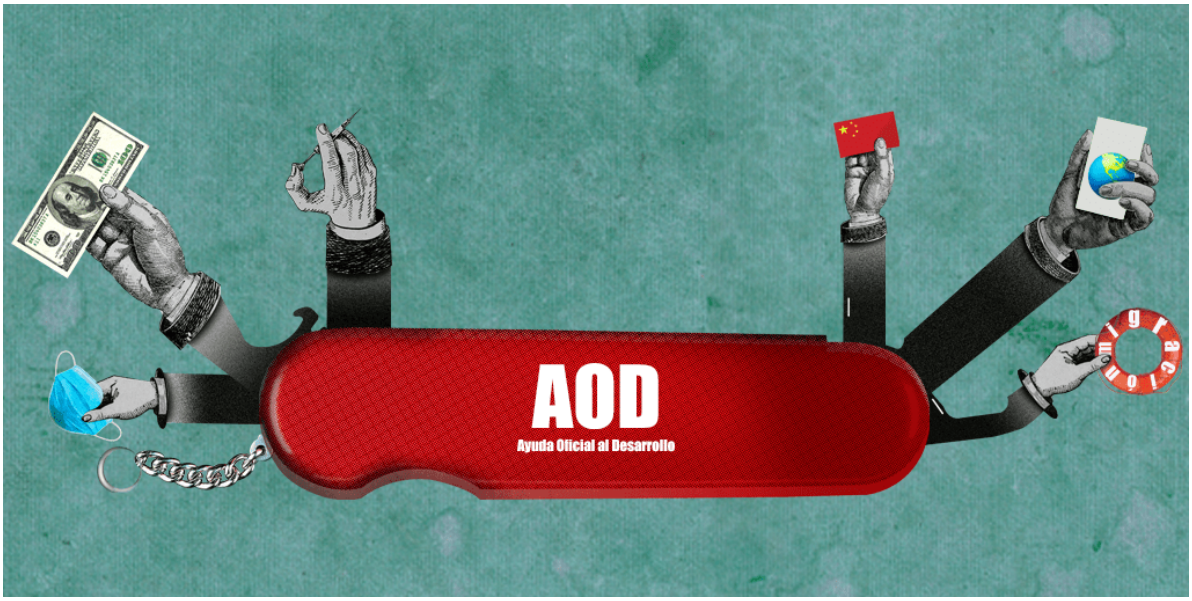
THE DEVELOPMENT COOPERATION SYSTEM BEFORE A CHANGING WORLD ORDER AND THE GLOBAL CHALLENGES

Global challenges and development cooperation: How the relationship is changing

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Illustrator: Hansel Obando

Main pillars of the international development cooperation system celebrate their 60-year anniversary in 2021. The year 1961 was the starting point for key institutions established by OECD countries. US President John F. Kennedy pooled existing efforts for supporting developing nations into the mighty US Agency for International Development (USAID). In the same year, the German BMZ (Federal Ministry for Economic Cooperation and Development) was formed in the then West Germany as a dedicated ministry to support developing regions. 1961 also saw the OECD set up its Development Assistance Committee (DAC). Development cooperation was an important element of foreign policy in the period of the East West confrontation and —despites setbacks— the global aid volume has gradually expanded since.

The context of Official Development Assistance (ODA) in the 2020s, however, is fundamentally differ-ent from former decades. The previous core objective of ODA to support *development* in specific partner countries has widened to include global challenges, such as climate change, security related issues, migration, and pandemics. The Agenda 2030 with its Sustainable Development Goals (SDGs) provide a meta-narrative for

defining *development*. Most importantly, the SDGs apply universally: development is an ambition for all countries and all policy areas.

Yet, scarce ODA resources pale in light of the scale of global development challenges. The 161 billion USD of total ODA fund large parts of the world's humanitarian and emergency response, climate mitigation and adaptation, other transnational problems like addressing the COVID-19 pandemic and the UN development organisations. In 2020, the five largest ODA providers (USA, Germany, UK, Japan, France) were jointly responsible for 70 percent of global ODA. Hence, these actors have an outsized global influence, including on the future orientation the ODA policy field.

