

*Report of the Secretary-General*

**Trends and Progress in International Development  
Cooperation**

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*Summary*

In accordance with General Assembly resolution 61/16, the report is submitted by the Secretary-General for consideration by the Development Cooperation Forum (DCF). It builds on the two-year preparatory process for the biennial high-level meeting of the Forum, to take place in New York on 10-11 July 2014. The report provides a brief overview of the preparatory process and how the process has underscored the need for a new narrative of development cooperation that fits the transformation envisaged in the emerging post-2015 development agenda (section I). It reviews recent trends in international development cooperation, focusing on progress in and allocation of Official Development Assistance (ODA), plus trends in other sources of development cooperation – public and private, international and domestic resources – that will be needed to support implementation of an ambitious post-2015 development agenda (section II). It also examines principles of quality and effectiveness of development cooperation (section III). The report reviews South-South cooperation, in terms of principles, approaches and features, recent trends and challenges (section IV). It explores features of a renewed global partnership for development (section V) and addresses how to strengthen mutual accountability and availability of user-friendly information, looking ahead to a global monitoring and accountability framework for development cooperation post-2015 (section VI). The report concludes with key messages and recommendations (section VII).

## **I. Introduction**

1. In accordance with General Assembly resolution 61/16, the present report is submitted by the Secretary-General for consideration by the Development Cooperation Forum (DCF). The report builds on the two-year preparatory process for the 2014 Forum, which has integrated analytical work with stakeholder engagement and high-level preparatory symposiums, held in Ethiopia, Switzerland and Germany.

2. The 2012-2014 DCF cycle has aimed, in particular, to: (i) examine the implications of a post-2015 development agenda for the future of development cooperation; (ii) assess how a renewed global partnership for development could work in practice; (iii) advance policy dialogue among Southern development cooperation partners on common issues and challenges; and (iv) identify ways to enhance effectiveness and global monitoring and accountability for development cooperation. Dedicated policy dialogues were also held on the role of different actors in development cooperation post-2015, including Southern partners, women, philanthropic foundations and local and regional authorities.

3. The 2014 Forum aims to contribute to the discussions on a post-2015 development agenda, which unifies efforts to address poverty eradication and sustainable development and which applies universally, to all countries. The report reflects the main messages emanating from the preparations for the Forum on the need for a new narrative of development cooperation that fits the transformation envisaged in the emerging post-2015 development agenda.

## **II. Recent trends in international development cooperation**

### **A. ODA progress and allocation**

4. Official development assistance (ODA) will continue to be a critical source of development finance post-2015. Yet, the use of ODA needs to be rethought to meet both established and new demands and to adapt to a unified and universal development agenda. ODA can be better targeted than other sources to help ensure inclusive access to public services; leverage other sources of development finance or improve their targeting; and put the world on a sustainable pathway. Further progress on ODA quality, transparency and accountability will also be critical.

5. After two years of falling volumes, ODA rebounded in 2013 and reached its highest-ever level, with USD 134.8 billion in net disbursements.<sup>1</sup> This marks a 6.1 per cent increase in net ODA in real terms compared to 2012, with most increases coming from multilateral and humanitarian aid and increased debt relief. With this, Development Assistance Committee (DAC) donors provided 0.30 per cent of their combined gross national income (GNI) as ODA, still far from the United Nations target of 0.7 per cent. Only five met the target of 0.7 per cent,<sup>2</sup> including the United Kingdom, which became the first Group of 8 country to hit the target since it was agreed in 1970. Seventeen of the 28 DAC members<sup>3</sup> increased ODA, while 11 reported a decrease. The 2014 DAC forward-spending survey indicates that country programmable aid (CPA) rose by 10.2 per cent in real terms in 2013; it is projected to increase slightly by 2.4 per cent in real terms in 2014 and remain stable beyond 2014.<sup>4</sup> A detailed analysis on progress on MDG 8, including ODA trends, will be provided in the forthcoming 2014 MDG Gap Task Force Report.

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<sup>1</sup> OECD, “*Aid to developing countries rebounds in 2013 to reach an all-time high*” (Press release, Paris, 8 April 2014).

<sup>2</sup> Denmark, Luxembourg, Norway, Sweden and the United Kingdom.

<sup>3</sup> The analysis includes aid flows from the Czech Republic, the Slovak Republic, Slovenia and Iceland.

<sup>4</sup> OECD, *Outlook on aid: survey on donors’ forward spending plans 2014-2017*, forthcoming.

