northern institutions. A growing number of studies find that publications are overwhelmingly conducted by researchers based in the Global North and that this has persistently been the case. Recent research by Partnership for Economic Policy (PEP) fellows shows that fewer than 1 in 6 of the articles published in the top 20 development journals from 1990 to 2019 were by Southern researchers (11% of the total number of articles published in this period were collaborations of Southern and Northern researchers). Additionally, 57% of presenters at international conferences are from Northern universities[5] (Amarante and Zurbrigg, 2022[1]; Amarante et al., 2021[2]).

A growing number of studies find that publications are overwhelmingly conducted by researchers based in the Global North and that this has persistently been the case.

This North-South divide is compounded by other disparities. Porteous (2022[3]) finds that the distribution of economics research across Africa's 54 countries is highly uneven and that within countries, research is concentrated in regions with a higher income and large urban areas.[6] Equally important are disparities of gender and ethnicity. Women are under-represented in most spheres of development research. And research in countries in the South – and indeed in the Global North – tends to be done by well-educated elites while minority and remote communities tend to be under-represented: As a researcher from Delhi, India, said, he is also considered "Northern" in the northeast of India. Norms of research quality and/or excellence tend to privilege certain forms of knowledge and exclude the knowledge of local and indigenous communities.

Southern and locally grounded research is important for a number of reasons. Evidence generated by local researchers and organisations has a distinct and often undervalued role in development policy and co-operation. Local researchers and organisations have a deeper understanding of the complexities of individual contexts, which is essential to inform good research design, ensure the inclusion of diverse groups and interpret results. Of course, being local does not automatically guarantee these advantages. But as they are embedded in local policy and practice, local researchers are more likely to drive advocacy and change in a sustained manner and have an interest in creating an environment for evidence-based debate and policy making. Analysis of IDRC-supported research shows that if the measure of research quality includes research impact, Southern research is high-quality research and local researchers are more effective in terms of innovation and affecting policy change.[7]

If the measure of research quality includes research impact, Southern research is high-quality research and local researchers are more effective in terms of innovation and affecting policy change.

Barriers for Southern and local researchers

The barriers for Southern researchers are manifold and often compounding. As noted, researchers in the Global South, and in regions within Southern countries, are published less often in influential journals and present less often at prestigious conferences. Not being published deprives global development debates of on-the-ground Southern perspectives. It can also negatively impact researchers' reputations and, in turn, reduce opportunities outside publishing.

Funding for Southern development research is limited. Despite efforts to support Southern development research, a large share of globally available funding remains tied and funds Northern research institutions that are already better endowed than those in the Global South. Few governments in the Global South prioritise or have the resources to fund research: Low-income countries spend a mere 0.23% of gross domestic product on research and development while high-income countries spend 2.74% (UNESCO, 2022[4]).

Similarly, Southern and local researchers often face barriers to contributing to development policy making and the production of development reports, in programme design and evaluation, etc. Inputs from researchers from premier Northern institutions tend to be highly valued – potentially at the cost of not having different types of knowledge and the voices of different groups. Anecdotal evidence suggests that staff in development agencies and even local governments can have different expectations from Northern and Southern researchers, for example regarding timeliness.

Funding modalities and procurement policy may also unintentionally reduce opportunities for Southern researchers. During the roundtable discussion, experts highlighted procurement policies that require Southern researchers to partner with Northern think tanks and companies. Donor requirements for handling big grants disadvantage small institutions, predominantly in the Global South, and research with local and indigenous communities. This can significantly impact agenda setting and make think tanks dependent on donors with a stronger capacity-building emphasis.

North-South research partnerships have great potential and have played a role in strengthening and mobilising Southern research, but they can also reinforce inequalities and need to be based on principles of equity. Many Southern leaders have experienced merely symbolic and unequal partnerships. They stress that they need to be on an equal footing and that such collaborations should be based on the expertise as well as the values and culture of the Southern researchers. Communication styles can differ across contexts and cultures, and partnerships must recognise this.

Examples of support for Southern research

There are successful examples of support for Southern research. A rapid literature review and the input from the roundtable suggest that these efforts are not very well documented. There doesn't appear to be a clear overview of funding, for example, let alone of lessons of effectiveness in support. This suggests an opportunity for the donor community to document and monitor this more systematically, enabling better insight into how Southern research does contribute to more impactful development co-operation.

Initiatives to (further) mobilise Southern research for development exist, of course, and it is important to document and learn from good practice. The IDRC, for instance, has directly supported Southern research for five decades with a mandate (unchanged) from the Parliament of Canada. The lessons the IDRC has documented and continues to analyse on what makes Southern research impactful and how this can be effectively supported continue to be of great interest. Other agencies and donors that have similarly directly promoted Southern research capacity include the Netherlands, the Swedish International Development Cooperation Agency (2019[5]) and foundations such as the Rockefeller Foundation, Ford Foundation and Hewlett Foundation. While there are many interesting examples of initiatives to support Southern research – among them the Think Tank Initiative,[8] ArtNET and the establishment of migration research chairs[9] – there are persistent questions around sustainability and lack of core funding. A recent, important multi-donor effort is support to the Science Granting Councils Initiative, which operates mostly in Africa.

Southern leadership to mobilise Southern research is critical. Examples of Southern networks that promote Southern research, often with ODA and philanthropic support, include the Partnership for African Social and Governance Research, the African Economic Research Consortium, the Economic Research Forum, the UNESCO Knowledge for Change, the K4C Consortium, and On Think Tanks. Another example, the PEP's **Policy Analysis on Growth and Employment (PAGE) programme, is outlined in** Box 15.1. Southern institutions that play a leading role in knowledge brokering and scaling and in connecting Southern research to global debates include the African Population and Health Research Center, the Climate and Development Knowledge Network, scalingXchange, and Southern Voice.

Box 15.1. Programming for and monitoring impactful research: The Policy Analysis on Growth and Employment programme

The Policy Analysis on Growth and Employment (PAGE) has supported 124 research projects and 560 local researchers, of whom 56% are women. Its monitoring system traced the academic quality of the outputs and assessed that 57% of these projects succeeded in informing policy.

Partnership for Economic Policy (PEP) has a tailored system of mentoring each project on the different aspects of policy research, and this monitoring system and a survey carried out by PEP show the factors that help make local research impactful. An impactful project has (and must have) a distinct policy engagement strategy and emphasises co-production and events and moments to share research planning and results. The engagements not only positioned the research projects for impact, but also led to support for researchers as advisers, requests for them to train staff and government agencies, and agreements among researchers on collaborative frameworks.

Source: Partnership for Economic Policy (2022[6]), *Reporting Lessons Learned to Help Improve Institutional Practices for Evidence-informed Policymaking,* https://www.pep-net.org/sites/pep-net.org/files/uploads/PDF/PEP-PAGE-II_EIPM-report.pdf.

Funders also have developed programmes of research with North-South partnerships. Large UK research programmes such as the African Cities Research Consortium[10] have created impressive networks. Similarly, Dutch development co-operation established thematic platforms that partner with Dutch and Southern institutions.[11] These partnerships can fulfil important roles. Growing South-South co-operation may provide new opportunities.

There are also some initiatives worth mentioning in the field of development journals to provide greater opportunities for Southern researchers to have their work published. A new journal, PLOS Global Public Health, advertises itself as a forum that amplifies the voices of under-represented communities and scholars.[12] Several other journals are now looking at how to overcome barriers to Southern researchers.

Priorities for action

Big disparities in development research remain between North and South, within countries, and between social groups. Despite improvements in research capacity over the last 20 years, Southern researchers continue to face barriers to participating in global forums as well as research and debate – even about their own countries. Marginalised groups face additional barriers. Recent debates about decolonisation have highlighted how deeply entrenched disparities are in development co-operation. Research is not exempt from these disparities, but new approaches to decolonisation and localisation present new opportunities to address them.

What development co-operation providers can do

These barriers exist for a multitude of reasons and hence, action on multiple fronts is required. Maximising the potential of Southern research to support better development co-operation may require development agencies to change the way they operate to enhance the role of evidence in policy making, recognise the value of Southern and local knowledge, and ensure that ODA modalities support the mobilisation of locally produced research.

It is important to understand and address the barriers for Southern research created by donors' and funders' policies and practices. Critical areas to interrogate and potential changes include funding modalities, grants, contracting and procedural barriers, and eligibility criteria that sometimes exclude

Southern institutions; practices in North-South partnerships; and Southern participation in designing donors' projects, developing results frameworks, and monitoring and evaluation. Beyond the formal procedures, the contribution of Southern and local research must be recognised and valued.

Apart from financial resources, it is also important to allow (and budget for) time to enhance capacity and mutual learning. Donor support can be time constrained because of funders' own time-bound targets and commitments; support to research needs to plan for mutual learning within these constraints. Southern-based intermediary organisations can play a bridging role.

What the research community can do

The research community should ensure that global development debates and practices include participation from the South, that Southern research reflects diversity and inequalities within countries (a cross-sectional perspective), and that local research is well positioned for impact.

There are many good practices in research partnerships, including those between Northern and Southern researchers. These partnerships need to be based on recognition of the distinct contributions and differences in approaches and ways of communication across these geographies. Partnerships should focus on real co-creation of research agendas and implementation.

A systematic review of initiatives to support Southern and local research would help understand what has worked to reduce inequalities in research opportunities and funding, identify the most significant barriers, build a stronger case for support, and inform the existing practices of both funders and research leaders. The IDRC roundtable of Southern experts organised for this report is a step in that direction, but more in-depth work, supported by a consortium of donors, would make an important contribution.

The basis for addressing global inequities in research is understanding and valuing not only local researchers' different perspectives and ways of communicating but the different value that local researchers, embedded in their communities, bring to development questions. This equally applies to understanding what constitutes "research excellence" and the importance of integrating local relevance, legitimacy and embeddedness in how such excellence is defined.

Adopting an intersectional perspective in the promotion of Southern-led research is paramount. The various layers of disparities – globally and within countries – are critically important for the questions of local research, legitimacy and representation. Research needs to be not only Southern led, but also led by groups typically with less voice, such as women, youth, and indigenous and other minority groups.

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Annex 15.A. List of participants to the consultation on the role of local and Southern research

- Amy Etherington, IDRC
- Ana-Lucia Kassouf, Partnership for Economic Policy, University of Sao Paulo
- Andrea Ordez, Southern Voice
- Arjan de Haan, IDRC (facilitator)
- Edmond Totin, International Crops Research Institute for the Semi-Arid Tropics
- Enrique Mendizabal, On Think Tanks
- Fadi El-Jardali, American University of Beirut
- Isabelle Kim, Global Affairs Canada
- Jane Mariara, Partnership for Economic Policy
- Jesse Uneke, African Institute for Health Policy & Health Systems
- Linda Oucho, African Migration and Development Policy Centre
- Lynette Kamau, African Population and Health Research Center
- Margaret Angula, University of Namibia
- Petronella Chaminuka, Agricultural Research Council
- Rajesh Tandon, Participatory Research in Asia
- Tatiana Rincon, Fundacion Capital
- Ursula Harman, Consultant
- Vaqar Ahmed, Partnership for Economic Policy, Sustainable Development Policy Institute

Notes

[1] Examples of impactful research are documented in https://doi.org/10.19088/1968-2022.126.

[2] The analysis in the "In focus" draws on a roundtable discussion organised for this report among 15 leaders in Southern development research hosted by the International Development Research Centre (IDRC) in September 2022 as well as a literature review. The roundtable participants discussed barriers and opportunities for Southern (and local) research and offered critical recommendations regarding the role that Southern and local research can and should play in development policy and co-operation.

[3] Global spending on research and development has reached USD 1.7 trillion and about ten countries account for 80% of spending, according to a United Nations Educational, Scientific and Cultural Organization database at: https://uis.unesco.org/apps/visualisations/research-and-development-spending.

[4] The IDRC Research Quality Plus framework broadens the measure of research quality beyond academic and publication measures and includes stakeholder and user engagements and research uptake as part of the research quality assessment. Further details are available at: https://www.idrc.ca/en/rqplus.

[5] See also Chelwa (2021[8]) and Cavanagh et al. (2021[7]).

[6] Porteous's analysis helps understand the country factors that contribute to published research, including peacefulness, political institutions, international tourist arrivals and having English as an official language.

[7] According to this analysis, "those located closest to a development challenge are generally those best positioned to innovate a solution. The results present novel evidence for those supporting, using and doing research for development". See: https://doi.org/10.1093/reseval/rvy026.

[8] For more details, see: https://www.idrc.ca/en/initiative/think-tank-initiative.

[9] Details are available at: https://www.idrc.ca/en/research-in-action/research-chairs-will-anchor-knowledge-forced-displacement-global-south.

[10] Details are available at: https://www.african-cities.org.

[11] See: http://knowledgeplatforms.nl/about-the-knowledge-platforms/kennisplatform.

[12] For more details, see: https://journals.plos.org/globalpublichealth/s/journal-information.

16 In my view: Work with Southern providers to achieve greater scale and relevance

Sachin Chaturvedi, Director General, Research and Information System for Developing Countries [1]

The growing dynamism, heft and bandwidth of South-South co-operation (SSC) and triangular co-operation have changed the international development co-operation system, creating new opportunities to achieve the Sustainable Development Goals (SDGs). Innovative issue-specific pilot collaborations are finding success. For instance, voluntary national climate sustainability standards, discussed among high-, middle- and low-income countries, centre on common regional challenges and localised definitions of good social and environmental practices. India is emerging as a leader in forging innovative forms of co-operation and partnerships, which the development co-operation system should integrate. India's leadership of the Group of Twenty (G20) in 2023 offers an opportunity to further advance innovative partnerships.

Emerging financial platforms expand the potential of non-traditional multi-stakeholder partnerships among SSC actors. These include the New Marshall Plan, the Asia-Africa Growth Corridor, the Belt and Road Initiative, and the Silk Road Fund. SSC exchanges, investment, and trade projects are achieved through new development banks – the Asian Infrastructure Investment Bank and the New Development Bank, for example – in the emerging market economies of Brazil, the People's Republic of China, India and South Africa. This dynamic can provide new solutions. However, it also creates more complexity and challenges for accountability and co-ordination across diverse development actors, systems and normative frameworks. The core areas of contestation include a lack of universally accepted norms and OECD standards in measuring the quality of development; siloed financial platforms providing conflicting inputs to the United Nations' Financing for Development Forum and High-level Political Forum; and misalignment across clubs or new institutions arising in response to a lack of representation and trust of the existing system of global governance.

Custodians of official development assistance (ODA) have held a *de facto* monopoly on defining norms for development co-operation, and those custodians – OECD-DAC members – have struggled to embrace and engage with new and diverse counter-institutional assistance frameworks. But change is in the air. They may have rejected SSC as a modality for development co-operation in high-level forums on aid effectiveness in the 2000s (for example, lack of recognition in the Accra High-level Political Forum in 2008) and showed lukewarm engagement in discussions at the Second High-level UN Conference on South-South Cooperation, known as BAPA+40, in 2019, but today, the new statistical measure of Total Official Support for Sustainable Development has incorporated the growing importance of SSC.

India’s mantra for South-South and triangular co-operation is “broaden scope, scale and innovation”

Despite unresolved areas of contestation between development actors, more providers are maximising development potential by leveraging new partnerships in South-South and triangular co-operation. This is India’s experience.

Since 2014, India has witnessed a new movement for triangular co-operation, with political impetus and engagement of the prime minister. It has pushed frontiers with new actors, deeper engagements and more significant commitments. A characteristic of the Indian triangular co-operation model is that top political leadership leverages domestic development innovations and partnerships with diverse development actors to scale up initiatives. Triangular co-operation addressing physical infrastructure can advance social progress. For instance, improving regional energy grids expands digital connectivity and provides access to opportunities in education and health.

Despite unresolved areas of contestation between development actors, more providers are maximising development potential by leveraging new partnerships in South-South and triangular co-operation.

Its no-frills and low-cost delivery have helped India make its South-South framework a success. India has provided development partnerships through the “theory of development compact” comprised of five modalities: capacity building, grants, concessional finance, technology and trade. India tailors different combinations of these modalities to each context. In Mozambique, for instance, support for solar panel production utilised three modalities: capacity building through trainings for scientists by Central Electronics Limited, concessional finance and a grant element for infrastructure projects.