Looking forward, there are two diverging and potentially incompatible paths. First, one group of experts argues for refocusing ODA on promoting development in poorer countries, often equated with the group of Least Developed Countries (LDCs). ODA would help to pursue SDG objectives but it is channelled to the countries with the greatest needs.

A second group of experts argue for a complete overhaul of ODA towards a broader type of publicly funded global cooperation across all countries and all policies in support of achieving the SDG. In this scenario, all countries contribute to the financing of Global Public Goods and Global Public Investments (GPI) according to their ability, thereby abolishing the need for outdated country categories (*developed* and *developing*) and moving from charity to reciprocity.

> Scarce official development aid resources pale in light of the scale of global development challenges: emergencies, climate change or pandemics, among others

Currently, both scenarios unfold simultaneously but in varying patterns. As key drivers of these two scenarios, we focus on five trends: (i) uncertainty, (ii) geopolitical confrontation, as social and economic infrastructure across all *developing countries*. Although the uses of ODA are fragmented among countries and topics, the supply of aid is heavily concentrated (iii) changing donor motivations, (iv) thematic allocation, (v) ODA volume and interface to climate change funding. By highlighting these trends, we demonstrate main benefits and drawback of broadening or refocusing development cooperation.

Development cooperation: A concept turns 60

Given the 60-year anniversary of ODA, the policy field of development cooperation is once again grappling with fundamental questions regarding its future. What is the purpose of development cooperation over the next decade? Which countries should contribute and how to measure these contributions? Which countries should benefit the most? Current geopolitical tensions, the COVID-19 pandemic and climate crises as well as persisting

global inequalities and poverty shape how individual countries re-spond to these questions.

Although development cooperation can be understood in broader terms—more actors and different types of cooperation beyond ODA—the concept ODA remains as a key pillar. ODA is defined by the 30 member states of the DAC, a group of richer countries that adhere to the same rules for reporting concessional public financial flows. The common OECD DAC umbrella can be misleading though, as individual countries pursue varying goals through development cooperation, often combining self-interests with needs-oriented motives. In debating the future of development cooperation, there are two main directions that OECD DAC countries and experts promote: broadening and refocusing ODA.

First, the arguments for broadening ODA are compelling. Development challenges are multidimensional, as captured by the SDGs, and artificially dividing the world into richer and poorer countries is outdated. Instead, development is a "universal" challenge for all countries and requires the mobilisation of more resources (financial and non-financial, public and private) and new modes of *horizontal* or *reciprocal* cooperation. In this scenario, all countries contribute according to their means and an international institution (still to be determined) could distribute resources according to where they are needed the most.

The downsides of broadening ODA depend on the details, both in technical and political terms. Technically, cooperation has to be measurable, in order to compare contributions and needs across countries. Yet, the attempts to measure all forms of global public and private cooperation contributing to the SDGs within one system have proven difficult: a proposed concept for measuring "Total Official Support for Sustainable Development" is not widely accepted. Without a clear understanding of what qualifies as broadened ODA, the door for "green-washing" and inflating own contributions is wide open. Further, mobilising political support for a broadened ODA concept is challenging. Despite the flaws of the ODA concept, it has been highly successful in mobilising political support across the world and established a system of accountability and norms for ODA quality.

A second path for the future of ODA is to reorient ODA towards achieving the SDGs in countries with the greatest needs. While these countries are often equated with the Least Developed Countries (LDCs), middle-income countries would be included, too, depending on their respective development challenges and the way ODA is being used there. The guiding idea would be to allocate scarce ODA resources to those countries and regions where external finance can have the highest developmental contribution. Assessing the developmental contributions of ODA can be based on welfare implications for the poor, cost-benefit analysis and the relative importance that ODA has relative to other resources.

The main benefit of refocusing ODA would be a concerted effort to address scarce resources to systematically underfunded countries with the greatest need for external support. Over the recent decade, ODA to LDCs has stagnated and financial terms for LDCs have worsened (decreasing grant element, higher interest rates and shorter maturities). On the side of providers, quality standards for ODA are gradually eroding as self-interest become the main driver of ODA allocation. Compared to overall ODA volumes the share of country programmable aid (ODA over which recipient countries have, or could have,

significant say) has been decreasing (37 percent in 2019), as more aid stays in provider countries.