6. Not all groups of developing countries have benefitted from ODA increases equally. Net bilateral ODA to Least Developed Countries (LDCs) rose by 12.3 per cent in real terms in 2013 to about 30 billion, although mainly due to exceptional debt relief to Myanmar. ODA to the African continent decreased by 5.6 per cent in 2013, despite being considered an international priority for ODA allocation. In 2012 (as data for 2013 was not fully available), ODA to LDCs remained far below the United Nations target of 0.15 to 0.20 per cent, at 0.09 per cent of DAC GNI, met by only 8 countries.<sup>5</sup> The share of ODA flows to LDCs has been decreasing in recent years, while allocations increased to upper middle-income countries.<sup>6</sup> Similarly, overall aid for trade commitments increased by 20 per cent in 2012. Yet, the LDC share of total aid for trade fell by two per cent in 2012.<sup>7</sup> Given their poor MDG record and the fact that ODA still represents over 70 per cent of total LDC external finance,<sup>8</sup> the prospect of decreases in flows of ODA to LDCs, especially in Africa, is worrisome.<sup>9</sup>

7. ODA to landlocked developing countries (LLDCs) has stagnated for four consecutive years since 2009, at around 24.5 billion (in 2012 dollars).<sup>10</sup> ODA to Small Island developing States (SIDS) fell steeply, from USD 7.3 billion in 2010 to USD 4.4 billion in 2012. Moreover, ODA to countries affected by conflict or in vulnerable situations, several of which are already under-aided, is expected to shrink further.<sup>11</sup>

8. There is a clear sense that while poverty eradication will remain the central imperative post-2015, sustainable development will also move centre stage, as reflected in the current work on Sustainable Development Goals (SDGs). All developing countries will need continued support to pursue sustainable development, but the kind of support needed will

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<sup>5</sup> Denmark, Finland, Ireland, Luxembourg, Netherlands, Norway, Sweden and the United Kingdom.

<sup>6</sup> OECD, *Targeting ODA Towards Countries in Greatest Need*, DCD/DAC 2014 (20).

<sup>7</sup> OECD, *Aid for Trade in 2012: Increasing Volumes Hardening Terms*, CTD Session on Aid for Trade, WTO, 9 April 2014.

<sup>8</sup> OECD, *Targeting ODA Towards Countries in Greatest Need*, DCD/DAC 2014 (20).

<sup>9</sup> OECD, 2014 DAC Survey on Donors' Forward Spending Plans.

<sup>10</sup> United Nations, 2014 MDG Gap Task Force Report (forthcoming).

<sup>11</sup> OECD, *Fragile States 2014: Domestic Revenue Mobilisation*, 2014.

change over time. A different mix of financial support, capacity building, knowledge sharing and technology transfer will be required. An enabling macroeconomic environment and international financial cooperation and greater policy coherence between aid and non-aid policies (trade, debt, agricultural subsidies, financial and tax regulations, technology, etc.) are critical for all countries; yet these elements will carry particular weight in the growing number of less aid dependent countries.

9. ODA will remain crucial in LDCs.<sup>12</sup> Yet, well-targeted support can also be highly effective in supporting the transition in MICs. Especially in low middle-income countries, ODA can play a critical role in tackling structural barriers and in building the institutional frameworks needed for economic growth, good governance and investment.<sup>13</sup>

10. A key challenge for policy makers will be to reconcile the demands of the different groups of countries arising from a more ambitious post-2015 development agenda. Today, the majority of people whose income or consumption is below the poverty lines of \$1.25 and \$2 are located in the heterogeneous group of middle-income countries. Even in 2030, MICs could account for between a third and a half of global poverty (estimated against the two respective income poverty lines), if inequality trends continue on their current trajectory.<sup>14</sup> At the same time, a core group of 30 or so low-income countries, many emerging from conflict, remain very vulnerable. Adopting a targeted approach to assist those living in extreme poverty will be critical.

*Redefinition of ODA*

<sup>12</sup> LDCs would benefit from ODA allocation based on the agreed criteria around LDC indicators, GNI per capita, the human assets index and economic vulnerability. See General Assembly resolution 67/221.

<sup>13</sup> Alonso, Glennie, Sumner, “*Middle-income countries and the future of development cooperation*”, 2014.

<sup>14</sup> Sumner, “*Where do the Poor Live?*”, World Development, 40, 2012.

Several approaches for updating the methodology for measurement of ODA are being discussed at the Organization for Economic Cooperation and Development (OECD). These include, among others, only counting the grant equivalent of loans, as opposed to the total face value loan amount in ODA, and removing ‘in-donor’ costs, such as refugee costs or administrative costs of operating a development cooperation agency, from ODA, to remove perverse incentives.<sup>15</sup>

Discussions centre on establishing clear quantitative criteria for the term ‘concessional in character’. To better capture donors’ budgetary efforts and burden sharing proposals range from using a fixed interest rate (such as 5 per cent down from 10 per cent) to discount loans and to establish their grant element or to the use of a differentiated, risk-adjusted reference rate to better reflect the present global situation in financial markets.