Triangular co-operation between India and Germany has enabled support in new areas. India recently concluded bilateral agreements with Cameroon, Ghana and Malawi to support agriculture-related productivity gains and launched sugar projects in Ethiopia using quality germplasm technology. This support offers access to diversified markets in addition to product packaging in European markets. India has also supported Latin American countries in upcoming construction technologies for highways. These partnerships are needs-driven and specialisation-based, going beyond the traditional donor-recipient relationship.

India has identified new avenues for engaging with the private sector to provide a platform for innovation. A Global Innovation Partnership launched in 2022 under a United Kingdom-led programme will be financed through a trilateral development co-operation fund to advance the SDGs.

RIS estimates that India’s development co-operation reached USD 8.7 billion in 2020 (OECD, 2022[1]). India’s development partnership portfolio covers over 160 countries and trains more than 20 000 people annually (RIS, 2022[2]). Delivering through Indian missions makes ventures cost-effective. Still, the impact is limited due to development co-operation portfolio budget constraints. Thus, partnerships with ODA providers will likely scale up development co-operation activities and provide an impetus for the sustainable funding required.

Expanding partnerships depends on all actors being open to change and agree on common minimum principles

Common principles must be established to embark on a new and sustainable development trajectory. Doing so will ensure that partnerships between development actors leverage comparative advantages and serve common development goals. The Indian Presidency of the G20 could be the impetus, concentrating a higher level of political attention on delivering projects through development co-operation and wielding the strength of triangular co-operation. Through its G20 presidency, India could, for instance, also spearhead new paradigms for measuring gross domestic product, such as accounting for biodiversity, social inclusion and wellness.

At the core of resolving co-operation in international governance is balancing and integrating the universality of SDG frameworks for accountability and safeguarding national sovereignty for development progress. The ODA system must integrate new forms of co-operation and governance mechanisms. The emergence of South-North, North-North, South-South and triangular co-operation has garnered new opportunities for multi-actor partnerships with reciprocal learning formats. Actors should also clarify the role of civil society as implementors of triangular co-operation. Embedding civil society and helping to strengthen their delivery mechanisms can expand impact beyond the government framework and reach. For instance, engaging with diaspora-linked civil societies opens new avenues for exchanges and greater triangular co-operation efficacy.

The emergence of South-North, North-North, South-South and triangular co-operation has garnered new opportunities for multi-actor partnerships with reciprocal learning formats.

In these challenging times, innovative partnerships are the only way forward. Rising demand and global challenges, frequent supply chain disruptions, and crises arising from food and fuel scarcity exacerbate challenges for developing countries. ODA alone cannot address these crises and satisfy overall demand. It is time to reconcile different narratives and norms and join forces.

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Note

[1] All views expressed are the personal views of the author.

Part III Adapting to evolving demands

17 In my view: Bangladesh will continue to champion effective international partnerships for inclusive and sustainable development

Hon. Sheikh Hasina, Prime Minister of Bangladesh

Bangladesh's sustained economic growth, coupled with a sharp reduction in poverty, has grabbed the attention of global development narratives. For the last 14 years, we have been able to maintain a positive growth trajectory with tolerable inflation, sustainable public debt and resilience to external shocks. Bangladesh has made significant progress in the social sector characterised by universal child immunisation, reduced maternal mortality, increased longevity, gender parity in education, free housing for the landless and homeless, and women's empowerment. The country is set to graduate from the United Nations' least developed country status in 2026 and aspires to be an upper middle-income country by 2031.

This journey was not easy. This is a story of our people's innate resilience and aspirations, and our government's long-term vision matched with prudent policies. It is also a narrative of meaningful co-operation with the international community, including through development assistance. Foreign assistance has enabled critical investments in our thrust sectors like physical infrastructure, education, public health and social safety nets. In the last ten years, the average share of development support by foreign partners constituted 32.5% of our Annual Development Programme.

In the last ten years, the average share of development support by foreign partners constituted 32.5% of our Annual Development Programme.

The recent trend in foreign financing in Bangladesh is marked by a decline in the flow of grant and concessional resources from bilateral and multilateral sources. While the share of grant resources in official development assistance (ODA) in the mid-2000s was between 20% and 25%, it came down to 5% in FY 2020-21. As an emergency response to the COVID-19 pandemic, Bangladesh received budget support from international financial institutions and multilateral development banks on LIBOR-based variable rates for the procurement of vaccines, provision of health supplies and social sector programmes. We are now increasingly dealing with blended finance and scale-up facilities with floating interest rates in keeping with our categorisation by the World Bank as a lower middle-income country since 2015.

While the total debt burden of 31 emerging economies is at least 2.5 times their combined gross domestic product (GDP), Bangladesh's debt-to-GDP ratio stood at only 32.4% of GDP at the end of FY 2021. This is well below the internationally recognised threshold for sustainable debt, and only 11.9% of the outlay comes from external sources. Debt sustainability analyses carried out by the World Bank and the International Monetary Fund suggest that "fiscal discipline has kept Bangladesh at a low risk of debt distress" (IMF, 2022[1]). However, the rising cost of borrowing is a concern for the country's development outlook. It would be crucial for us to continue mobilising ODA, especially for our massive social sector programmes.

Climate change has emerged as one of the biggest threats to Bangladesh's sustainable development. Extreme temperatures, erratic rainfall, flood and drought, even more intense tropical cyclones, sea-level rise, increasing salinity, riverbank erosion, etc. are causing severe negative impacts on the lives and livelihoods of millions of our people. Bangladesh is striving to move away from climate vulnerability to long-term sustainability and resilience. Significant public finance will be required to reduce the investment gap in the climate sector, especially for adaptation efforts. Developed nations' support for a just transition would be critical in the coming days. We welcome the historic decision to create a "loss and damage" fund in COP27. However, the success of this fund will depend on how quickly it gets operationalised. Access to existing international climate funds also needs to be streamlined.

International development co-operation has seen a significant transformation in the past decade, making foreign assistance management a complex undertaking. Lack of synergies and complementarities between and among different financing mechanisms creates overlap and/or scarcity in critically needed investment areas. In order to respond to fast-changing and diverging financing models, there is a growing need for development co-operation support to build the capacity of the relevant public sector entities.

...to respond to fast-changing and diverging financing models, there is a growing need for development co-operation support to build the capacity of the relevant public sector entities.

Provisioning funds for project preparatory activities and subsequently adding that to project costs are needed to minimise project start-up delays. A standardised investment financing guideline and flexibility for necessary customisation within the local context are also essential.

Two and half years of the pandemic and nine months of Russia's war against Ukraine have exposed the vulnerabilities of the existing global supply chain and disrupted global food and energy markets. According to the United Nations, the COVID-19 pandemic has erased at least four years of progress in fighting poverty. It is projected that as many as 95 million people will again fall into extreme poverty in 2022 alone. Around 90 million people in the Global South can no longer afford to pay their energy bills.

In such a difficult situation, achieving the Sustainable Development Goals by 2030 will require affordable financing for the developing world. Innovative financing models and toolkits should be designed to channel harmonised foreign assistance, aligned with national goals and priorities. As the traditional voice of the world's most vulnerable segments, Bangladesh would continue to remain a champion of effective international partnerships for inclusive and sustainable development.

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18 Responding to Global South views on development priorities, progress and partner performance

Samantha Custer, Ana Horigoshi and Kelsey Marshall, AidData

How can DAC members deploy resources, broker partnerships and contribute expertise in ways that play to their strengths, complement local priorities and help leaders in the Global South deliver development progress for their countries? This chapter offers some answers based on the responses of some 8 000 public, private and civil society leaders across 141 countries to two major AidData surveys conducted in 2020 and 2022. It reviews the leaders' own assessments of their country's progress towards its development goals and the obstacles they see to prioritising and implementing reforms. The responses to the surveys summarised in the chapter also suggest how DAC members might better play to their strengths and maximise their influence with and value to Global South leaders.

Key messages

- To better position themselves as preferred partners, DAC members must be responsive to local priorities, plan for long-term sustainability, and structure assistance to complement and incentivise local reforms.
- Public, private and civil society sector leaders in developing countries want international assistance to address systemic barriers to progress such as high levels of corruption and poor financial management, according to survey findings.
- Countries in the Global South are not seeking to work exclusively with specific providers. They look for the comparative advantage of each international partner and see DAC members as especially well-positioned to help tackle governance and rule of law issues critical to their long-term development. have more choices of development partners.
- Global South leaders express the greatest discontent with their countries' lack of progress in achieving the stated priority goals of job creation and government accountability, though degrees of satisfaction varied between political elites in democratic countries and counterparts in autocracies.

Leaders' commitment to growth and development is an essential precondition for low- and middle-income countries to achieve their goals (Dercon, 2022[1]). By paying attention to what their in-country partners say they want to achieve and what they need to make reforms happen, development co-operation providers increase the odds that their investments bear tangible fruit. Moreover, development co-operation providers seen as being aligned to national development strategies may gain a performance dividend as they tend to be considered more influential and helpful by leaders in low- and middle-income countries (Custer et al., 2021[2]). Yet providers often have imperfect information about what their counterparts in the Global South view as the key constraints to progress, the attributes of preferred partners and comparative advantages.

This chapter explores a single overarching question: How can DAC members deploy resources, broker partnerships and contribute expertise in ways that play to their strengths, maximise their influence and help leaders in the Global South deliver development progress for their countries? This question is timely because DAC donors must navigate an increasingly crowded and complex development co-operation marketplace (Custer et al., 2021[2]). Leaders in the Global South have a wider choice of prospective partners and sources of capital to bankroll their development than ever before. This includes concessional development assistance (grants and no interest or low-interest loans) to increasingly accessible private sector capital markets and less concessional assistance such as higher interest loans and equity investments by sovereign creditors like China, among others. Yet, even as there are more choices of partners, countries are still grappling with a formidable funding shortfall, estimated at USD 3.9 trillion as of 2020, to realise the Sustainable Development Goals (OECD, 2022[3]). Moreover, there is ample demand from leaders in the Global South to tap into the resources and expertise of DAC donors as their countries chart their own paths to realise a future that is "fairer, greener and safer" for everyone (OECD, 2019[4]).

This chapter triangulates the experiences of some 8 000 public, private and civil society leaders from 141 countries and contexts who shared their insights on development in their countries and their experiences working with international partners, including China, in 2 surveys conducted in 2020 and 2022 by AidData (Box 18.1). It first examines what respondents had to say about the domestic landscape for reform and their degree of satisfaction with their country's progress in seven aspects of development. It then discusses the key constraints to progress identified by the leaders and their desired entry points for development co-operation (regardless of the donor) to support their reform efforts. The chapter then focuses on what the surveys revealed about how DAC members are perceived, emerging indications as to how providers might play to their strengths in ways that could be particularly beneficial for their in-country partners, and how DAC members can best position their assistance for maximum influence and resonance with Global South leaders.

Box 18.1. AidData surveys of policy elites in low- and middle-income countries

Once every three years, AidData, a research lab at the Global Research Institute at William & Mary, a university in the United States, conducts an online Listening to Leaders Survey among public, private and civil society leaders across the Global South. This unique survey captures leaders' perceptions, priorities and experiences over time on a set series of topics. This format has several advantages: comparability of responses to a common set of questions across survey waves; comparability between multiple cohorts of interest (e.g. sector, region, stakeholder group); comparability of perceptions of various government agencies or international development organisations using standardised scales; and the simultaneous capture of a breadth of data on diverse topics.

The 2020 Listening to Leaders Survey on global development priorities, progress and partner performance was conducted on line via Qualtrics between June and September 2020. Based upon the World Bank's income group classifications in June 2020, the survey was fielded in 29 low-income countries, 50 lower middle-income countries and territories, 55 upper middle-income countries, 3 countries that had graduated to high-income status (previously middle-income and remained in the sampling frame), and 4 subnational areas (Puntland (Somalia), Kurdistan Region (Iraq), Somaliland (Somalia), Zanzibar (Tanzania)). A total of 6 807 leaders shared their experiences via the 2020 survey wave.

Respondents identified the type of organisation they represent, their substantive area of expertise, and the development partners that provided advice or assistance between 2016 and 2020 (out of a list of more than 100 bilateral aid agencies, including most Development Assistance Committee [DAC] members, and multilateral organisations). Respondents came from six stakeholder groups: executive branch officials (44%); civil society leaders (19%); local representatives of development partners (13%); university, think tank and media representatives (10%); private sector leaders (6%); and parliamentarians (5%). They represented 23 areas of development policy and diverse regional perspectives: 34% were from sub-Saharan Africa; 20% from Latin America and the Caribbean; 17% from Europe and Central Asia; 13% from East Asia and the Pacific; 9% from South Asia; and 7% from the Middle East and North Africa.

In July and August 2022, AidData used its Listening to Leaders sampling frame to field a special online Perceptions of Chinese Overseas Development Survey to gauge how African leaders in 55 low- and middle-income countries and subnational areas view several of the largest development partners, among them the People's Republic of China, France, the United Kingdom and the United States. The overall response rate was 4.1%, with 861 of the 21 278 invitees participating. The breakdown of respondents was 375 government officials (44%), 185 civil society leaders (21%), 128 university or think tank leaders (15%), 108 local representatives of development partners (13%), 43 private sector leaders (5%), and 21 parliamentarians (2%).

AidData is expanding the survey to additional regions, and results are expected to be available in mid-2023.

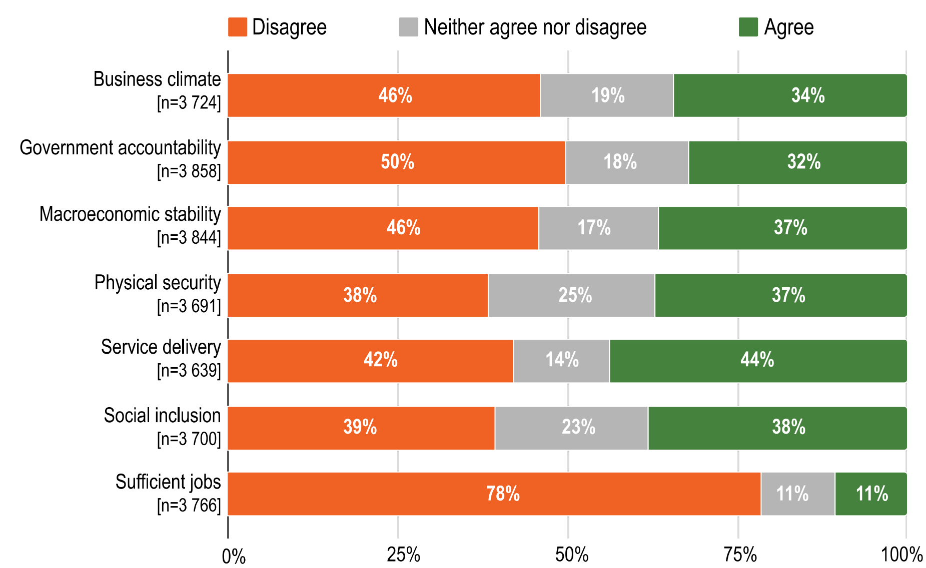
Lack of progress on job creation and accountable institutions frustrates Global South leaders

In the 2020 survey, respondents identified sufficient jobs and accountable institutions as among the most important problems they want to solve for their constituents (Custer et al., 2021[2]). These topped the list among survey respondents across geographic regions, organisational type and gender, although the discontent was the strongest in sub-Saharan Africa and the Middle East and North Africa. These two priorities were also consistent over time, with respondents identifying them as the most important problems to be solved in the previous leaders survey in 2017 (Custer et al., 2018[5]).

Yet, countries do not always achieve the outcomes they want just because leaders identify something as a priority or donors agree to devote financing to these areas. Nearly 80% of respondents disagreed with the statement that their country had generated sufficient jobs to keep the local workforce productively employed between 2016 and 2020, and 50% disagreed that the government was transparent and accountable to its citizens (Figure 18.1) (Custer et al., 2022[6]).

Figure 18.1. Leaders' overall perceptions of their country's development, 2020

Percentage of respondents overall who agree, disagree, or neither agree nor disagree with each statement about their country's development progress



Notes: Respondents were asked if they agree, disagree, or neither agree nor disagree with seven different statements about their country between 2016 and 2020. The development policy areas covered were accountability (an open and accountable government); jobs (enough to keep the workforce productively employed); services (consistent delivery of basic public services); inclusion (development policies inclusive of all social groups); macroeconomics (a macroeconomic environment stable enough to foster sustainable economic growth); business (a favourable business environment for the private sector); and security (basic physical security). Responses of those who said they preferred not to give an answer to a particular question are excluded.
Source: Custer et al. (2022[6]), *Aid Reimagined: How Can Foreign Assistance Support Locally-led Development?*, https://www.aiddata.org/publications/aid-reimagined-how-can-foreign-assistance-support-locally-led-development.