The drawback of refocusing ODA lies in confining ODA to a niche. Politically, ODA would have a decreased relevance in addressing SDG challenges on global scale and a decreased relevance compared to other policy areas like foreign affairs or environmental policies. In addition, reform efforts towards improving the quality of ODA and attempts to push ODA providers towards a more *needs based* allocation model have been unsuccessful so far. A 2015 reform of the ODA reporting system aimed at incentivising more ODA to LDCs for instance had no effect.

> The arguments for broadening Official Development Assistance are compelling: development challenges are multidimensional, as captured by the SDGs, and dividing the world into richer and poorer countries is outdated

Going forward, the political incentives for broadening rather than focusing ODA are stronger. Most providers of ODA have an interest to increase the purposes that ODA can be used for rather than limit them. Partner countries so far have been open to discuss alternative concepts in addition to ODA but remain firm in demanding ODA as a political commitment by richer countries. Individual actors need to weigh the benefits and risks of promoting either direction of ODA. In particular, should a broader development cooperation concept be established in addition to ODA or as its replacement?

In this piece, we analyse five key trends to provide an answer to this question and help individual actors to better position themselves.

Figure 1: Broadening or refocusing development cooperation

	Broadening ODA	**Refocusing**
Cooperation countries	All countries (universal approach)	LDC, LICs and MICs
Cooperation modalities	SDG focused global cooperation (tbd), including ODA (tbd)	SDG focused ODA
Technical definition	To be defined	ODA concept and reporting standard
Accountability	International organisation to be identified	OECD DAC
Political support	High among provider countries	Low among provider countries

Source: Authors

Five Trends

Recent global changes pose questions to the underlying rationale of development cooperation. In technical terms, the ODA graduation of developing countries —e.g. Chile, Seychelles and Uruguay (2018); Antigua and Barbuda, Palau and Panama will graduate on 1 January 2022— automatically leads to a reconfiguration of aid relations. Addressing the effects of climate change and the pandemic are global priorities that affect ODA allocation patterns, but also pose questions how the cooperation efforts of emerging economies can recorded and aligned with the SDGs on a global level. Five key trends are increasingly important for development cooperation.

I. Uncertainty as a strategic challenge

Crises or unforeseen events in recent years, such as increased numbers of migrants coming to Europe, the Covid19 pandemic and the global increase in climate-related emergencies, put pressure on all globally oriented policy areas to react. In this context, ODA is often used as a "Swiss-Army knife" for a quick response, as crises require immediate action. However, ODA that is in permanent crisis mode is less able to adopt forward-looking innovative policy tools.

At the same time, the SDGs underline the need for strategies that are long-term oriented. In this context, strategic foresight has an important role to play. Strategic foresight as a mind-set and a methodological concept can help to support more anticipatory approaches. It also provides an opportunity for different actors (also beyond development cooperation) to carry out joint analytical work and to consider joint policy planning.

II. Return of geopolitical confrontation

The socio-economic rise of China and the associated Chinese foreign policy of seizing a "period of historical opportunity" to expand the country's strategic focus from Asia to the global level have led to a new type of geopolitical confrontation, especially with the USA.

> Development cooperation is part of a system that suffers from deficits in the way global challenges are being addressed

China's South-South cooperation has therefore received increasing attention from the perspective of global system competition of different "development models". In addition to China, Russian foreign policy of recent years (annexation of Crimea, role in the conflict in Syria, efforts to form alliances with China, etc.) has led to political confrontations and new efforts to establish alliances, for example in the G7 circle. Geostrategic perspectives therefore impact development policy debates to a larger extent than before.

III. Changing donor motivations are undermining standards and norms for development cooperation

Development cooperation has always been provided for political and economic self-interested motives alongside moral concerns and solidarity. An important additional category are “enlightened self-interests” that see development cooperation as a means for contributing to global public goods (GPGs). Yet, the dominating trend among DAC donors has been a more transparent acknowledgement of self-interests.