There is concern that the redefinition exercise may undermine the ODA target of 0.7 per cent of GNI, if, for example, it would make it easier for donors to meet the target. Yet, it is also seen as an opportunity to ensure the reliability of ODA as an indicator of donor effort and to further incentivize and redirect ODA to where it is most needed and has greatest impact.

The exercise, to be completed by the end of 2014, also entails an effort to develop a broader headline measure of “Total Official Support for Development” to include other flows, such as innovative instruments leveraging resources from the private sector, support to global public goods and possibly also certain peace and security expenditures.

Introducing and monitoring such a broader concept will include less concessional flows than ODA and funds allocated for uses not included in the present ODA definition. This comes in response to ongoing discussions about the boundaries of ODA, and the prospect of a broader a post-2015 development agenda, with unprecedented financing needs.

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<sup>15</sup> OECD, “*Modernizing the DAC’s Development Finance Statistics*”, (2014).

11. ODA is increasingly being used to finance regional and global public goods, including research for infectious disease control, crime control and environmental sustainability.<sup>16</sup>

Climate change financing has largely evolved on a separate track. A post-2015 development agenda, unifying poverty eradication and sustainable development, raises the concern that ODA may be diverted from poverty eradication. While often entailing large developmental benefits for recipient countries, international public finance used for global public goods is conceptually different, and should be understood as such. It is critical that financing flows for global public goods are accounted for, separately, and that these are additional to existing ODA commitments.<sup>17</sup>

## **B. Trends in other sources of development cooperation**

12. Private and public resources – both national and international – are necessary to complete the unfinished MDG business and to finance the large-scale long-term investment needs associated with sustainable development. This section will examine these trends and the role ODA can play in leveraging other sources of development financing, especially in areas where private sources are insufficient or unavailable.

13. Despite recent progress, a significant gap persists in raising public revenues, especially in low-income countries, where in 2009 tax revenues accounted for only 10-14 per cent of GDP,

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<sup>16</sup> United Nations Task Team Working Group on Sustainable Development Financing, Background Paper “*The variety of national, regional and international public sources for development finance*” 2013

<sup>17</sup> *ibid.*

one third less than in middle-income countries and far below the 20-30 per cent of GDP reached in high-income countries.<sup>18</sup> Low-tax to GDP ratios are exacerbated by capital flight. Despite donors' strong political commitment and increasing evidence of the success of ODA supporting tax matters, in 2012, only USD 120 million or 0.07 per cent of ODA to developing countries supported tax related activities as primary focus.<sup>19</sup> As the international community is scaling up ODA in support of domestic resource mobilization, international tax dialogue fora, such as the International Tax Dialogues, the International Tax Compact and the African Tax Administration Forum, can help ensure coherence and coordination, but they cannot substitute for improved donor reporting.<sup>20</sup>

14. Global foreign direct investment (FDI) remains the largest and most stable external source of private financing in developing countries. FDI inflows to developing countries reached a new high of USD 759 billion in 2013.<sup>21</sup> Both the allocation and quality of FDI remain a concern. FDI remains concentrated in a small number of developing countries. USD 322 billion of FDI goes to the BRICS. Flows to Africa, although on the rise, remain concentrated in resource rich countries. Data suggests a shift towards more volatile forms of investment, such as intra-company debt.<sup>22</sup> ODA can help catalyze FDI and support developing countries in creating an enabling domestic environment for FDI that promotes growth, employment and other development objectives. Such efforts should be supported by an enabling macroeconomic and financial environment and better access to international financial markets.

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<sup>18</sup> World Bank, *Financing for Development Post-2015*, 2013.

<sup>19</sup> OECD, 2012 data on ODA commitments for tax activities (excludes figures from IMF).

<sup>20</sup> The DAC Working Party on Development Finance Statistics has been tasked to develop alternatives to improve donor reporting on their direct support to tax related activities.

<sup>21</sup> UNCTAD, *Global Investment Trends Monitor*, No 15, 2014.

<sup>22</sup> E/2014/53.

15. Steps also need to be taken to tap the resources of institutional investors. Today, less than 1 per cent of institutional investors' portfolios are allocated to infrastructure investments in developing countries.<sup>23</sup> Pension funds, insurance companies, mutual funds or sovereign wealth funds in high-income and emerging economies are seen as potential pools for such investments.<sup>24</sup> Some of the major barriers to unlocking this potential include the lack of: high quality feasibility studies and bankable projects; an enabling environment conducive to investment in developing countries; expertise to assess infrastructure projects; and adequate governance mechanisms and institutions.