Respondents from democratic countries were more optimistic about their government's accountability than were those from autocracies, but the reverse was true when asked about progress in generating jobs (Custer et al., 2022[6]). This may reflect divergent priorities, in that autocracies may prioritise jobs for citizens to maintain regime stability while democracies may focus on accountability and trustworthiness to appeal to voters at the ballot box. Leaders' subjective responses largely track objective measures of their country's technocratic governance. Respondents from countries with objectively higher levels of development, better equipped bureaucracies and lower social inequality reported stronger progress on development outcomes. By contrast, leaders from fragile contexts reported lower levels of progress, reinforcing the concern that poor governance and fragility can become "traps" that stymie progress and enmesh countries in a low-growth equilibrium from which it is hard to escape (Collier, 2007[7]; Andrimihaja, Cinyabuguma and Devarajan, 2011[8]).

What might be driving this apparent disconnect between aspiration (i.e. what leaders say they want to achieve) and reality (i.e. what countries have been able to achieve)? The gap could be a consequence of constrained political support, insufficient resources, or limited capacity to effectively design and implement reforms. Alternatively, this dynamic might reflect a mismatch between the reforms being pursued by countries and what might spur meaningful improvements in performance, particularly if governments adopt reforms primarily to please external donors (Pritchett, Andrews and Woolcock, 2012[9]).

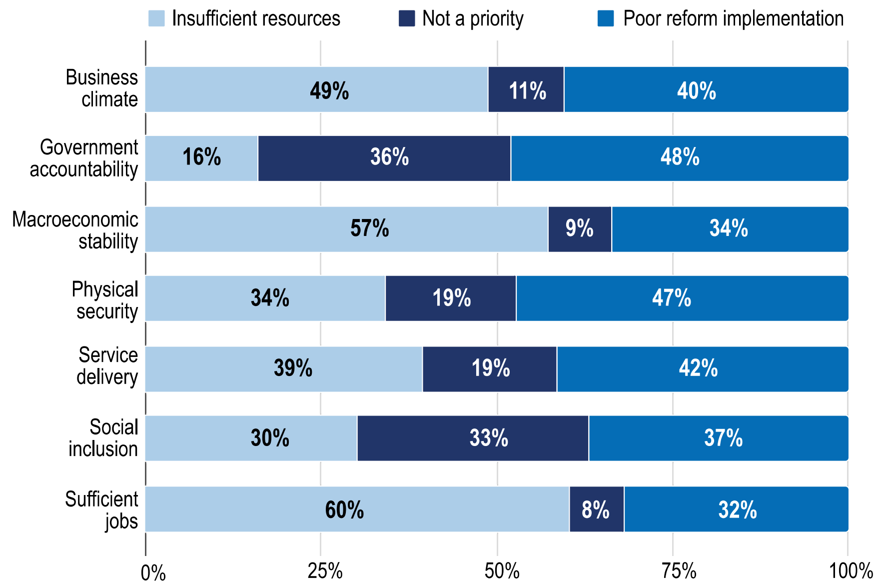
There may not be a one-size-fits-all explanation for the perceived lack of progress in accountability and job creation. Leaders' responses indicate that the biggest hurdles to progress vary depending upon the nature of the problem they want to solve. Respondents who stated that their country had made insufficient progress in a given policy area were asked to select one of three reasons why this was the case: It was not a priority in national plans, there were insufficient resources or reforms were not implemented well (Figure 18.2).

There may not be a one-size-fits-all explanation for the perceived lack of progress in accountability and job creation.

For the two top areas of dissatisfaction – lack of progress in generating sufficient jobs and in ensuring accountable institutions – the majority of leaders in the 2020 survey (60%) selected insufficient resources as an impediment to delivering jobs (Custer et al., 2022[6]). Lack of resources was also cited, albeit to a lesser degree, as a key constraint on other facets of economic development, such as promoting a favourable business climate (49%) and ensuring macroeconomic stability (57%). These findings were consistent across countries regardless of geographic region or income level. It could be that governments are having a hard time crowding-in adequate capital and expertise to do what they say they want to do in their national plans. Alternatively, governments may identify something as a token, ostensible priority to appease a constituent or funder but are unwilling to devote the political or financial capital needed to take reforms forward.

By contrast, for the development area of promoting an open and accountable government, respondents identified lack of prioritisation (36%) and poor implementation of reforms (48%) as larger impediments than resourcing per se (Custer et al., 2022[6]). These were also the top reasons cited for limited progress on social inclusion. It is understandable why these might block reforms as enhanced accountability and social inclusion could threaten the livelihoods of those who benefit from the status quo (e.g. rent-seeking bureaucrats and dominant socio-economic groups). The status quo is much more difficult to dislodge in the absence of a strong grassroots push for change. Leaders from Latin America and the Caribbean were most adamant about this lack of prioritisation – noteworthy since many countries in the region are active members of the Open Government Partnership,[1] which underscores the fact that there can be a difference between priorities in name and in practice.

Figure 18.2. Reason cited by leaders for perceived lack of development progress, global view, 2020



Notes: Respondents who said their country had made insufficient progress in a given policy area were asked to choose one of three reasons why this was the case: insufficient resources, lack of prioritisation or poor reform implementation. The figure shows the percentage of respondents who selected each reason, disaggregated by development policy area.
Source: Custer et al. (2022[6]), *Aid Reimagined: How Can Foreign Assistance Support Locally-led Development?*, https://www.aiddata.org/publications/aid-reimagined-how-can-foreign-assistance-support-locally-led-development.

Global South leaders want international partners to help them address systemic barriers to development

Respondents were asked to move from symptoms to root causes and drill down on why they had stated that a given area of development progress in their country was either not a priority, insufficiently resourced or had poorly implemented reforms. High levels of corruption (44-79%) and poor financial management (22-55%) were frequently cited as persistent constraints impinging on progress in all seven policy areas (regardless of which of the three impediments they previously identified) (Custer et al., 2022[6]).

Taken together, these results indicate that when insufficient resources derail a reform effort, this may often be a misallocation of resources – either by design (in the case of corruption) or oversight (in the case of poor financial management) and not necessarily lack of access to capital (Table 18.1). If anything, these findings underscore the importance of public financial management and anti-corruption programmes that build technical capacity and political will within governments and non-governmental watchdogs to support responsible use of public funds.

Table 18.1. Top reasons given by leaders for lack of sufficient resources for reforms across development policy areas

	Poor tax laws	Poor tax enforcement	High levels of corruption	Political instability	Poor financial management	Unprofitable for private sector	Lack of access to international capital
Accountability	13%	35%	78%	48%	56%	12%	9%
Jobs	24%	33%	44%	37%	44%	35%	10%
Services	22%	28%	63%	36%	50%	21%	6%
Inclusion	30%	34%	49%	23%	53%	38%	6%
Macroeconomics	23%	38%	58%	25%	55%	30%	9%
Business	21%	31%	50%	46%	51%	27%	17%
Security	14%	28%	46%	38%	43%	32%	15%

Notes: Respondents who selected "insufficient resources for reform" as their explanation for the lack of development progress were asked a follow-up question to determine why they thought resources were insufficient; they were asked to select three reasons from a list of seven key constraints or write in a response. The figure shows the percentage of these respondents who selected a given constraint across seven areas of development policy.
Source: Custer et al. (2022[6]), *Aid Reimagined: How Can Foreign Assistance Support Locally-led Development?*, https://www.aiddata.org/publications/aid-reimagined-how-can-foreign-assistance-support-locally-led-development.

Societal norms and group dynamics can also play an important role in hampering reform progress, either actively via resistance or passively via apathy. For example, respondents said there was not enough pressure from non-governmental actors pushing for progress in areas such as open and accountable government. This is a missed opportunity, as over 90% of leaders reported that they believe broad and diverse coalitions of actors outside of government – including non-governmental organisations, citizens, professional associations, media, think tanks and academia – could mobilise needed support for change (Custer et al., 2022[6]).

Political elites in the Global South value tailored, context-specific international assistance

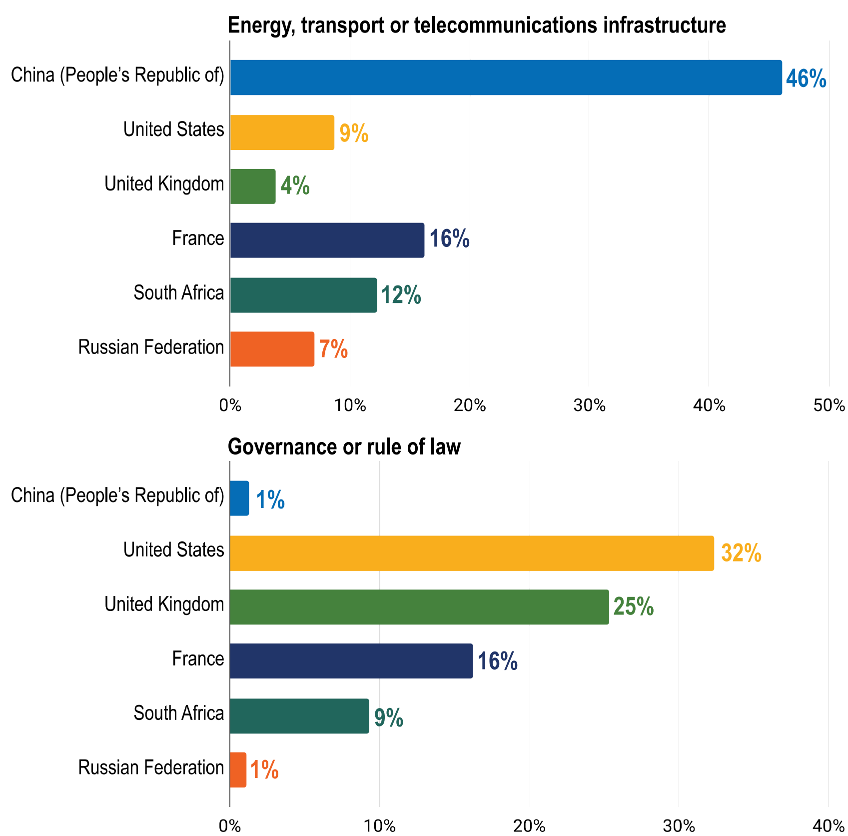
Even though leaders in the Global South have more options to finance development, DAC countries still have a critical role to play. Fewer than 10% of survey respondents indicated that they saw any given area of development policy as exclusively a domestic concern for countries to solve on their own (Custer et al., 2022[6]). Moreover, roughly 40% of leaders, on average, said their countries would benefit from a variety of contributions from international actors to support reforms, including financing and technical assistance on both design and implementation of programmes and policies as well as training, and awareness raising. But the optimal role for international development partners depended on the nature of the problem that domestic reformers were trying to solve and what they saw as the key constraints to progress.

In areas where insufficient resources were cited as the major pain point, such as in delivering sufficient jobs, the leaders' responses emphasised the need for financial support, policy advice and training (Custer et al., 2022[6]). In areas where lack of prioritisation was the greater issue, such as with regard to government accountability, survey respondents were more interested in seeing donors mobilise domestic or international actors to exert pressure on those who were blocking reforms. Using a country's classification on the Fund for Peace Fragile States Index as a departure point, AidData looked at whether and how levels of fragility affect attitudes towards international support. The analysis found that leaders in fragile contexts placed greater weight on the importance of external financing and mobilising pressure on those blocking reforms than did leaders in less fragile contexts. This held true across all policy areas except for jobs.

The Global South now has potential development partners other than DAC members to work with. But there remains a great degree of overlap between the top recipients of state-directed official development assistance from DAC members and the top recipients of aid from China, the largest non-DAC donor, as exemplified in aid to Ethiopia, Indonesia and Pakistan (Malik et al., 2021[10]; OECD, 2022[11]). Global South leaders do not view China and DAC members as an either-or option of development partner. Rather, the different providers are clearly seen as offering different comparative advantages. This view is evident in the responses to the 2022 AidData Perceptions of Chinese Overseas Development Survey which asked African leaders to identify their preferred partner in each sector out of six options: China, France, the Russian Federation, South Africa, the United Kingdom and the United States.

China was the most frequently selected preferred partner for energy, transport and telecommunications infrastructure projects by 46% of African leaders (Figure 18.3) (Horigoshi et al., 2022[12]). However, respondents gravitated to DAC donors in other areas of development. A case in point: Only 1% of African leaders selected China as their preferred partner in governance and rule of law projects compared to DAC members France (+15 percentage points), the United Kingdom (+24 percentage points) and the United States (+31 percentage points). DAC providers also had a comparative advantage in the eyes of African leaders in other areas related to health, education and social protection as well as natural resource management and environmental protection, though the spread between them and China was smaller.[2]

Figure 18.3. African leaders' preferred development partner by sector



Notes: The figure shows the percentage of respondents who identified a given provider as their preferred development partner in each sector. Respondents could only select one of six proposed partners in each sector. Not all sectors included in the survey are included in the figure.
Source: Horigoshi et al. (2022[12]), *Delivering the Belt and Road: Decoding the Supply of and Demand for Chinese Overseas Development Projects*, https://www.aiddata.org/publications/delivering-the-belt-and-road.

DAC providers can play a decisive role in helping partners tackle governance and rule of law issues critical to their long-term development

The findings related to perceptions of China's development assistance are broadly consistent with the results of the 2020 Listening to Leaders Survey, which covered additional geographic regions and development partners. Leaders identified each bilateral and multilateral development partner they had received advice or assistance from between 2016 and 2020. Respondents then assessed the degree to which each partner was influential in shaping policy priorities in their country and helpful in implementing policy reforms. Multilateral organisations and individual DAC donors tended to dominate the rankings of the most influential and helpful development partners in the social and environmental sectors (Custer et al., 2021[2]). In the realm of governance, China was influential but it was DAC donors and multilaterals that global leaders routinely turned to as among the most helpful in driving reforms in this area.

Multilateral organisations and individual DAC donors tended to dominate the rankings of the most influential and helpful development partners in the social and environmental sectors.

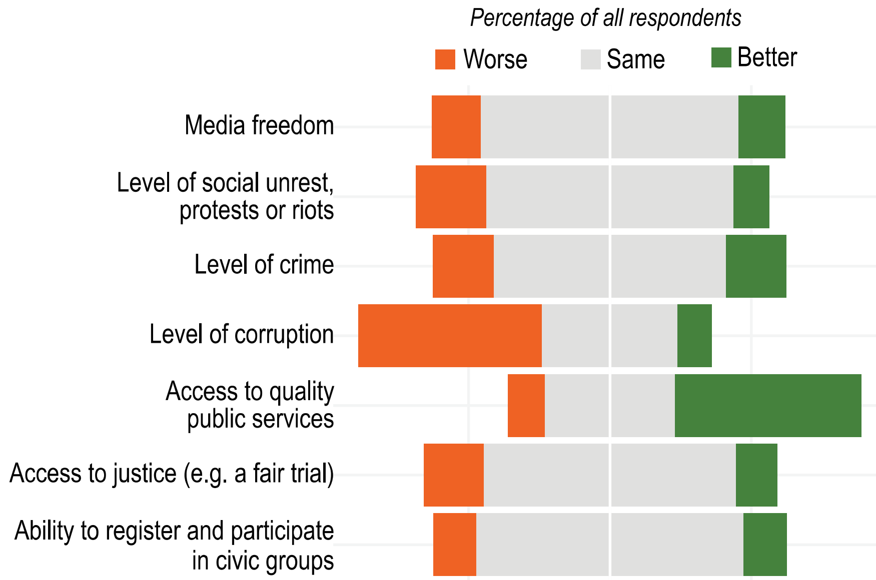
Leaders in the Global South have strongly signalled that they see DAC donors as comparatively well positioned to help address intractable public sector governance challenges either bilaterally or through effective multilateral partnerships. This support could involve channeling additional resources into existing programmes[3] or starting new ones that focus on building the capacity of the executive branch to source, use and monitor public sector finances from various sources (e.g. official development assistance, domestic revenues, debt financing) in areas such as public financial management, anti-corruption programmes and open government initiatives. DAC donors could also build on existing networks of relationships with parliaments to promote legislation related to budget transparency and sustainable borrowing. They also could focus on strengthening the capacity of non-governmental actors (e.g. media, universities, civil society groups, the private sector) to play an important watchdog function through investigative journalism and participatory budgeting.