Japanese and South Korea have a longer tradition of promoting “co-prosperity” as a policy idea, but the more recent concept of “Global Britain” signals the increasing importance of justifying foreign aid to domestic audience. One popular claim in this context is that the group of SSC providers and their shared narrative of “mutual benefits” affects DAC donors. But the reasons for eroding aid quality, attempts to water down the ODA definition and financialisation of ODA through more public-private partnerships are primarily domestic. Germany, for example, has actively pushed for more flexible rules for counting public loans as ODA and promotes a business-oriented approach to development cooperation in Africa. Several DAC countries declare significant amounts of public spending for incoming migrants or student costs as ODAs, although these funds do not leave the donor country. As a result, core ODA norms and standards, including on its concessionality, are in danger of gradual erosion.

IV. Rise of issue-based allocation

Aid allocation has typically been country-based, i.e., focusing first on how to distribute ODA across countries. In the past decade, there has been an accelerated shift on the side of donors who have begun to set thematic priorities to respond to GPGs (e.g., diseases, migration, climate change) as a first step of their allocation decision-making. This form of allocation earmarks funds for specific thematic issues.

In the German development cooperation context the so called special initiatives (e.g. “One World – No Hunger” and on displacement) are prominent examples. Other donors use similar thematic funds as well, for example the European Union Trust Fund for Africa (on migration), vertical funds related to public health topics or UNDP’s funding windows. .

Experience shows both benefits and risks of thematic allocation. Thematic allocation can mobilise funding for key issues, bundle resources and raise the visibility of aid. It enables cross-border cooperation, offers room for innovations and is more flexible. Yet, a number of initiatives bypass local capacities and the institutions of partner countries more frequently than country-based allocation does. In other cases, uncoordinated parallel structures arise, which do not take sufficient account of ongoing activities.

V. ODA volume and the creeping interface to climate change funding

The volume of ODA resources reached an all-time high in 2020 of USD 161 billion. Overall, climate change funding is most likely to be a main driver for any future dynamic for ODA

funds. However, the relationship between ODA and resources for climate change mitigation and adaptation is complex: «While there is no clear way to determine whether climate investments have contributed to making ODA more resilient, a number of examples lend weight to the argument that increased attention on climate has kept ODA volumes from falling.» [1] A large and rising share (35.5% in 2020) of ODA resources is related to environment purposes. The significance of climate change resources is also supported by the new statistical measure, Total Official Support for Sustainable Development (TOSSD) for which in 2020 for the first time official data were collected from 90 providers. TOSSD resources for pillar II (support to international public goods and global challenges) were around 70 billion USD; including 29.2 bn USD for climate mitigation.

> All of the main cross-border challenges have been addressed through development cooperation to a considerable extent

For example, this trend is highly relevant for the German case. According to the latest DAC peer review, Germany committed 49% of its bilateral allocable aid (USD 9.6 billion) in support of the environment and climate change in 2018-2019. For climate change alone, the German government reported that 20% was related to mitigation, 13% to adaptation, and 9% to both adaptation and mitigation in this period.

Conclusion

The ongoing fundamental changes in the international system regarding geopolitics and global cooperation are apparent. This changing context is highly relevant for all areas of development cooperation, as it impacts the narratives of development cooperation (why?), the strategies (how?) and operational approaches (what?). Examples of fundamental transformations include new narratives applied to the development policy context (such as the migration narrative, climate change consequences and the COVID-19 pandemic), new strategic considerations (such as developing countries' graduation issues), new instruments (in the form of development finance at the interface with the private sector), and new concepts for project implementation (application of frontier technologies).

Development cooperation is part of dynamically changing system of international cooperation that suffers from deficits in the way global challenges are being addressed. The current response to these challenges at the national, regional and global level is fragmented and poorly coordinated across different policy fields (security policy, climate change policy, etc.). Development cooperation therefore remains part of an international system characterised by fragmentation and limitations in global problem solving.

All of the main cross-border challenges of recent years have been addressed through development cooperation—not exclusively, but often to a considerable extent. The noticeably increased migration pressure on the European Union (especially since 2015), the COVID-19 pandemic, the comprehensive commitment in Afghanistan and other conflict-

affected countries and, last but not least, the causes and consequences of climate change: all of these are tasks play an important role in managing current development policy. Fighting poverty in developing countries is therefore no less important. However, a much more “global” approach is already part of today’s development cooperation concepts.

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