16. Leveraging public financing has potential to generate additional resources for development cooperation. It can encourage investment that would otherwise have been deemed too risky or unprofitable. There will be added impact if investments are backed by an enabling macroeconomic environment and structures linking them to value chains in which poor farmers and service providers can participate. Leveraging and blending public and private financing should be guided by development effectiveness principles prevent drawbacks such as: lack of clarity on additionality and purpose; limited influence of donors and recipients on investment design and implementation; diminished transparency and accountability; risk of misalignment of private sector and country priorities; danger of increased debt burden; inattention to small- and medium-enterprises; and the opportunity cost incurred when use of public money to mobilize private resources does not have the same or a

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<sup>23</sup> UNDESA, *Mapping of global public sectors financing flows*, 2013

<sup>24</sup> *ibid.*

larger development impact than if it had been devoted directly to a developmental purpose; and the risks of misappropriation.

17. Accurate data on the growing contributions from the diverse range of philanthropic foundations, including increasingly in emerging economies, is not readily available. Efforts by a small but growing number of venture philanthropists – or impact investors – are promising,<sup>25</sup> but they require careful scrutiny to assess the sustainability of their initiatives and potential for scaling-up.

18. South-South cooperation (SSC) continues to rise in scale and importance, coupled with growing South-South trade, investment and regional integration.<sup>26</sup> SSC is foreseen to continue its growth, as a proportion of international development cooperation, given the plans by large developing economies to increase SSC considerably over the next five years.

19. Rapid urbanization and the emergence of new forms of decentralized governance and cooperation have led to markedly greater involvement of local and regional governments (LRGs) in the planning and delivery of development cooperation. There is growing interest in quantifying such decentralized development cooperation as an increasingly relevant channel and ensuring synergies with national programmes of support to decentralization.

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<sup>25</sup> OECD netFWD, *Venture Philanthropy in Development: dynamics, challenges and lessons in the search for greater impact*, 2014.

<sup>26</sup> See section IV.

20. So far, innovative development financing mechanisms have raised or intermediated only a modest amount of resources – USD 5.8 billion for health and USD 2.6 billion for climate and other environmental programmes. Yet, if successfully implemented, they could generate as much as USD 400-450 billion per year in additional long-term predictable funding,<sup>27</sup> including, for example, low-carbon investments.<sup>28</sup>

### **III. Ensuring the quality and effectiveness of development cooperation**

21. Effectiveness issues arise among all development partners and can be linked to challenges at the technical level as well as a lack of priority. The effectiveness of all types of development cooperation needs to be improved to support inclusive country ownership, as well as trust-based, inclusive partnerships and a focus on long-term, cost-effective development impact. Overly ambitious or unrealistic time tables that do not take into account the absorptive and operational capacities, budgetary issues and political factors, fragmentation and lack of coherence associated with a multiplicity of actors can prevent the effective delivery and use of international development cooperation.

22. Reviewing principles agreed in 2011 at the Fourth High-level Forum on Aid Effectiveness, the 2014 progress report prepared for the Global Partnership for Effective Development Cooperation (GPEDC) demonstrated some progress on critical ODA commitments and other aspects of effective development cooperation, while calling for further improvements.

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<sup>27</sup> UNDESA, *In Search of New Development Finance*, World Economic and Social Survey, 2012.

<sup>28</sup> UNTT Working Group on Financing for sustainable development, *The variety of national, regional and international public sources of development finance*, 2013.

23. Effective monitoring and continued policy dialogue at the United Nations among all Member States and other actors are needed to make greater progress towards effective development cooperation. The GPEDC can make specific contributions to this.

**A. ODA quality principles: A way forward for better operations**

24. International efforts on ODA effectiveness and poverty reduction impact have been emphasized since the 2002 Monterrey Consensus on Financing for Development. Some progress has been made on some principles covered by the aid effectiveness agenda, such as untying (opening competition for aid-funded procurement), reporting ODA on the national budget of aid-receiving countries and using country administrative systems in the management of aid-funded programs and projects. Other ‘ODA quality’ principles, referenced in different UN summits and conferences, have not received adequate attention in the absence of measurable indicators or targets.

25. Conditions attached to ODA delivery remain too numerous and detailed in some cases. Policy conditionality works best if designed as a harmonized system of incentives by all ODA providers and based on increased coherence with other policy areas. Independent assessments of good practices in reaching mutual agreement on ODA delivery targets, benchmarks and policies, combined with global tracking of progress based on clear indicators, could further advance progress.

26. The proportion of untied bilateral ODA reached 79 per cent in 2012.<sup>29</sup> Fully untied ODA to all recipient countries can reduce costs of goods and services by 15 to 30 per cent, or even more, for example, in the case of food assistance.<sup>30</sup>

27. Sector-wide or programme-based approaches have shown good results in supporting countries' efforts to harmonise planning, disbursement and reporting procedures, including by using pooled funding and direct budget support. Effective modalities such as these should be further analysed and better shared.