Support from DAC donors to help their partners in the Global South responsibly manage public sector resources is even more essential as countries are grappling with negative spillover effects associated with debt-financed development from sovereign creditors such as China as well as through private sector capital markets. Specific to China, African leaders reported several positive economic impacts and improved service delivery as a result of Chinese state-financed development projects, but these were at the cost of worsening corruption (Figure 18.4) (Horigoshi et al., 2022[12]).

Support from DAC donors in helping their partners in the Global South responsibly manage public sector resources is even more essential as countries are grappling with negative spillover effects associated with debt-financed development.

There may be several reasons for the uptick in corruption – Beijing's use of non-disclosure clauses in its assistance, for example, as well as its unwillingness to participate in global aid reporting regimes and its practice of tying access to financing to the use of Chinese suppliers, labour and implementers rather than following open and competitive procurement processes when awarding contracts (Gelpern et al., 2021[13]; Horn, Reinhart and Trebesch, 2019[14]; Malik et al., 2021[10]). More broadly, debt financing from both China and private sector capital markets can expose countries to high repayment burdens once grace periods have lapsed and high interest rate payments kick in. This underscores the importance of cost-benefit analysis and fostering debt management capacities within governments to take sound financial decisions.[4]

Figure 18.4. African leaders' perceptions of the governance impacts of Chinese-financed development projects



Notes: The figure shows the percentage of respondents who said that China's official finance projects had made a given governance condition in their countries either better, worse or about the same. While respondents used a five-point scale to rank their responses, the figure simplifies the options, collapsing "much worse" and "somewhat worse" into "worse" and collapsing "much better" and "somewhat better" into "better". Respondents could also select "don't know/prefer not to say"; the figure does not include those responses.
Source: Horigoshi et al. (2022[12]), *Delivering the Belt and Road: Decoding the Supply of and Demand for Chinese Overseas Development Projects*, https://www.aiddata.org/publications/delivering-the-belt-and-road.

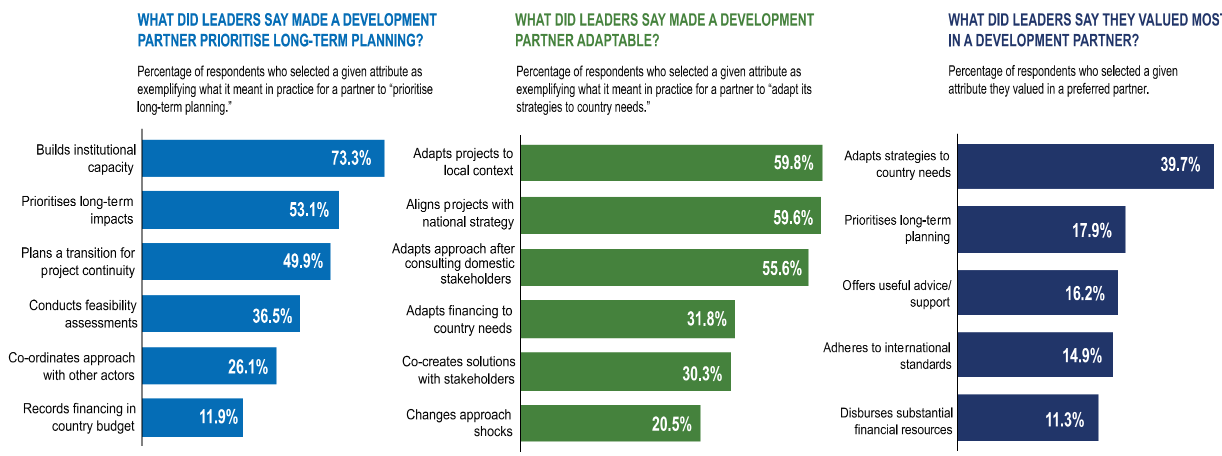
To be preferred partners, DAC members must be responsive to local needs, plan for long-term sustainability and structure assistance to work "with the grain" of local reforms

The evidence from the two recent surveys points to the strong interest that leaders in the Global South still have in co-operating with DAC members, particularly in the areas of governance and rule of law as well as in efforts to build human capacity (e.g. education, health and social protection) and to protect the environment. However, to position themselves as preferred partners in a crowded marketplace, DAC providers should keep several additional insights in mind to maximise their influence and impact.

First, the views of leaders in the Global South are in lockstep with many of the principles of aid effectiveness to which DAC members aspire (GPEDC, 2016[15]; OECD, 2019[4]) but sometimes struggle to achieve in practice (Brown, 2020[16]; McKee et al., 2020[17]). Respondents to the 2020 Listening to Leaders Survey said the most influential and helpful donors were those that respected the self-determination of countries to set their own priorities, supported locally identified rather than externally imposed reforms, and ensured that their efforts are in step with those of other actors on the ground[5] (Custer et al., 2021[2]). Respondents also emphasised the importance of building close working relationships with counterparts inside and outside of government as well as contributing substantive expertise.

Second, and relatedly, when it comes to choosing partners, respondents to the Listening to Leaders Survey emphasised that they most valued donors that adapted their strategies to fit local needs, for instance aligning efforts to the national development strategy, ensuring projects were contextually appropriate and iteratively adapting approaches in consultation with key stakeholders (Custer et al., 2021[2]). Another attribute leaders looked for in their preferred partners was a commitment to long-term sustainability, for instance building local institutional capacity, prioritising long-term impacts over short-term gains and planning a transition to ensure project continuity after external assistance ended (Figure 18.5). Recognising the volatility of aid as donors face shrinking budgets, increased scrutiny from taxpayers and shareholders, and shifting priorities, the leaders in the Global South shrewdly recognised that their best chance to preserve hard-won development gains is to ensure that they have the capacity to independently sustain and build on the foundation laid with external partners whose engagement is time-limited.

Figure 18.5. What leaders in the Global South value in their preferred partners



Notes: The left panel shows the percentage of respondents who identified a given attribute as what they valued most in a preferred partner; the centre panel shows the results of two follow-on questions that asked what it means to adapt strategies to country needs; and the right panel shows responses about what it means in practice to prioritise long-term planning.
Source: Custer et al. (2021[2]), *Listening to Leaders 2021: A Report Card for Development Partners in an Era of Contested Cooperation*, https://www.aiddata.org/publications/listening-to-leaders-2021.

Third, leaders also had strong preferences as to how development co-operation projects could be structured in ways that would be most conducive to supporting locally led reforms. DAC providers are well aligned with many of the attributes that their counterparts in the Global South look for in preferred projects. Survey respondents gravitated to projects that were transparent in the terms of assistance and expressed a preference for grants and low-interest loans compared to higher interest rate lending. They disliked tied aid and instead preferred projects that required procuring services and inputs from companies in the donor country. Nevertheless, alternative sources of capital may offer other advantages in the eyes of leaders in the Global South, particularly in regard to financing that supports larger rather than smaller dollar efforts and infrastructure projects compared to those focused on civil society strengthening or building the government's administrative capacity to collect taxes.

Though DAC donors have been reluctant to tie assistance packages to policy reforms in recent years, survey respondents indicated that they would welcome these conditions in some instances (Custer et al., 2021[2]). Leaders were 1-2 percentage points more likely to choose projects with social, economic or democracy-related conditions than those with no conditions at all. They also expressed a greater preference for aid projects with regulations to reduce corruption, minimise environmental damage or protect workers from unfair labour practices than projects that did not require such reforms.

Though DAC donors have been reluctant to tie assistance packages to policy reforms in recent years, survey respondents indicated that they would welcome these conditions in some instances.

It is possible that leaders view these conditions and regulations as relatively toothless as long as aid agencies lack the political will or technical capacity to follow through in enforcing them (Li, 2017[18]; Kilby, 2009[19]). However, it is more likely that respondents may favour constraints that push forward reforms they were predisposed to support and for which they now can access new resources to motivate allies or undercut vocal detractors. In this respect, DAC countries have an opportunity to work "with the grain" of reforms (Levy, 2014[20]) that partner countries see as in their interest to pursue but also need the promise of additional resources as political leverage to offset domestic resistance to change.

Conclusion

The results of two novel surveys of leaders across the Global South provide insights into how DAC members can deploy resources, broker partnerships and contribute expertise in ways that correspond to the expressed needs and priorities of partner countries and deliver development progress. The evidence points to a strong demand on the part of leaders in low- and middle-income countries for assistance to address systemic barriers to progress in the form of corruption and poor financial management. Leaders' responses also suggest that DAC members are seen to have comparative advantages in certain development policy areas, particularly regarding persistent governance challenges, that make them valued partners. It is clear that leaders place a premium on partners that are responsive to locally defined priorities, are willing to iteratively adapt assistance to find context-appropriate solutions and commit to plan ahead for long-term sustainability. There is an opportunity for DAC members to structure assistance in ways that do not impose undue burdens and instead strengthen the hand of counterparts to lock in desirable reforms.

DAC and non-DAC development partners alike would do well to heed the feedback from their counterparts in the Global South for two reasons. Not only is it the right thing to do from an aid effectiveness perspective. It is also the smart thing to do for savvy donors that want to maximise their standing with the leaders who will shape how their countries engage with foreign powers and aid institutions for years to come.

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Notes

[1] The Open Government Partnership (OGP) requires participating countries to submit an action plan, typically developed in a collaboration between the government and civil society representatives, that specifies concrete commitments to improve public sector transparency and accountability. The survey responses may suggest that leaders want to see more prioritisation in this policy area outside of the OGP or that sufficient prioritisation in this field looks different from OGP membership and efforts.

[2] In both natural resource management and environmental protection, 9% of African leaders selected China as their preferred partner; approximately one-fourth of respondents selected one of the DAC members as their preferred partner in these areas.

[3] For example, organisations such as the World Bank and the International Monetary Fund have well-regarded public financial management programmes that tend to be under-resourced. DAC members could channel additional resources via these programmes or undertake complementary efforts to help build the capacity of line ministries to more effectively assess the full life cycle costs of projects (debt-financed or otherwise) to take into account economic, social and environmental considerations.

[4] DAC members also provide loans to finance overseas development but at a decidedly lower cost to the borrower. A typical loan offered by China has a 4.2% interest rate and a repayment period of less than ten years and requires collateral. For more discussion, see: https://www.cgdev.org/publication/how-china-lends-rare-look-into-100-debt-contracts-foreign-governments. A comparable DAC donor offering carries a 1% interest rate and a repayment rate of 25 years and seldom includes collateral or procurement requirements. See: https://doi.org/10.1787/e4b3142a-en.

[5] For example, respondents to the 2020 survey emphasised that helpful donors made the effort to align their implementation of policies, programmes and projects with the activities of other development co-operation actors. See a discussion of the responses at: https://www.aiddata.org/publications/listening-to-leaders-2021.

19 In my view: Rethinking development to support Africa's capacity and access to finance for development

Nardos Bekele-Thomas, CEO, AUDA-NEPAD

What is a major priority for Africa? Industrialisation and productive transformation, which will also enable the creation of jobs on the continent.

How do we bring about this transformation? On the one hand, there is official development assistance that needs to be channelled more to finance the development of quality infrastructure and to support existing African regional funds. On the other, there is building the international enablers for Africa to have its own capacity to develop. What do we mean by this?

We can rethink development in Africa around five key themes: lessons from history; Africa amid multiple global crises; building resilience; partnerships; and a new paradigm on development. Lessons from history force us to reflect on the persistence of complex challenges and how to recover and rebuild our economies from the ravages of global crises. While history should not repeat itself, it provides important lessons which can help us rethink and address contemporary, emerging and distant challenges.

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Following calls by Macky Sall – in his capacity as chair of the African Union – in multiple international arenas on financing for Africa's development, the following recommendations are made in line with regional priorities regarding issues ranging from debt and taxation to post-pandemic recovery, climate change, governance, trade barriers and migration. The emphasis is on the great sense of urgency that the international community must bring to mobilising greater financing to enhance Africa's capacity for sustainable development.

1. **Debt and risk assessment.** Support the continent in its demand for debt relief and promote dialogue between credit rating agencies and the African public sector to rationally reconsider Africa's credit ratings. Development Assistance Committee (DAC) countries could be more active in this regard and improve internal co-ordination in terms of rules. International co-operation and debt relief programmes such as the Debt Service Suspension Initiative can help strengthen African countries' balance sheets and their ability to repay debt in the medium term. However, some

developing countries have been discouraged from joining these programmes, despite the high risks of debt overhang, due to fears that their participation would trigger a rating downgrade

2. **Special drawing rights.** OECD countries should support Africa's call to reallocate USD 100 billion in special drawing rights. These additional reserves will help drive a much-needed economic recovery from the impacts of the COVID-19 pandemic, numerous conflicts and climate change.
3. **Regional industrial initiatives.** Negotiations between Africa and its partners should focus on industrialisation initiatives. Through the African Continent Free Trade Agreement (AfCFTA), resilience can be built to enable good economic and political co-operation. This agreement holds much promise, especially given the persistent gridlock in the multilateral trading system in the World Trade Organization and the political backlash against globalisation in some parts of the world. The AfCFTA is an important engine for continental integration, and its implementation will require building resilience against domestic, regional and global shocks.
4. **New model of partnerships.** There is a need for partnerships and collaborations that foster mutual benefits and inclusivity among different stakeholders at the local, national and international levels. New partnership models that reflect Africa's growing aspirations and its unique challenges are indispensable. As a start, the OECD and the DAC can ensure that international partnerships acknowledge and support Africa's quest for sustainable development. Crucially, this would also require an appreciation of the continent's efforts to determine its destiny. But to be clear, these efforts do not in any way preclude the need for partnerships. Rather, partnerships should be designed to be mutually beneficial.
5. **A new paradigm for Africa's development.** It is important to focus on how we can repurpose current developmental strategies and create fit-for-purpose mechanisms for shoring up Africa's resilience to both regional and external shocks. Such mechanisms will need to steer the continent into a post-COVID era of development. For example, governments need to increase their accountability to citizens through more effective collection and utilisation of tax revenue from global corporations. This type of action can build goodwill among citizens. International co-operation that builds on shared values and ethical goals can minimise negative spillover (and maximise the positive) effects of shocks.
6. **Operationalising the role of the African Union Development Agency and promoting a common African position at the global level.** Rethinking Africa's development co-operation and international partnerships requires a multidimensional approach that looks beyond the goal of simply eradicating income poverty. Focus should fall on developing Africa's capacities, including the meaningful structural engagement and socio-economic integration of youth by expanding their opportunities to achieve social, economic and political security and contribute to the long-term development of the continent.

20 Harnessing national development plans to drive local and global actions

Willem Fourie, University of Pretoria

Development co-operation providers have committed to the effectiveness principle of aligning aid to partner countries' priorities and needs. Dealing with those priorities is a challenge, particularly in the face of a plethora of global goals, donors' own interests and needs, and the range of appropriate development pathways. This chapter examines the role of national development plans in guiding aid allocations and strategies for managing the range and complexity of priorities, vested interests, and scope for accountability to the citizens of recipient countries. By focusing on the global causes of the challenges that recipient countries face, such as climate change, and incentivising aid providers to develop customised solutions with local input, national development plans can strengthen the relevance of development co-operation.

The author would like to acknowledge and thank Christopher Marais for his support in preparing this chapter.

Key messages

- Development co-operation providers have committed to aligning their support with beneficiary and country needs and priorities. One way of doing so is the substantive use of the priorities contained within national development plans.
- When they reflect the real diversity of possible development pathways and the value of locally owned and developed solutions, national development plans have the potential to strengthen development co-operation by encouraging context-specific approaches and tackling complex development priorities iteratively and experimentally.
- Despite their weaknesses and complexities, which can lead to misuse by self-interested domestic elites and donors to serve private, commercial or strategic needs, national development plans should be used as instruments to inspire funders to address the global causes of domestic development challenges.

Development co-operation is in flux. Escalating global tensions and the existential threat posed by climate change are accelerating geopolitical changes long in the making. Against this backdrop, debates on a world "beyond aid" continue. Various alternative ideas for financing development have emerged, among them proposals for global policy finance, global public investment, international development contributions, sustainable development investment and new development assistance (Mélonio, Naudet and Rioux, 2022[1]). In parallel, the norms and institutions that undergird development co-operation are being questioned to the extent that some have described the current period as one of norm "confusion" (Esteves and Klingebiel, 2020[2]).