28. Despite on-going reforms, internal donor procedures remain complex and insufficiently flexible, impeding country-owned cooperation. Decentralizing decision-making and increasing joint multi-year programming, financing and analysis remain priorities. The fragmented landscape of ODA providers has an uneven impact on recipient governments, depending mainly on their ability to manage this diversity, for example, through greater coherence in their national coordinating bodies to manage ODA.

29. Predictability, or more reliable information on scheduled and actual ODA disbursements, enables governments to plan and deploy funds meaningfully in line with priorities. Eighty-four per cent of scheduled disbursements of 77 ODA providers were disbursed within the fiscal year, as scheduled, up from 79 per cent in 2010.<sup>31</sup> Yet, gaps remain in making disbursement plans accurate. On average, 83 per cent of estimated total funding is covered by

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<sup>29</sup> OECD/UNDP (2014), *Making Development Co-operation More Effective: 2014 Progress Report*, OECD.

<sup>30</sup> OECD (2009), *Aid untying: Is it working? Thematic Study on the developmental effectiveness of untied aid: Evaluation of the implementation of the Paris Declaration and of the 2001 DAC recommendation on untying ODA to the LDCs*, Synthesis Report,

<sup>31</sup> OECD/UNDP (2014), *op. cit.*

forward-spending plans for the fiscal year ending in 2014, 70 per cent for 2015 and 57 per cent for 2016.<sup>32</sup> Efforts must continue to implement rolling three- to five-year forward expenditure plans, to enable full medium-term predictability.

30. Parliaments and civil society – including independent media and audit and evaluation offices, and local and regional government authorities and offices – each play distinct and essential roles in increasing accountability and participatory governance. An enabling, democratic environment, including the requisite legislative and institutional frameworks, mechanisms that inform, consult and involve citizens, and civic education are all essential to foster social accountability of ODA spending and the national budget.

31. Information on ODA spending and absorption must become a more useable tool for developing countries to plan and manage development programmes effectively, to deliver services where they are needed most and to hold providers accountable for agreed targets. It is also essential for parliaments and ODA providers, and for citizens to hold their governments answerable.

32. Providers should help build capacity to strengthen data collection and statistical analysis. Such support can be monitored through existing global initiatives, such as International Aid Transparency Initiative (IATI), Open Government Partnership or the Open Budget Partnership. While some progress has been made in strengthening national mutual accountability for development cooperation, it remains limited.<sup>33</sup>

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<sup>32</sup> *ibid.*

<sup>33</sup> See section VI.

33. Countries are making greater efforts to track ODA allocations to gender equality.<sup>34</sup> While the coverage ratio of ODA in the gender equality marker system has increased, providers should also put in place tracking systems to identify commitments to direct investments in women and girls. Gender-sensitive monitoring and accountability needs to be strengthened and underpinned by rigorous impact evaluations.

34. Voluntary tracking of progress on implementation of principles can facilitate behavioural changes and policy, operational and procedural reforms. It should be extended to the range of ODA quality principles and reflected in accountability and transparency initiatives tracking ODA performance. Independent reviews of progress of providers and recipients can also be effective in exerting pressure. Such reviews should be fully funded and in line with national monitoring efforts.

## **B. Quality and effectiveness of development cooperation beyond ODA**

35. Development cooperation actors base partnerships on unique histories and practices. There is a logic to further explore effectiveness principles of different players, as input to a renewed global partnership for development and a common narrative for development cooperation post-2015.<sup>35</sup> Despite differences on technical aspects, there are common strands on national ownership, on trust-based, inclusive partnerships and on focusing on long-term, cost-effective development impact. The impact of private sector engagement in development will need to be assessed regularly in future.

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<sup>34</sup> OECD/UNDP (2014), *op. cit.*

<sup>35</sup> See section V.

36. Despite the appeal of their innovative business models, philanthropic organizations implement their assistance in a way that can have unintended impacts. Some foundations have started to engage in dialogue on effective development cooperation to identify opportunities for collaboration and to provide data, including impact assessments.<sup>36</sup>

37. South-South cooperation (SSC) is usually initiated to address specific needs upon the request of developing countries, without promoting a model of development or imposing policy conditions and with a focus on mutual benefits.<sup>37</sup> Assistance is usually provided timely and delivered flexibly. SSC offers options for developing countries to benefit from solutions that are cost-effective and grown in similar development contexts. Southern partners are making efforts to better measure and evaluate their cooperation, going beyond mere quantification in monetary terms.

38. The Istanbul Principles for Civil Society Organisations' (CSOs) Development Effectiveness and the International Framework for CSO Development Effectiveness set out how civil society can be more effective as advocates and delivering agents. They outline steps to be taken in transparency, multiple accountability, integrity in their internal operations and transparent relationships, as actors in their own rights. Civil society requires an enabling environment, resources and an institutional home for structured independent analysis and global monitoring of progress against global principles for development effectiveness.