These lively debates on financing development and reform of its norms and institutions are urgent and important. This chapter looks behind the "how" of development co-operation and instead focuses mainly on the "what". Specifically, it visits a topic – the use of national development plans for prioritising aid allocations in African countries – that, from one perspective, seems to pale compared to the debates on financing development and reforming its norms and institutions. From another perspective, however, this theme helps unpack the challenges and opportunities related to providers' renewed focus on relevance in development co-operation, which is described as the "extent to which the intervention's objectives and design respond to beneficiaries' global, country and partner/institution needs, policies and priorities, and continue to do so if circumstances change" (OECD, 2021, p. 38[3]).

Countries develop along different pathways

It is frequently stated that there is no silver bullet in development. Rather, countries that are perceived to have been "successful" pursued a relatively diverse set of economic and other policies (Dercon, 2022, p. 14[4]).

Their pathways differ due to a host of factors, including the structure of their political economy, their geography, their history and colonial legacy, and, as argued more recently, the nature of the deals among the elite. Regarding elite bargains, Dercon (2022, p. 93[4]), in *Gambling on Development: Why Some Countries Win and Others Lose*, argues that some countries (Malawi and Sierra Leone, for example) need to find pathways that take into account their extensive yet informal ethnic, personal business and crime networks. Other countries must deal with predatory[1] and clientelist structures (e.g. the Democratic Republic of the Congo and Nigeria) or need to find ways to design and commit to pathways out of conflict (e.g. South Sudan) (Dercon, 2022, pp. 126, 144[4]).

Arguments in favour of a multiplicity of development pathways resonate with the more radical critiques of the assumed end goal of development. Post-development theorists use the term pluriversality to critique the assumption that all countries should, ultimately, develop following the same pathways towards the same end goal (Kothari et al., 2019[5]; Escobar, 2020[6]). According to these and other theorists, development is ultimately successful when diverse, locally owned and locally developed solutions are applied towards a plurality of goals.

These theorists specifically problematise the assumption that the attainment of Western values and lifestyles should be seen as the end goal of development. They argue that any developmental goal predicated on “the blind pursuit of economic growth” and built on “destruction and appropriation of ecological and human bodies and cultures” should be rejected (Büscher et al., 2021[7]).

National development plans are complex, showing the diversity of development pathways

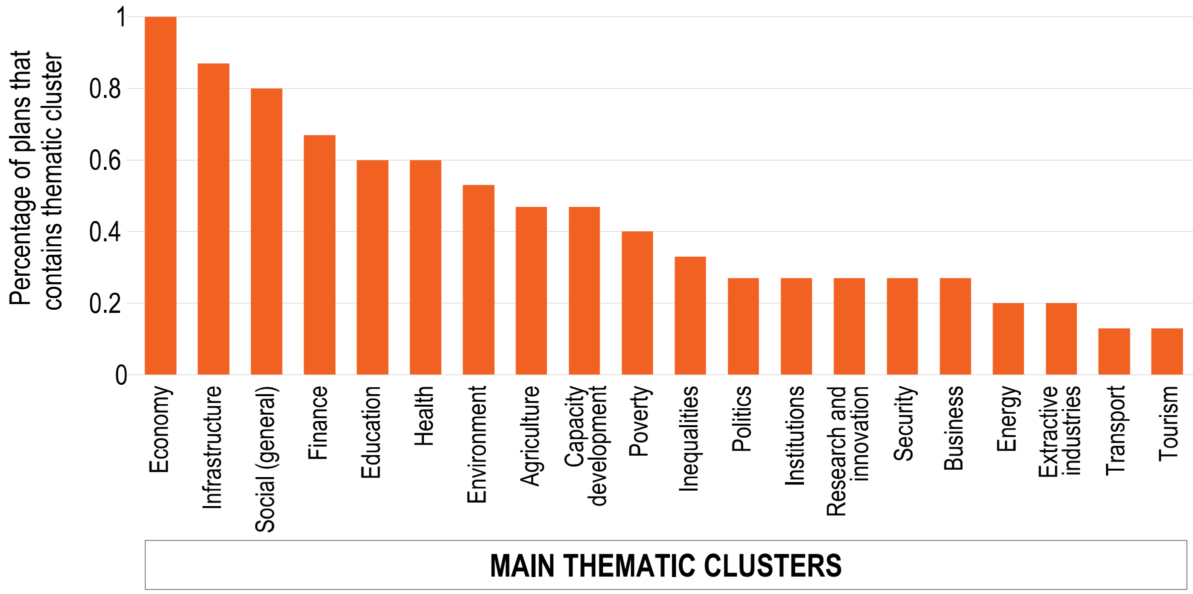
The use of national development plans (NDPs) in development co-operation comes after a resurgence in national development planning after the mid-2010s. Whereas only 62 countries had a national development strategy in 2007, more than 130 had such a strategy in 2017 (Chimhowu, Hulme and Munro, 2019[8]). Indeed, processes of national planning are not unique to developing countries. OECD countries also juggle challenges of complexity, coherence and prioritisation.

An analysis conducted for this chapter of African countries’ NDPs illustrate the complexities of countries’ development priorities. This complexity is evident, first, in the large number of topics covered by NDPs. In this regard, an analysis of the 20 most commonly used keywords in 15 African NDPs is instructive. As shown in Figure 20.1, the main thematic clusters in these plans cover a broad range of themes encompassing economic, social, environmental and governance-related topics. It is important to note that each identified thematic cluster is relatively broad, amplifying the impression that the NDPs in the sample covered a large number of themes.

The economy cluster, for example, includes keywords such as growth, gross domestic product (GDP), trade, production and employment. Clustered together under infrastructure are wide-ranging topics such as municipal, district, county and regional-level institutions, as well as promoting the efficiency and stability of institutions.

Even more revealing, however, is the fact that the top 20 most common keywords in each NDP align, on average, with 12 thematic clusters. In thematically focused documents, one would expect the most frequently used keywords to align with a small number of thematic clusters – at least when topic clusters are as broadly defined as in this analysis. However, this is not the case in the NDPs analysed. Even at a high level, it was clear that the plans covered a large and diverse set of topics.

Figure 20.1. Coverage of 20 main thematic clusters in the national development plans of 15 countries in sub-Saharan Africa



A second indication of the complexities of development priorities is that the NDPs analysed tend to contain multiple internal logics. This means they contain multiple priorities that will be difficult or at worst impossible to attain simultaneously.

This multiplicity is usefully illustrated by analysis of the internal logics contained in seven African NDPs with the aid of natural language processing (NLP).[2] While NLP does not provide any conclusive evidence of multiple logics, the identified topic clusters offer a glimpse of potential micro-logics contained in the NDPs analysed. This is because NLP does not merely count words and phrases but adds an understanding of their meaning and context. To be conclusive, these clusters and the related assumptions need to be validated by speaking to decision makers and analysing the respective policies and legislation in depth.

Figure 20.2 provides a snapshot of topic clusters and therewith an indication of possible internal logics contained in the development plans analysed. This snapshot is the result of the NLP analysis after the initial results were cleaned.

In Cameroon's development plan, for example, forestry and the promotion of agriculture are clustered together. Another cluster of topics is increased oil exports and GDP. These two clusters of topics point towards different micro-logics. The promotion of GDP growth through more oil and gas exports could imply an extractive economic logic, which could be difficult to reconcile with environmentally sustainable development. However, the promotion of agriculture and forestry – if done sustainably – could be easier to reconcile with environmentally sustainable development.

Kenya's development priorities, according to the NLP analysis, include a focus on both promoting entrepreneurship as a way to develop its youth and building sophisticated scientific capabilities, including nanotechnology and biotechnology. Whereas these clusters of priorities are not necessarily in conflict, they raise questions about the viability of resource-intensive investment in building scientific capabilities while simultaneously addressing the immediate concern of youth unemployment through entrepreneurship promotion. Additionally, engagement with policy makers will need to determine whether the expressed goal of reforming the education curriculum will, in fact, enable many of the other priorities on the list.

The NLP-aided identification of multiple topic clusters and possible micro-logics highlights the complexity of both identifying suitable sustainable development pathways and capturing these in development plans. From one perspective, these plans contain many development priorities without explicit prioritisation and, at times, include priorities that may be at odds with one another. From a different perspective, however, both the large number of topics and what seem to be multiple internal logics could be seen as an illustration of a more fundamental point: The African national development priorities analysed contain a plurality of explicit and assumed development pathways.

Figure 20.2. Thematic clusters in four development plans produced using natural language processing

CAMEROON	ESWATINI	KENYA	NIGERIA
Exports; oil; GDP	Agriculture; crops; irrigation; livestock	Youth; women; people with disabilities	Environment; sustainability; bioeconomy
Education; vocational training; secondary education	Road transport; safety; fund; rail; cableways	Youth development; skills; mentorship; entrepreneurship	Housing; mortgage; affordable
Agriculture; forestry	Water; dams; sanitation	Exports; indigenous	Agriculture; livestock; forestry; fisheries
Tourism; digital; industrial; manufacturing	Livestock; crop; marketing; forest	Tourism; monuments; beds; parks	Innovation; science; technology; digital
Macroeconomic framework; agriculture; growth	Capacity building; capabilities; needs	Infrastructure; safe; efficient	Infrastructure; connectivity; broadband
Diaspora; investment; bank	Economic empowerment	Agriculture; fertilizer; drought	Jobs; job creation; employment; construction
Employment; job market; governance; reforms	Rural development; agriculture	Digital content; data; technology commercialisation	Youth; youth unemployment; demographic; bulge
Bilingualism; culture; multiculturalism	Investment; nation; abroad	Nanotechnology; biotechnology; science	Water; sanitation; hygiene; access; waterways
Production; agriculture; fisheries	Social security; welfare; safe	ICT; governance; secretariat	Health; healthcare; tertiary; patients; care
Exports; gas; oil	Employment; infrastructure development	Education; curriculum; quality; reformed	Public-private partnerships; arrangements; models; structuring

Notes: GDP: gross domestic product; ICT: information and communications technology. This figure is illustrative, and topic clusters and implied internal logics need to be confirmed through engagement with policy makers and an analysis of related documentation.
Source: Author and Christopher Marais.

Achieving broad national consensus on a development pathway is complicated

It could be that development plans that apply what Chimhowu, Hulme and Munro (2019[8]) call a "collaborative rationality" are more likely to contain multiple logics. Such plans are compiled through a process of "communication and negotiation"' that requires the involvement of "numerous individuals who bargain and negotiate from varying power bases to achieve objectives that at least partially reflect their self-interest" (Chimhowu, Hulme and Munro, 2019[8]). Plans that apply this rationality are widespread – more than 60% of the 107 development plans analysed in a recent study (Chimhowu, Hulme and Munro, 2019[8]). In contrast ...with plans that employ a top-down, expert-led approach, the legitimacy of a bottom-up plan rests on the extent to which it reflects broad societal consensus.

The complexity inherent to demand-side NDPs, as illustrated by the African sample analysed, is further intensified by the difficulty of achieving and retaining a broad and stable national consensus. This is because of the "deeply pluralistic and diverse conditions of most developing countries" (Black, 2020, p. O118[9]), which in turn limit their capacity for "national consensus'". Put differently, the intensity of competing interests, societal fractures and institutional unevenness that characterises most developing countries makes national consensus short lived.

...with plans that employ a top-down, expert-led approach, the legitimacy of a bottom-up plan rests on the extent to which it reflects broad societal consensus.

The complexity of development plans opens them to being misused

On one level, the breadth of topics and multiplicity of internal logics contained in many development plans should not be surprising. Assuming that NDPs map out the country's priorities across sectors and departments and that they communicate some sort of consensus in societies that are socio-politically complex and in flux, the plans should contain multiple topics and logics. Fundamentally, this complexity is, of course, not a feature of development planning solely in Africa. As acknowledged and addressed by the policy coherence for sustainable development agenda, making sense of multiple and even competing priorities is a challenge all governments face.

Yet the complexity of development plans poses a risk to developmental progress, especially when development plans are used in development co-operation. The breadth of topics and multiplicity of logics in such plans can be used to legitimise the status quo, thus disabling changed behaviour and better outcomes for citizens. This danger plays out both domestically and in development co-operation.

A national development plan containing a wide range of topics and logics can be misused, first by overly self-interested domestic elites. By cherry-picking priorities that align with existing patrimonial networks, domestic elites can privatise aid. The propensity of the domestic elites to privatise aid in settings with weak institutions has been illustrated in large-scale studies (Asongu and Nwachukwu, 2015[10]). Recently, aid disbursements have been correlated with sharp increases in offshore bank deposits even after shocks such as conflict, natural disasters and financial crises have been accounted for (Andersen, Johannesen and Rijkers, 2020[11]).

Elite capture has been associated with a broad range of perverse outcomes. It has been found, for example, that unaccountable political elites end up being held to lower standards than would have been the case for more accountable leaders. A study on political accountability in Mali that covered 95 localities showed this. When voters become used to politicians who do not serve the interests of the electorate, they tend to lower their expectations of such poor-performing politicians, in effect sanctioning unaccountable behaviour (Gottlieb, 2015[12]). Unaccountable political elites thus often initiate a negative cycle: A lack of accountability confirms citizens' (already low) expectations, which leads to "feelings of cynicism and despair" that cause citizens to become even less likely to hold the political elite accountable (de la Cuesta et al., 2022[13]).

Aid providers can exploit plans' complexity to serve their own interests. Whereas NDPs, used well, should enable the building of stronger partnerships and better outcomes for citizens, their complexity can be used to do the opposite. Overly self-interested funders can use complex African development priorities to serve their domestic needs. They are able to do so by categorising interventions that provide them with "short-term commercial and geo-strategic advantages" (Gulrajani and Silcock, 2020[14]) as compliant with local priorities, without due attention to the interest of recipients. Levels of self-interest among traditional and new providers of aid remain a lively topic of debate. France, Germany, Japan, the United Kingdom and the United States, for example, provide more aid to trade partners while aid allocations by the People's Republic of China (hereafter "China") reflect the importance it attaches to the ''One-China policy" (Hoeffler and Sterck, 2022[15]). The propensity of some elites and funders to misuse overly broad development priorities resembles superficial alignment with the Sustainable Development Goals (SDGs), increasingly referred to as "rainbow" washing (Gutierrez et al., 2022[16]). At the core of this criticism is the use of the SDGs to legitimise projects and activities that predate the SDGs. Much of the research in this area has been done at the organisational level (Heras-Saizarbitoria, Urbieta and Boiral, 2021[17]), but the fundamental principle can be generalised to apply to engagement between countries.

The propensity of some elites and funders to misuse overly broad development priorities resembles superficial alignment with the Sustainable Development Goals (SDGs), increasingly referred to as "rainbow" washing (Gutierrez et al., 2022[16])

Despite weaknesses, African national development plans could revitalise development co-operation

Despite the possibility of misuse, the ambitions and complexity inherent to African and other NDPs have the potential to strengthen the relevance of development co-operation in countries in at least two ways. First, this complexity can open up additional development pathways. Second, it can highlight the global origins of differentiated national priorities, incentivising aid providers to adapt to the challenges recipient countries are facing.

Acknowledge more developmental pathways

African development plans are complex as they contain multiple priorities and logics. This complexity questions the assumptions that scalable and shared pathways and a universal silver bullet for development exist. It also resonates with arguments put forward by post-development scholars who, echoing the Zapatista movement, argue for development that enables "a world in which many worlds fit" (de la Cadena and Blaser, 2018, p. 1[18]).

Despite contradictions and weaknesses in their criticisms (Masaki, 2021[19]), post-development scholars articulate the widely held perception that dominant economic growth models need to change fundamentally (UBS, 2022[20]; Spence, 2012[21]). They argue that these models were influenced and promoted by the West under the pretext that they represent universal and thus unquestionable approaches to economic development. This universalism, according to post-development scholars, is a key feature of "Eurocentric modernity" (Kothari et al., 2019, p. xxxiii[5]).

One way of incorporating this criticism into development co-operation is to acknowledge the existence of multiple development pathways and actively engage partners on these alternative pathways to development. Doing so constructively would require acceptance among providers and recipients of "partial connections" between Western modernity and other perspectives on development (Masaki, 2021, p. 11[19]). Distinct from views that critical approaches to development are irreconcilable with the status quo, acknowledgement of partial connections (Araya Moreno, 2016[22]) enables a broadening of the developmental pathways that are pursued.

Accepting the fact of multiple development pathways may also require an approach to development co-operation that takes experimentation seriously. Used in this context, experimentation does not refer to the so-called "experimental turn" in development co-operation (Donovan, 2018[23]) and the attendant use of field experiments (de Souza Leão, 2020[24]). Rather, experimentation means withstanding the temptation to scale so-called global best practices, focusing instead on tackling complex national development priorities that can be addressed iteratively and experimentally within specific contexts.