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<sup>36</sup> See voluntary Guidelines for Effective Philanthropic Engagement, developed by several foundations in conjunction with the OECD netFWD.

<sup>37</sup> See section IV.

39. Decentralized development cooperation has moved notably from a donor-recipient model to collaborative peer-to-peer engagement of local and regional governments (LRGs), their associations and multilateral actors. Such cooperation can facilitate cost-effective and targeted delivery of services, directly responding to challenges that affect the lives of citizens. It benefits from close proximity, local ownership and a sense of accountability, though monitoring is home-grown and in its infancy. It also faces challenges to scaling up successes and aligning with national priorities. More research is needed to collect performance information more systematically, including on South-South decentralized cooperation and LRG engagements with the private sector.

#### **IV. Harnessing the benefits of South-South cooperation**

##### **A. Principles, approaches and features**

40. Over the past 60 years, as countries in the South have evolved, so has their development cooperation. Development cooperation among the South embraces a wide range of approaches to addressing a variety of development challenges, anchored in different histories, economic capabilities, political systems and institutional configurations.

41. Even with this diversity, some principles, as emphasized by the outcome document of the Nairobi Conference on South-South cooperation and other international conferences, can be widely observed in the policies and practices of Southern partners. Examples include respect for national sovereignty, ownership and independence; non-interference in domestic affairs; alignment with national priorities; unity, solidarity and equality among partners. A review undertaken by the United Nations Department of Economic and Social Affairs reveals that principles of South-South cooperation have evolved with geopolitical and economic

developments. Many principles endorsed globally first emerged from bilateral or regional contexts. They are applied in different contexts and practiced in different ways.

42. Southern partners have identified some key features of South-South cooperation in recent dialogue, under the auspices of the DCF, including the following: *diversity* of approaches; *horizontality*, as a voluntary process and mutually agreed relationship; *equal distribution of benefits*; *non-conditionality*; *comprehensive vision*, cultivating the capacity for longer-term sustained development; *results-orientation*, aimed at enhancing mutual benefits and promoting win-win outcomes and complementarities; *flexibility*, in ways of sharing their own development experiences and knowledge; and *visibility*, through a focus on concrete results, through demand-driven projects, targeting country needs.

43. Some Southern partners see an integrated approach – encompassing also non-concessional loans and commercial transactions in trade and investment – as another distinct feature of their cooperation, though this goes beyond the scope of South-South cooperation applied in the present report.

## **B. Recent trends and developments**

44. South-South cooperation (SSC)<sup>38</sup> is estimated at between USD 16.1 billion and USD 19 billion in 2011<sup>39</sup>. The share of SSC in total development cooperation has increased from 6.7 per cent in 2006 to 10 per cent in 2011 – albeit below its peak of 11 per cent in 2008. South-

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<sup>38</sup> For reporting purposes, South-South cooperation in this report includes official concessional resources (concessional loans, grants as well as debt relief and technical cooperation) that are provided within the South for development purposes.

<sup>39</sup> Many Southern partners do not publish data on a yearly basis. As a result, figures on the volume of SSC are estimates based on data collected in preparation for the second International Development Cooperation Report (UNDESA, forthcoming). Only partial data is available for 2012-2013. Therefore, it is not possible to report the volume of SSC for 2012-2013. This report also recognizes that, due to the specificities of SSC, the reporting of the financial value of SSC can only be indicative and cannot capture the actual scale and impact of SSC.

South humanitarian assistance varies between 3.5 and 5 per cent of total SSC, with Arab countries accounting for half of the disbursements.

45. Many Southern partners carry out their development cooperation within their regions, where they play “anchor” roles driving growth, trade and investment. Some partners also prioritize countries where they have historical cultural, religious or linguistic ties. Relatively fewer partners have global reach. The increasing role of Southern multilateral institutions<sup>40</sup> will potentially increase the geographical coverage of SSC. Analysis of larger Southern partners indicates that over three-quarters of their SSC goes to low-income countries or LDCs. They concentrate their concessional resources on these countries and provide non-concessional export credits to richer countries.

46. SSC covers a wide range of sectors. Some Southern partners are particularly willing to support infrastructure and production, partly reflecting acknowledgement of the role of such sectors in their own development. Infrastructure predominates, estimated at around 55 per cent of SSC. Yet, over a third of SSC continues to support social sectors, and it is prominent in agriculture and food security, health, education and, increasingly, social protection. Individual partners’ sectoral allocation patterns tend to mirror strong and growing sectors in their own countries, which allow them to draw on high expertise and new technology.