Among the many experimental approaches to development available, problem-driven iterative adaptation remains particularly useful, with the focus falling on active, ongoing and experimental learning (Andrews, Pritchett and Woolcock, 2013[25]). Iterative feedback on lessons learnt is then incorporated into project design. As de Renzio (2016[26]) also highlighted, this approach implies experimentation with "local problem-solving" (Booth, 2012, p. 84[27]) rather than trying to apply pre-defined solutions.

Controversially, such an experimental approach should allow for projects and reforms that could initially be criticised for being unprofessional, failing to meet global standards and even "promoting non-best-practice solutions" (Andrews, Pritchett and Woolcock, 2013[25]). Rather than simplifying the complexity of the problem faced, this approach allows for identifying entry points while acknowledging multiple causes of the problems. Incorporating locally driven experimentation and iteration into the centre of development co-operation should also increase the resilience of relationships and projects in socio economically and politically complicated settings.

Examples of such locally responsive experimental projects include involving town chiefs in Malawi – local urban leaders leveraging traditional symbols – in development projects and, in Niger, supporting primary healthcare facilities to collect small amounts from patients to fund fuel and staffing costs of emergency evacuations of pregnant women (Booth, 2012, pp. 81-82[27]).

Incorporating locally driven experimentation and iteration into the centre of development co-operation should also increase the resilience of relationships and projects in socio-economically and politically complicated settings.

Address the global origins of differentiated national priorities

Supporting a diversity of development pathways at the expense of the supranational origins of the underlying problems would be a mistake. Simply put, many of the priorities articulated in developing countries' development plans are determined by forces beyond their borders. This is why NDPs can also be used as instruments to inspire funders to identify and address the global causes of recipient challenges.

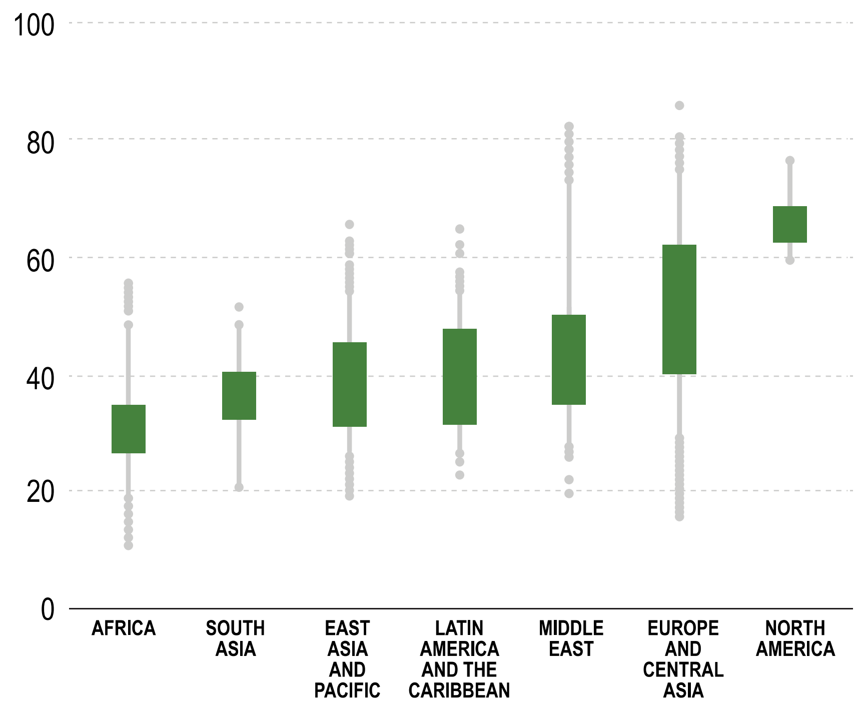
Champion the interests of countries impacted by but not responsible for climate change

The disproportionate effects of climate change in developing countries offer a vivid and urgent illustration of global causes, local effects and their interdependence. Consider its effects on food insecurity. As Africa's farmers mostly use rain-fed systems, climate change-induced changes in rainfall patterns make farmers particularly vulnerable, with a knock-on effect on food security. According to some estimates, non-agricultural households in Africa, unsurprisingly, are thus facing price increases of staples of up to 60% due to climate change (Nyiwul, 2021[28]). Relatedly, recent estimates show that increasing temperatures have contributed to a 34% reduction in Africa's agricultural productivity since 1960 (World Meteorological Organization, 2022, p. 27[29]).

As Africa is the region with the lowest levels of climate change readiness (Figure 20.3) and climate change resilience (Figure 20.4), African nations will be among the least able to address both the global causes and local effects of the problems underlying their development priorities. It is also projected that the effects of climate change will put additional pressure on African states' ability to respond: The African Development

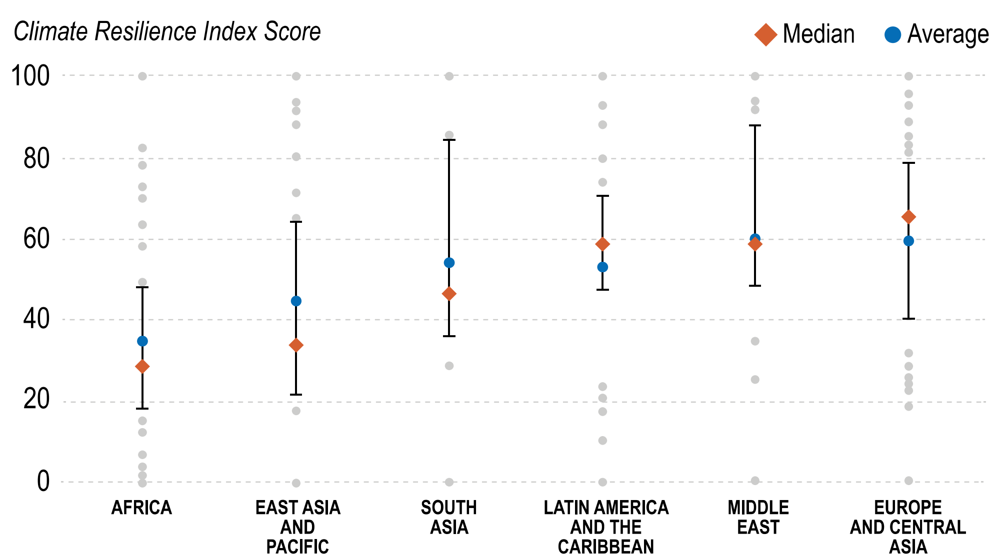
Bank estimates the cost of climate change adaptation in Africa at between 1.7% and 1.8% of GDP, whereas the cost in other regions is estimated at 1.3% to 1.4% (African Development Bank, 2022[30]). At the same time, however, Africa continues to contribute the smallest share of global greenhouse gas emissions. It is estimated that Africa contributes 3.8%, compared to 23% for China, 19% for the United States and 13% for the European Union (CDP, 2020[31]).

Figure 20.3. Climate readiness by region



Source: African Development Bank (2022, p. 55[30]), "Climate resilience and a just energy transition in Africa", https://www.afdb.org/sites/default/files/2022/05/25/aeo22_chapter2_eng.pdf.

Figure 20.4. Climate resilience by region



Source: African Development Bank (2022, p. 53[30]), "Climate resilience and a just energy transition in Africa", https://www.afdb.org/sites/default/files/2022/05/25/aeo22_chapter2_eng.pdf.

One way in which funders can support developing countries, especially in Africa, to address the effects of climate change is by using NDPs as a starting point that is concrete and tangible and linked to the expressed aspirations of recipients of foreign aid. Moreover, bilateral development co-operation providers can mobilise across their administrations to champion the interests of developing countries fairly in the institutions and institutional arrangements set up to deal with global public goods. These include multilateral organisations, international treaties, issue-specific “clubs” and international regimes (Buchholz and Sandler, 2021[32]).

At the national level, development co-operation providers need to engage more critically and effectively with policy coherence issues. Changing policies and behaviours in the countries that provide funding would also help developing countries address their challenges, thinking that is echoed in the established discourse around policy coherence for sustainable development. This discourse acknowledges that provider countries’ policies have “transboundary” and “international” dimensions and should ensure that the current generation leave adequate economic, natural, human and social capital for future generations (OECD, 2016, p. 62[33]).

Using foreign aid to assist recipient countries without changing potentially contradictory provider country policies and practices seems illogical and inefficient. An often cited and hotly debated example is the aid devoted to agriculture. It is generally accepted that funders that are truly interested in the value their agricultural aid could unlock should also attend to their own policy environment (Cohen, 2019[34]). This includes reconsidering their trade policies, local agricultural subsidies, and regulation of dumping and rapidly reducing carbon emissions emanating from the agricultural sector.

Addressing the global or supranational origins of the developmental challenges experienced in recipient countries is intimately connected with debates on foreign aid and the protection and provision of global public goods.

Conclusion

Funders would do well to take development plans seriously as the upsurge in national development planning seems far from abating – not only in Africa but also globally.

If used to drive better outcomes, development plans challenge funders to rethink how they allocate funding. Rather than using the many topics and logics contained in development plans to legitimise pre-existing supply-side priorities, aid providers should critique their own assumptions on development good practices and pathways.

Such an approach opens up the opportunity to experiment with atypical priorities, projects and modalities of implementation instead of using so-called global best practices as their starting point. Using development plans in this way requires funders to be willing to invest the time needed to understand the recipient country’s perspective on its own development priorities while retaining the agility to respond to the shifting commitments that invariably characterise institutions in consolidating democracies.

Development plans also challenge funders to acknowledge the supranational origins of some of the problems faced by recipients. The benefit of using the priorities contained in NDPs is that they convey a sense of contextual sensitivity and concreteness that some aid funders might feel is absent in debates on foreign aid and global public goods. These expressed priorities also expand the funders’ sphere of action beyond the provision of aid.

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Notes

[1] A predatory state is generally viewed as a collection of state institutions that gives the regime and its elites an advantage over and at the expense of citizens.

[2] This analysis used a pre-trained version of Bidirectional Encoder Representations from Transformers, known as BERT, which incorporates an understanding of the context in which words and phrases are used. The benefit of using NLP is that it provides a more granular understanding of the relation between topics in a national development plan.

21 In focus: Renew international co-operation for a more resilient Africa

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African countries have made progress towards development goals and in institutional capacity building since the early 2000s. However, continental challenges persist, particularly industrialisation and economic competitiveness for job creation. Asymmetries in the international financial architecture make it more difficult for African countries to recover from the COVID-19 crisis, manage increasing debt service costs, finance much-needed investment in infrastructure for structural transformation and cope with the effects of climate change. Development co-operation providers can help African nations by rethinking their approaches and tools. New models of mutually beneficial partnerships among equals should underpin development co-operation going forward.

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Key messages

- Development co-operation providers can support Africa's industrialisation and productive transformation by helping to address the continent's infrastructure deficit and supporting key agendas, such as the African Continental Free Trade Area.
- Given asymmetries in the international financial system, development co-operation providers should increase their support for debt relief and new approaches to debt treatment. They could facilitate dialogue between Africa and credit rating agencies and identify and support options to reallocate USD 100 billion of International Monetary Fund special drawing rights to developing countries.
- New models of partnerships among equals are needed. They should provide a space and tools for Africa to co-create solutions, including through technology transfer and capacity building to help the continent adapt to new co-created rules and standards.

Building resilience amid multiple global crises

Unfortunately, the current international co-operation system has not produced the desired results for Africa's development. The continent remains highly vulnerable to external shocks, and despite economic growth and poverty reduction at the continental level, significant gaps remain at the national level. The COVID-19 pandemic and the ramifications of Russia's war of aggression against Ukraine have exacerbated Africa's challenges and demonstrated the vulnerability and limited resilience of a continent increasingly connected with the world. The pandemic led to increased government spending as revenues declined, leaving African governments with a heavy financial burden on top of structural difficulties.

The OECD's Development in Transition (DiT) framework offers helpful guidance to development co-operation actors wishing to support Africa's long-term development in an increasingly complex world. [1] This framework centres the rethinking of international co-operation in the current reality of increased global interconnections and international policy incoherence. DiT conceives development as a multidimensional, continuous (and reversible) process and takes into account vulnerabilities in developing countries that persist despite increased average income levels. DiT further calls for new metrics to better measure development progress and for new instruments and multi-actor partnerships.

Africa needs this renewed and holistic approach to co-operation to address internal structural difficulties, including the lack of regional integration and productive transformation, weak financial and technical capacity for policy and project implementation, persistently high levels of informality and low public revenue-generation capacity, and significant illicit financial flows leaving the continent (AUC/OECD, 2019[1]). Domestic policies will be important to overcome these issues in the future. But in a highly interconnected world, national efforts are not enough.

Structural difficulties include the lack of integration and productive transformation, weak financial and technical capacity for policy and project implementation, persistently high levels of informality and low public revenue-generation capacity, and significant illicit financial flows leaving the continent.

Important institutional changes over the past 20 years, internationally and on the continent, laid the groundwork for transformative development. The African Union (AU) was established in 2002; the 2008-09 financial crisis and emergence of new development actors led to the Group of Twenty (G20) being upgraded to leader level; and the AU charted a path forward by adopting Agenda 2063 and transforming the New Partnership for Africa's Development into the African Union Development Agency, now known as AUDA-NEPAD. Yet Africa still faces many internal challenges to attaining inclusive and sustainable economic growth and delivering qualitative and quantitative transformative outcomes for its people (African Union, 2013[2]).

Development co-operation providers can step up support to accelerate productive transformation as an urgent priority. New forms of partnerships are needed to ensure that action on global agendas such as digital transformation and a green transition takes Africa's needs into account. Any approach to co-operation and partnerships must support Africa's own efforts towards sustainable development, give Africa a meaningful place in global governance mechanisms to address shared challenges, adapt co-operation and financing instruments to more complex scenarios, put adaptation to African contexts at its core, and see building resilience and self-sustainability as a key end goal.

Addressing asymmetries in the multilateral system to increase access to financing for development

The disappointing response to Africa's pressing need for development finance following the COVID-19 crisis shows how asymmetries in the international financial system stymie the continent's development progress. The international community must prioritise mobilising greater financing to enhance Africa's capacity for sustainable development. Building Africa's resilience also requires better rules and mechanisms. A reinvigorated and more inclusive international co-operation system can play a critical role in redressing asymmetries related to debt treatment, affordable access to finance, risk perceptions and the allocation of special drawing rights (SDRs). Overcoming those asymmetries would, in turn, help Africa's own efforts to build back better.

Support debt relief and promote dialogue with credit rating agencies

Under current projections, it will take African countries more than five years to regain their pre-pandemic share (about 5%) of the world's gross domestic product (GDP). Africa's debt, while relatively small, has increased rapidly in terms of its percentage of GDP since 2014; as of 2022, it is equivalent to 24.1% of African countries' combined GDP (World Bank, 2022[3]). African debt service payments have also risen sharply in the last decade, partly due to higher interest payments on private loans. External debt costs rose by 1.1% of GDP on average between 2010 and 2019, offsetting nearly two-thirds of the average increase in tax levels over this period (OECD/ATAF/AUC, 2022[4]).

International co-operation and debt relief programmes such as the Debt Service Suspension Initiative and the G20 Common Framework could help strengthen African countries' balance sheets and their ability to repay debt in the medium term. However, there has been little progress in implementing the Common Framework. Moreover, despite the high risks of debt overhang, some developing countries have been reluctant to join these programmes out of concern that participation would trigger a credit rating downgrade. Such reluctance to participate in a debt relief initiative may also have a negative impact on a country's long-term debt sustainability.

OECD countries could support the continent in its demand for debt relief and promote dialogue between credit rating agencies and the African public sector to review African countries' credit rating indicators. As stressed by Senegalese President and AU Chair Macky Sall, such support could take the form of promoting better internal co-ordination among pan-African institutions and regional economic communities on standards within the region; strengthening Africa's own rating agencies; and developing an African Investment Observatory to provide better information on African investment trends, ecosystems and opportunities (International Economic Forum on Africa, 2022[5]).

Reallocate special drawing rights to developing countries

SDRs provide a much-needed injection of liquidity without adding to debt burdens. Africa is advocating for a reallocation of USD 100 billion in SDRs to low- and middle-income countries after the historic issue of USD 650 billion in SDRs. Africa received only 5% of this total, or its quota of USD 33 billion. With official development assistance (ODA) expected to stagnate or decrease in the coming years, the reallocation of SDRs can strengthen low- and middle-income countries' ability to react to global crises by providing them with more financial breathing space.

The Summit on the Financing of African Economies, convened by France in 2021, also endorsed a reallocation (French Presidency, 2021[6]). However, there has been little progress (Laub and Dwyer, 2022[7]; Plant, 2021[8]; Plant, Hicklin and Andrews, 2021[9]). The International Monetary Fund's (IMF) efforts to absorb SDRs reallocation through its Poverty Reduction and Growth Trust and its new facility, the Resilience and Sustainability Trust, are constrained by limitations such as eligibility criteria (Vasic-Lalovic, 2022[10]). Moreover, no decision has been taken at the international level regarding other channels of reallocation. Development partners should explore further options for channelling reallocated SDRs through key African institutions. The AU has suggested the African Development Bank as a prescribed holder of SDRs (Adesina, 2022[11]).

Advanced economies should commit to rapidly channel at least 30% of their SDRs to reach the global ambition of USD 100 billion, thus providing additional reserves to help drive the post-pandemic economic recovery and underpin the green transition. Looking forward, it will be important for development partners to remain firmly committed to not reporting SDRs as ODA in DAC statistics (OECD, 2022[12]) if such a reporting would have a negative impact on current ODA efforts in terms of trade-offs.

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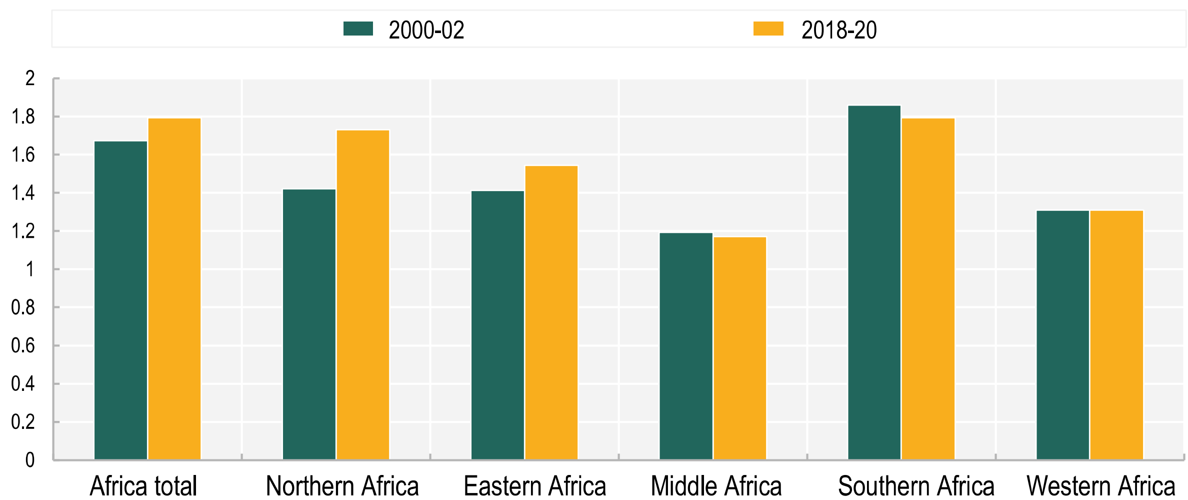
For their part, African governments should commit to an open and transparent process that will allow citizens, civil society organisations and legislatures to clearly follow how SDRs are used. This would include disclosing plans publicly, periodically publishing progress reports, and assessing how the implemented activities and results align with objectives. For now, most African governments have disclosed their plans for these new resources, which range from boosting their foreign exchange reserves to enhancing health and social protection systems and paying off debt (Kerezhi and Gbemisola, 2022[13]). If the reallocation of SDRs is made through key African institutions, development partners could also provide capacity for African countries and institutions to undertake such reporting on how SDRs are used as well as support the creation of a common reporting framework that would facilitate the monitoring of SDR allocations.

Investing in industrialisation and productive transformation

Accelerating productive transformation is critical for creating quality jobs that reduce poverty and strengthening Africa's economic resilience (AUC/OECD, 2019[1]). But Africa's industrialisation and productive capacities remain vulnerable, gaps persist in the continental infrastructure and its ability to compete in international markets is limited. The continent's share of European Union and US imports decreased from 2.4% in 2019 to 2.0% in 2020, whereas the share from Latin America and the Caribbean slightly increased. Africa's access to wind energy, technology and domestic financing instruments is unequal and flawed. Creating productive employment can help lower poverty levels as limited fiscal space and the prevalent informal economy reduce the scope and efficiency of existing social protection systems (AUC/OECD, 2022[14]).

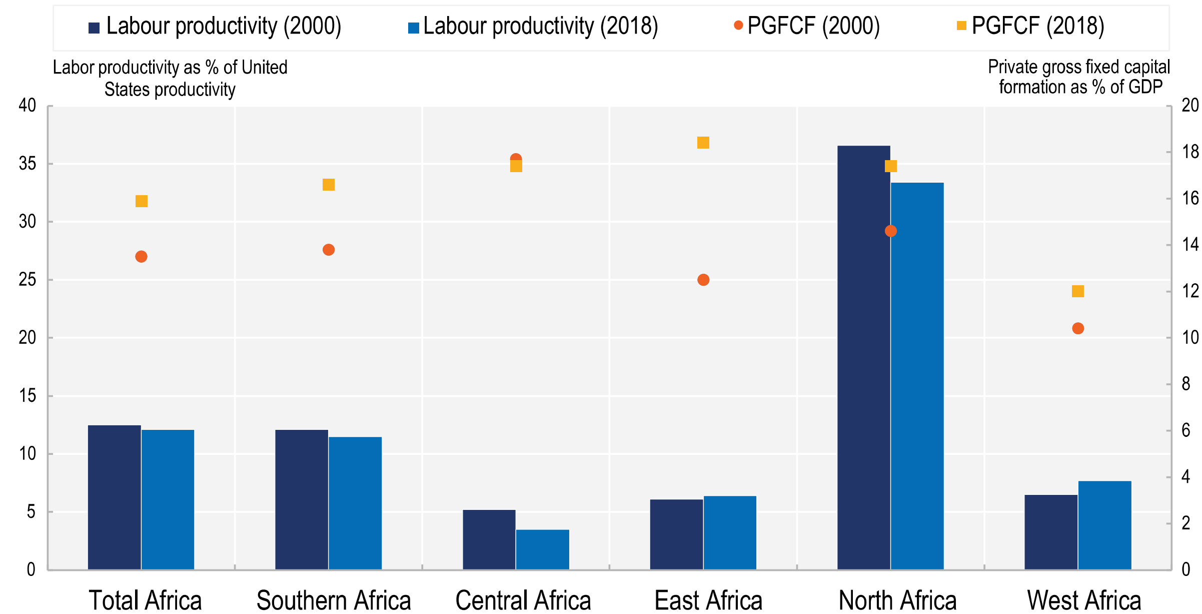
Africa was experiencing improved export diversification prior to the COVID-19 crisis, though there was a high level of heterogeneity in performance across sub-regions. North and East Africa led in terms of diversification; in the other sub-regions, export diversification had been decreasing or unchanged (Figure 21.1). At the same time, while private sector performance improved in most African sub-regions – as manifested proxied by an increase in gross private fixed capital formation as a percentage of GDP over the 2000-18 period – this was not enough to reduce the gap in labour productivity relative to the United States (Figure 21.2). This impacts on Africa's competitiveness at the global level and on Africa's growth (OECD, 2022[15]).

Figure 21.1. Product diversification index of exports, annual, 2000-02 and 2018-20



Notes: The diversification index is computed by measuring the absolute deviation of a country's trade structure from the world trade structure. This index assigns values between 0 and 1: A value closer to 1 indicates greater divergence from the world pattern. To better illustrate the change for Africa relative to the world, this figure uses the United Nations Conference on Trade and Development diversification index, which is why the maximum value is not on the scale from 0 to 1.
Source: Authors based on UNCTAD (2022[16]), *Merchandise Trade Matrix in Thousands United States Dollars, Annual, 2016-2021* (database), http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=217476&IF_Language=eng.

Figure 21.2. Labour productivity and private gross fixed capital



Note: PGFCF: private gross fixed capital formation.
Source: Authors based on AUC/OECD (2019[1]), *Africa's Development Dynamics 2019: Achieving Productive Transformation*, https://doi.org/10.1787/c1cd7de0-en.

ODA must continue to support Africa's productive transformation by helping address the continent's infrastructure deficit, which is one of the biggest constraints to income and productivity growth. Development partners could also help attract private capital and advanced technology to the continent. Development partners' efforts to use ODA as a catalyst to direct more financing from financial markets and institutional investors towards supporting development are, in this sense, welcome.

ODA must continue to support Africa's productive transformation by helping address the continent's infrastructure deficit, which is one of the biggest constraints to income and productivity growth.

Development partners must also innovate, particularly by using aid differently. Their active support will be required in the design of new tools to finance the implementation of infrastructure projects, including project preparation facilities; public, private and multilateral partnerships; and the provision of sovereign guarantees to multilateral development banks to leverage their balance sheets (Capital Adequacy Frameworks Panel, 2022[17]).

In a scenario with more players, development partners should support the development of a common reference framework and standards to reduce transaction costs and facilitate project preparation and implementation. The G20 Principles for Quality Infrastructure Investment and the Programme for Infrastructure Development in Africa Quality Label are useful tools in this regard.

In addition, development partners should rely more on regional partners such as the African Union Commission and AUDA-NEPAD to promote greater private sector investment and foster national ownership of economic transformation processes. Contextualising the specific challenges of the African continent also remains a challenge. Development partners could support a harmonised vision through the operationalisation of Agenda 2063 and specifically its goal of economic transformation. Greater synergies between traditional providers and providers from emerging market economies, with greater alignment to Agenda 2063 and the SDGs, are necessary.

> Development partners should rely more on regional partners to promote greater private sector investment and foster national ownership of economic transformation processes.

In this respect, active support of the transformative agenda of the African Continental Free Trade Area (AfCFTA) and its implementation is a priority. The AfCFTA holds great promise, especially given the persistent challenges and polarisation in the international trading system and the political backlash against globalisation in some parts of the world. The AfCFTA is a crucial engine for continental integration and the development of regional value chains. Its implementation will likely generate trade-offs and will require building greater resilience at country level to internal and external shocks. Changing the current patterns of Africa's participation in global value chains is necessary to bring about a productive transformation that accelerates economic recovery and creates quality employment and social upgrading.

Develop new models of partnerships focused on fostering self-sufficiency

Africa is often portrayed as a continent of great challenges. It is essential to build a vision of Africa as a continent of great promise. Addressing structural problems and asymmetries related to financing as well as paying attention to governance issues in Africa would enable progress. Resilience and self-sufficiency should be at the core of Africa's quest for sustainable development and of development partners' efforts on the continent.

Africa needs better and mutually beneficial partnerships that are more conducive to its development efforts. The continent also needs to foster a debate that contributes to addressing the asymmetries at the multilateral level that undermine Africa's development potential and its efforts to determine its destiny. To this end, it will be important to solve the lack of representation of Africa in key global decision-making institutions and processes. AU Chair Sall, among others, has called for the AU to have a permanent seat in the G20.

At the outset, development partners should also embed African countries and constituencies into actions to achieve new global priorities for just green and digital transitions. Renewed partnerships should not be framed as donor-recipient relationships but as partnerships of equals. They should include any country, regardless of its income level, that is willing and able to contribute and benefit from the partnership according to its capacities, expertise and needs. For example, African experiences in areas such as climate change, security, responses to pandemics, migration, and the green and digital transitions could and should inform global efforts.

Finally, development partners should acknowledge the specific circumstances and specific endowments of African countries when establishing new partnerships. Supporting African countries to adapt to new standards and global priorities linked to the green and digital transitions will be essential to ensure that no country is left behind. Building capacities, allowing for adaptation to take place according to different timescales, strengthening other forms of international co-operation linked to technology transfer, adapting support to the specific endowments of Africa, and co-creating rules and standards will be crucial.

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Note

[1] For further details, see: https://www.oecd.org/dev/development-in-transition.htm.

22 In focus: Colombia's approach to targeted development co-operation through national planning

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A strong national planning process is crucial. By this means, national governments establish priority areas for action and set targets, assign responsibility for their achievement to particular arms of government, create formal and informal mechanisms for inter-governmental co-ordination, and promote citizen participation and social dialogue. This In focus contribution on Colombia and its pioneering planning process illustrates the importance of complementary policies and institutional capacities to operationalise national plans. It also highlights how aligning national plans to global commitments such as the Sustainable Development Goals can support greater co-ordination across governments and more targeted development co-operation, and more effectively tackle shared global challenges.

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Key messages

- Leveraging its strong national planning system, Colombia has pioneered an approach to achieving the Sustainable Development Goals that is meaningful in its context by integrating international goals into its national plans and priorities and by establishing formal inter-institutional mechanisms to co-ordinate and track progress.
- Colombia recognises that aligning national priorities and global agendas is critical to address policy areas that transcend national boundaries. Development co-operation providers can learn from this approach to inform how they support countries in aligning their national plans with international goals to achieve more integrated development progress.

A strong national planning system underpins development progress

Colombia's strong national planning system is a leader in the Latin America and the Caribbean region and a model for other countries to set and progress towards achieving national priorities. The key pillars of Colombia's national planning system are:

- **Plans –** The National Development Plan (NDP) identifies national priorities and needs, is used to determine budget allocations, and is the basis for measuring progress against key targets of national programmes.
- **Institutions –** Key institutions include the National Planning Department, which co-ordinates the formulation and monitoring of the NDP. The Presidential Agency for International Cooperation is in charge of co-ordinating non-concessional funds and co-operation resources with key ministries and other involved institutions.
- **Inter-ministerial co-ordination mechanisms –** One of the most important mechanisms of national co-ordination is the National Council of Social and Economic Policy, or CONPES, which designs and approves long-term national policies[1] aimed at solving well-defined public policy problems identified in the NDP. The Colombian government also pioneered the establishment, by law, of an inter-institutional commission to co-ordinate and track progress at the national level towards the Sustainable Development Goals (SDGs). In addition, the Equity Roundtable, a high-level committee convened and chaired by the President of Colombia, co-ordinates national government sectors and entities and develops strategies to increase social and productive inclusion of the population, and to reduce poverty and inequality.
- **Tracking and follow-up mechanisms –** The government developed and uses the Sinergia system to monitor and evaluate the NDP.[2]

Aligning national plans with global agendas allows for tackling shared threats

Colombia recognises that aligning national priorities and global agendas is critical to addressing policy areas that transcend national boundaries. It was the first country to incorporate the SDGs into an NDP through a dashboard of indicators, starting with the 2014-18 NDP.[3] In the 2018-22 NDP, 98% of indicators were associated with one or more SDGs. The national policy of international co-operation establishes mechanisms to align national priorities with international commitments and agendas.

Each NDP is, first, a mechanism to foster inclusive dialogue across all stakeholders and helps build consensus. In this sense, they also contribute to overcoming the complex political economy of reforms. Indeed, the current 2022-26 NDP[4] is being developed based on workshops (called binding regional dialogues) in which various stakeholders, including the private sector, civil society and popular associations, participate. Its main objective is to build a new social contract that promotes peace and well-being for all, and it will focus on transformations in five key areas: land-use planning, human and social security, human rights and food security, productive transformation and the fight against climate change, and regional convergence. The workshops and the transformations are fundamental steps towards building a new social contract aimed at ensuring the fulfilment of the SDGs.

At the same time, Colombia designs its NDPs with complex international challenges in mind. Tackling these global issues often requires different national-level institutions to co-ordinate and take collective action, a role that the country's inter-institutional SDG Commission plays. The country's NDPs – mid-term and multi-sectoral in scope, adaptable to a certain degree of legislative change, and a means to articulate lower level tools for longer range planning – also allow Colombia to align national plans with global agendas.

The country's approach is especially relevant when it comes to global public goods such as the environment, as its strong planning process and the NDP enable both national and international-level co-ordination and the monitoring of results that can be fed into global results frameworks. For example, Colombia's updated Nationally Determined Contribution identifies 132 co-operation needs, to be supported either through international development co-operation or possibly from the national budget, related to the green transition and climate change policies (Figure 22.1). These are related to financing, capacity building, and technology development and transfer.