47. Many Southern partners offer grant-based cooperation only, whereas some larger bilateral and multilateral partners provide concessional loans primarily. Detailed analysis indicates that most SSC loans are highly concessional. Nevertheless, there appears to be considerable

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<sup>40</sup> For example, the Islamic Development Bank, the Arab Fund for Economic and Social Development, the Arab Bank for Economic Development in Africa, the OPEC Fund for International Development and the Bank of the South.

confusion in the international community about the cost of SSC loans, partly because observers are also including non-concessional export credits, or lines of credit, and private sector loans and investment.

48. SSC is characterized by its diversity and provided through a number of modalities.

Projects including technical cooperation and capacity-building initiatives represent around 75 per cent of SSC. In recent years, some Southern partners are transforming their technical cooperation from training to larger investments to build institutions in partner countries.

49. SSC is undertaken primarily through bilateral channels. In recent years, Southern partners are increasingly working with multilateral institutions, such as the United Nations, the World Bank and regional organizations. In general, smaller developing countries put a relatively higher emphasis on channeling their development funding through multilateral organizations. Southern multilateral organizations are also becoming significant channels of SSC.

50. SSC tends to come with few preceding procedural conditions, which must be met before cooperation goes into effect. Purchase of goods and services from the providing country, or the direct provision of experts, labour and materials, is more observed in bilateral SSC; most SSC by Southern multilateral and regional organizations does not contain such terms.

Partners also particularly value SSC for its flexibility to support key (and changing) priorities in their own national development programmes.<sup>41</sup>

### **C. Challenges**

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<sup>41</sup> See section III (B).

51. Recent dialogues among Southern partners repeatedly underscored the need to improve SSC on several fronts.

52. There have been calls to strengthen the sustainability of South-South development cooperation. It has been observed that some ambitious South-South initiatives in this area are constrained by financing and, as a result, lack follow-up.

53. The quality and availability of information on the scale and impact of SSC have not kept pace with the growing demands among Southern partners for peer learning. Southern partners have thus stressed the importance of strengthening evaluation of the achievements and development impact of SSC projects. This would help them to reflect more systematically on the strengths and weaknesses of their development cooperation and further improve the results. Some Southern partners have taken steps to improve the availability of information, while improving the evaluation of their cooperation.

54. Current analytical frameworks, which draw on those used for traditional development cooperation, are also considered inadequate for South-South cooperation, given its different modalities. There have been suggestions to rethink the framing of SSC approaches, modalities and issues by developing a lexicon suited to SSC.

55. Southern partners have also expressed a need to further promote South-South learning at the global level. At global fora, developing countries are sharing their successful experiences. Such peer learning could potentially enrich global development dialogue. Multilateral institutions and the United Nations Development Cooperation Forum are expected to play a more active role in facilitation of such learning.

## **V. Renewing the global partnership for development**

### **A. Implementing the global partnership for development**

56. The global partnership for development is set out in the Millennium Declaration, the 2002 Monterrey Consensus on Financing for Development, and the 2002 Johannesburg Plan of Implementation on Sustainable Development (JPOI). It has served, among other purposes, as the framework for mobilizing international support for the implementation of the MDGs and other internationally agreed development goals.

57. In focusing on ODA, trade, debt relief and making available benefits of new technologies, MDG8, on developing a global partnership for development, captures several key issues addressed in the Monterrey Consensus. Yet, the Monterrey Consensus goes well beyond that, by also addressing domestic resource mobilization, international private financing and systemic issues, namely, ensuring that international monetary, financial and trading systems support development efforts. The JPOI stresses additional elements, such as the importance of capacity building, technology transfer and multi-stakeholder partnerships for transitioning towards sustainable development. At the 2012 International Conference on Sustainable Development (Rio+20), Member States also agreed to develop strategies to finance sustainable development.

### **B. Key features of a renewed global partnership for development**

58. A transformative post-2015 development agenda, with sustainable development at its centre, must be matched by a different scale and scope of support. Mobilizing ODA will remain a central purpose of the global partnership for development. Yet, a renewed and intergovernmentally agreed global partnership for development is needed that puts greater

emphasis on the full breadth of issues captured in the Monterrey Consensus and complemented by the JPOI and outcomes of the related follow-up processes, including among others the Doha Declaration on Financing for Development and the Rio+20 Outcome Document.

59. A renewed global partnership for development will have to bring together the Monterrey and Rio tracks on Financing for Development and Means of Implementation, taking the Monterrey Consensus as a starting point. It will have to mobilize domestic and international support – both public and private –to complete the unfinished business of the MDGs and put the world on a sustainable development pathway. As part of this, scaled-up investment will be needed for poverty eradication, transitioning towards sustainable development and provisioning of regional and global public goods.