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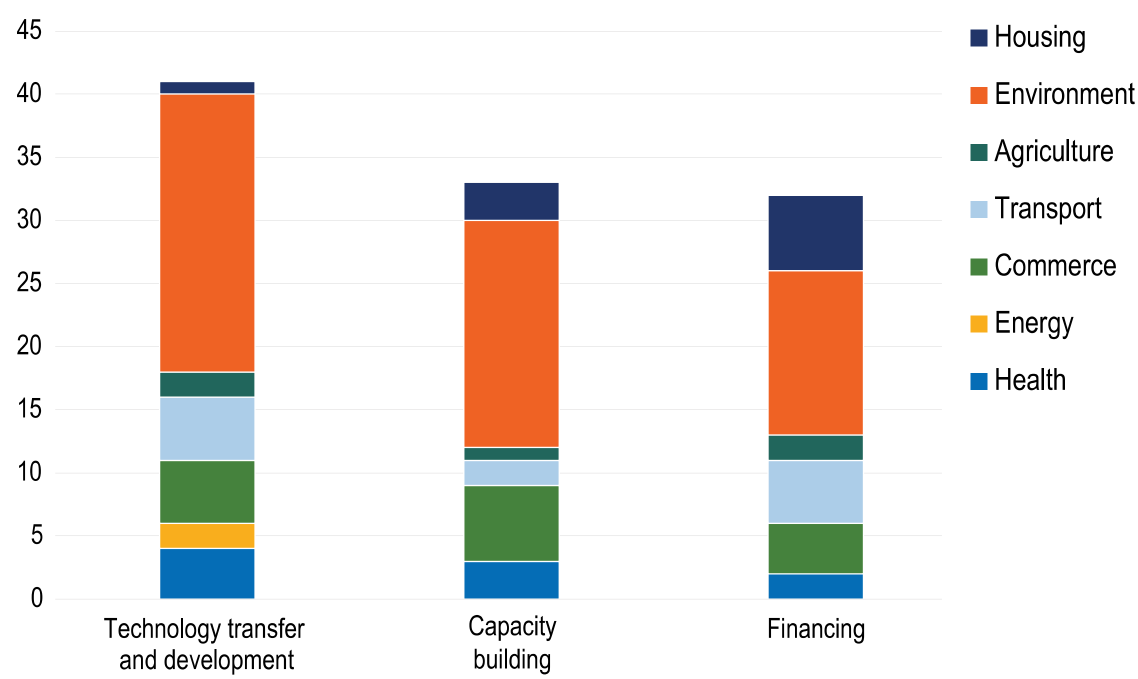
Figure 22.1. Number of initiatives by co-operation needs in Colombia's 2020 Nationally Determined Contribution



Source: Based on Colombia's Nationally Determined Contribution, updated in 2020.

Integrated plans facilitate targeted development co-operation support

The level of precision and clarity gained through the planning processes has allowed Colombia to make much more targeted requests to development partners and raised expectations about what development partners should deliver. Given that Colombia formulates and designs its NDP through participatory processes involving a wide range of stakeholders, international co-operation that aligns with the objectives of the NDP would strongly reflect national priorities.

Generally, where NDPs have integrated international agendas development co-operation providers can be certain that they are contributing to global agendas by aligning with the NDP. Such alignment must encompass all the providers' instruments, including their international strategies and frameworks for co-operation, regional strategies, and country programme documents. All decision making on development co-operation should be done in consultation with the governments of partner countries. Financial and programmatic frameworks must also remain flexible to adapt to shifting conditions and global and domestic issues.[5]

Supporting country ownership means development co-operation providers must engage with co-ordination mechanisms. Such an approach helps mitigate the risk of duplication, misaligning providers' interventions with country priorities, aid dependence and greater bureaucracy. In Colombia, the NDP, sectoral strategies (e.g. the National Strategy for International Cooperation) and other co-ordination mechanisms serve to better channel co-operation efforts. Laws complement these co-ordination mechanisms. For example, CONPES document 4088 of 2022 prioritises investment in seven projects designed to meet ten of the updated Nationally Determined Contribution objectives.[6] Similarly, a law promoting low-carbon development (Law 2169/2021) outlined a plan (CONPES document 4058) for implementing and monitoring for low-carbon development, carbon neutrality and climate resilience.[7] Within the financing and resource management component of the NDP, ministries are expected to identify financing needs and potential funding sources, among them development co-operation.

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Commitment to a demand-driven process of international co-operation could contribute to better, and more tangible, alignment with NDPs and, by extension, defined national priorities and needs. When those national plans and priorities integrate global goals, as is the case in Colombia, the country and its development partners are better able to tackle shared threats.

Notes

[1] These policies are elaborated in what are called CONPES documents that articulate multi-sector public policies as well as financing for medium- to long-term investment projects.

[2] Sinergia, the National Planning Department's national system of evaluation of management and results, is both a platform of indicators to monitor public policies and a mechanism for assessing the results of the implementation of the NDP.

[3] The dashboard was added after the SDGs were adopted in 2015. For more information on the history of Colombia's NDPs (in Spanish), see: https://colaboracion.dnp.gov.co/CDT/Prensa/BasesPND2018-2022n.pdf.

[4] For more information on the current NDP, see: https://colaboracion.dnp.gov.co/CDT/portalDNP/PND%202022/Bases-PND2022-2026_compilado-CEVC15-10-2022.pdf.

[5] For more information on the relevance of better connecting national development planning with international cooperation see documents on Development in Transition, available at "Emerging challenges and shifting paradigms. New perspectives on international cooperation for development (cepal.org)", and g2g9ff18-en.pdf (oecd-ilibrary.org)

[6] The policy document on low-carbon development and reducing greenhouse gas emissions (in Spanish) is available at: https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/4088.pdf.

[7] The policy document aims to reduce disaster risk conditions and adapt to climate variability phenomena and is available (in Spanish) at: https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%c3%b3micos/4058.pdf.

23 In focus: Applying effectiveness principles in financing for the Pacific Islands

Toleafoa Alfred Schuster, Development and Strategic Engagement Advisor in the Pacific

Pacific Island countries face significant challenges accessing much-needed climate finance. The Forum Compact, the 2009 regional framework aimed at improving aid effectiveness, offers lessons and good practices that can be built upon to develop more robust country systems and strong partnerships to address climate change. Regional accountability frameworks, such as the Forum Compact and the 2013 Pacific Climate Change Finance Assessment Framework, should be leveraged to support Pacific Island countries in addressing climate change and strengthening ownership, alignment, harmonisation, management for results, mutual accountability and other aid effectiveness principles.

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Key messages

- Regional accountability frameworks such as the Forum Compact have proven their worth as vehicles for mutual accountability and more effective approaches to ensuring impactful development in the Pacific. They should serve as a source of lessons learnt and best practices.
- While Pacific Island countries' public finance systems have improved since the establishment of the Forum Compact, they are often not sufficiently robust to deal with the requirements of climate funds.
- There is still little correlation between the quality of national systems and the likelihood of development partners using them.
- Flexible budget support and harmonised donor assessments are important methods to increase the use of country systems.

The concerns of Pacific Island countries (PICs) around their access to climate finance hark back to policy debates around the effectiveness of development co-operation during the first decade of the Cairns Compact for Strengthening Development Coordination in the Pacific, known as the Forum Compact.[1] This framework for meaningful development provided Pacific Island governments with a strong political, strategic and regional platform that facilitated an aid reform agenda. The aim of the Forum Compact was to renew commitment to catalysing the region's economic and development performance, with the main objective of ensuring more effective co-ordination of development resources and actors.

Since its adoption in 2009, the Forum Compact has served as the political framework to tackle several long-standing barriers to development in the Pacific. It localised international commitments enshrined in the Paris Declaration, the Accra Agenda for Action and the Busan Partnership. In addition, the Compact principles were meant to bring about a change in the behaviour of all relevant development actors and to address power imbalances experienced by partner countries of the Pacific. While the Forum Compact has lost momentum in recent years, PICs and their development partners can apply lessons from its successes and weaknesses when tackling similar effectiveness challenges with climate finance.

Added value through the pioneering of a regional accountability framework

The Forum Compact offers valuable lessons, good practices and a model of regional co-ordination that can help PICs to increase aid effectiveness and enhance their access to vital climate and development finance. Among its key priorities were the reduction of aid fragmentation, more efficient aid administration, the improvement of aid effectiveness measures such as country partner systems, multi-year and predictable funding commitments, pooled funding, collaborative analytical work, and the delegation of aid delivery to lead donors (Forum Compact, 2017[1]).

Under the Forum Compact, national approaches to development were paired with regional approaches to address common challenges. More recently, PICs have been collectively working to tackle the impacts of climate change. Fiji's presidency of the 2017 United Nations (UN) Climate Change Conference, or COP23, strengthened these efforts, as has the Samoa Pathway, an internationally agreed programme of action for small island developing states for sustainable and equitable economic growth. The Forum Compact has proven its value in identifying and disseminating good practices, its contribution to cross-country learning, and as a regional framework for monitoring and associated advocacy – elements that are worth preserving in the future regional agenda (Forum Compact, 2017[2]). In addition, peer reviews conducted under the Forum Compact have been particularly useful for implementing the Sustainable Development Goals, evaluating development effectiveness and supporting climate finance reviews.

Country systems' shortcomings hinder access to climate funds

Both the Forum Compact and, more recently, climate finance channels rely heavily on the effectiveness of public financial management systems. In recognition of the importance of effective country systems, public financial management reform is a permanent item on the agenda of Pacific Islands Forum Economic Ministers Meetings. On average, the scores of countries that have had repeated public expenditure and financial accountability assessments have improved somewhat over the years. However, issues remain, including those that were flagged as problematic when the Forum Compact was established: budgets with weak links to policy and medium-term planning; organisational separation of planning, budgeting and aid management; separation of recurrent and development budgets; and weak control of payroll, inadequate procurement practices and incomplete accounting. Not all countries face these challenges, though their persistence in most countries suggests that decision making is still based on vested interests and that institutional weaknesses continue to erode public finance systems (Forum Compact, 2017[1]). There are important ramifications. Access to vital climate funds often entails lengthy and complex accreditation processes, for instance, making it essential for PICs to have robust public financial management systems in place. While climate funds have tried to streamline the process, PICs continue to struggle to access such financing because the reforms required stretch PICs' already-thin capacities (Fouad et al., 2021[3]).

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Low use of country systems by development co-operation partners

Countries in the Pacific have adopted innovative national plans and gradually improved their central systems, resulting in greater predictability, alignment and harmonisation of aid. Yet, peer reviews find that there is little correlation between the quality of a national system and the likelihood that a development partner will use them. Decisions to use country systems largely depend on sector practice, the overall level of trust between the PIC government and the development co-operation provider, and the provider's degree of risk tolerance. In the 2016 monitoring round of the Global Partnership for Effective Development Co-operation, some PICs reported frequent use of national systems. But the high use of country systems by some development partners reflects historic practice rather than a vote of confidence in national systems. The use of country systems by development partners in other PICs remains low. Only in Samoa was the rate of use of country systems by development partners above 80%. The use of national procurement systems in PICs also remains low overall, reflecting the fact that this is generally an area of recurring concern in development partners' risk management strategies (Forum Compact, 2017[1]). The improvement and increased use of strong country systems are crucial to successfully deliver programmes, particularly related to climate change adaptation.

Ways forward to improve access to climate finance to achieve climate goals in the Pacific

The Pacific Roadmap for Sustainable Development and the momentum to increase climate finance provide a fresh opportunity to consolidate lesson learning over the seven years of the Forum Compact. Integrating these lessons into new efforts to attract and effectively use climate finance in the region can create efficiencies.

Using country systems more effectively to better channel climate finance

Some development partners are increasingly providing flexible budget support in a co-ordinated way to support Pacific countries' own reform efforts. Such mechanisms now figure prominently in five key partners'[2] engagement with almost half of the Pacific Islands Forum countries, a significant improvement over 2009 when their use was very limited. Still, further gains can be made. There is a notable demand from several Pacific governments for partners to use national systems more extensively. Some partners remain focused on bilateral, project-based financing modalities and national interest criteria when allocating finance, and climate financing remains complex to access and focused on specific investments. Progress between governments and individual partners on these issues has to be led at the country level. In particular, countries should share best practices to ensure all partners know how other stakeholders are engaging.

PICs also emphasise that an important way forward would be to better harmonise partners' procurement, contracting, assessment, monitoring and evaluation, and reporting systems, particularly where there are gaps in countries' own systems. PICs are frequently subjected to a range of separate assessments of country systems by donors. A 2013 study, for example, noted that in three of the smaller administrations, an estimated 150-200 active projects and grants were underway and most came with their own reporting formats, timelines and management requirements (Pacific Islands Forum, 2013[4]). To lessen the administrative burden on small administrations and improve the way development partners use country systems, it is important to facilitate and adopt joint measures to recognise the results and reform recommendations from other donors' assessments; build formalised working arrangements to harmonise procurement and reporting procedures; and complement technical assistance and the application of donor systems only in areas where there are acknowledged gaps.

Improving co-ordination of climate finance flows to Pacific Island countries

The volume of development financing to the Pacific has increased in tandem with international commitments relative to climate change adaptation. The creation of the Green Climate Fund and the commitments made through the Adaptation Fund promised to make it easier for Pacific countries to access climate financing and deliver on their adaptation priorities. To improve and advance more co-ordinated efforts around the management and delivery of climate financing, in 2013, Pacific governments adopted the Pacific Climate Change Finance Assessment Framework (Pacific Islands Forum, 2013[5]), building as well on existing regional and international frameworks, including the UN Development Programme-led Climate Public Expenditure and Institutional Review, the public expenditure and financial accountability framework, public financial management road maps, and the Forum Compact. The Pacific Islands Climate Change Program, which aims to help Pacific Island countries implement the UN Framework Convention on Climate Change, aligns in many ways with the Forum Compact, particularly the programme's focus on development effectiveness and the link between climate change and broader development effectiveness efforts such as ownership, alignment, harmonisation, management for results and mutual accountability.

Maintaining a focus on development effectiveness

The Pacific Climate Change Finance Assessment Framework can build on and learn from important Pacific regional instruments, in particular the Forum Compact. It reflects the emerging regional focus on better managing and delivering development finance, ensuring effective development co-operation is the domain and responsibility of Pacific governments and that the primary role of development financiers is to provide and ensure ease of access to financial resources and ensure alignment and ownership of accepted effectiveness measures. Yet, global and regional development dynamics have evolved since 2009. As a result, how Pacific countries work together must continuously evolve if they are to progress on development goals, particularly in terms of addressing climate change.

The challenge is to shift the ambition of the Forum Compact principles back to the practice of partnership arrangements, in particular development and climate financing. Evidence shows that the Forum Compact is a solid foundation for PICs to take the lead in setting their preferred conditions for effective development co-operation in the Pacific, supported by the Compact tools of peer reviews, annual donor reporting against select and nuanced effectiveness indicators, and regular regional and inclusive dialogue on the results of the Compact processes.

The Forum Compact is a homegrown, politically led vehicle for mutual accountability and more effective approaches to ensuring impactful and meaningful development in the Pacific. Too often, the region is drawn into seemingly new and so-called innovative practices around development financing and effective partnerships because it is the "new thing" in development. One only needs to reflect back on the return on investment of the Forum Compact to recognise that established and proven approaches are just as, if not more, effective.

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Notes

[1] As a declaration by Pacific Islands Forum Leaders, the Cairns Compact remains alive as an official record and decision of leaders. Regional commitment to and investment in deliverables embedded within the Compact were the strongest over the period 2009-18.

[2] Five partners consistently reporting on the adapted Paris/Busan indicators under the Forum Compact were: Australia, New Zealand, the Asian Development Bank, the UN system and the World Bank.

Development Co-operation Report 2023

DEBATING THE AID SYSTEM

In the last three years, multiple global crises and the growing urgency of containing climate change have put current models of development co-operation to, perhaps, their most radical test in decades. The goal of a better world for all seems harder to reach, with new budgetary pressures, demands to provide regional and global public goods, elevated humanitarian needs, and increasingly complex political settings. Critique of the roots, rationale and operations of the international aid system is resulting in calls for fundamental change, manifesting, for example, in the movements to address colonial legacies and racism in the sector. This 60th anniversary edition of the *Development Co-operation Report* takes stock of these challenges, and proposes ways forward along four lines of action: unlock progress to deliver existing commitments; support locally led transformation in partner countries; modernise business models and financial management practices; and rebalance power relations in international decision making and partnerships. The report draws on insights from heads of state, leaders of international organisations, practitioners, academia and civil society, with particular emphasis on voices representing the diverse experiences and perspectives of low- and middle-income countries and their populations.

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