60. The challenge and opportunity ahead is not only to design a renewed global partnership for development for today but also to build a dynamic partnership for the years to come. The partnership will need to evolve with the changing global economic environment, as well as adjust to the unified and universal nature of a post-2015 development agenda.

Notwithstanding the present climate of economic austerity in major donor countries, the global partnership for development needs to be renewed in a way that matches the transformative ambition of the post-2015 development agenda.

**C. How a renewed global partnership for development could work in practice post-2015**

61. A renewed global partnership for development must build on ODA as a vital source of development financing and advance efforts to meet the commitment of realizing the United Nations target of 0.7 per cent of GNI as ODA, as set out above.<sup>42</sup> Further improving ODA quality must be seen as part and parcel of a renewed global partnership's effort to maximize the development impact of aid.<sup>43</sup>

62. As countries become less aid dependent, a renewed global partnership for development should enable them to mobilize other sources of development finance to move beyond the current MDG agenda, to fight the root causes of poverty and address its multiple dimensions. As countries increasingly rely on a diverse mix of development finance, this puts an even higher premium on policy coherence between aid and non-aid policies as a driver of development progress.

63. Countries at all stages of development will need to redouble their efforts to transition towards sustainable development. ODA will remain an important source for financing the transition in least developed and other low-income countries especially. The need, however, is for not only finance but also knowledge sharing, capacity building aspects of ODA and technology transfer, which, when well aligned with countries' needs, carry great potential. These can complement private investment or help redirect it to areas that struggle to attract private investment.

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<sup>42</sup> See section II.

<sup>43</sup> See section III.

64. In addition, stable and predictable resources will be needed for provisioning regional and global public goods. A renewed global partnership for development needs to galvanize political support for innovative sources of development finance and provide incentives for institutional investors to make long-term infrastructure investments. Action on both fronts will require a stable international financial system and more equitable economic governance.

65. Governments will be in the driver's seat in negotiating the renewed global partnership for development. But governments alone cannot deliver the needed transformation. Involving the breadth of actors in its design, implementation and monitoring will be essential. The roles of different actors should be clearly defined and different responsibilities and capabilities recognized. Providing ground rules and incentives for the diverse set of actors – and enabling them to apply their respective strengths – will be critical to the successful implementation of a post-2015 development agenda.

66. Effective, innovative and accountable multi-stakeholder partnerships to advance implementation can serve as an important complement to a renewed global partnership for development. Such partnerships, including several recent initiatives launched under the auspices of the United Nations, have shown great potential. By engaging a broad set of actors, including from the private sector, they can strengthen advocacy, develop targeted and innovative solutions, and mobilize additional resources. To maximise development impact, it is critical to promote coherence across partnerships, avoid the establishment of parallel structures, and ensure that partnerships are aligned with countries' priorities.

67. It is important to recognize that multi-stakeholder partnerships cannot together substitute for a renewed global partnership for development, which will provide an overarching

framework, addressing also the systemic issues. A renewed global partnership for development should provide the framework necessary for individual multi-stakeholder partnerships to operate successfully.

## **VI. Strengthening mutual accountability and availability of user-friendly information**

68. Greater mutual accountability for development cooperation at all levels and greater transparency can support delivery on commitments and progress towards sustainable development results for people, by incentivizing and producing mutual trust and positive behaviour change among the various actors in international development cooperation. A global monitoring and accountability framework post-2015, for all types of development cooperation, can serve to assess and stimulate progress, identify accountability gaps and direct capacity support where needed most.

### **A. Mutual accountability**

69. In international development cooperation, accountability serves primarily to support engagement and implementation, by encouraging delivery on voluntary commitments and progress towards sustainable development results.<sup>44</sup> Accountability has the potential to serve as an overarching principle and technical tool that can help bring actors together on a level playing field to improve the management and targeting of their efforts. This is particularly important as the landscape of development cooperation actors, approaches and modalities continues to diversify.

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<sup>44</sup> José Antonio Ocampo and Natalie Gómez Arteaga, *Accountability for Development Cooperation*, Background Study for the DCF Germany High-level Symposium, March 2014.

70. Accountability for development cooperation is rooted in the Monterrey Consensus and has evolved since. Member States and other stakeholders agreed at the 2008 DCF that the Forum should play a key role as an international mutual accountability mechanism to draw together analysis of progress in national and global-level MA processes, and thereby contribute to holding donors and programme countries to account. The 2010 MDG Summit reaffirmed the importance of mutual accountability (MA) to honour commitments by developed and developing countries and thereby accelerate progress to achieve the MDGs.

71. The 2013-14 DCF global accountability survey shows a moderate increase in behavioural changes stimulated by national MA mechanisms<sup>45</sup>. For example, some countries reported better alignment of donor programmes with national development priorities and commitment from providers to report on their activities in information platforms. In practice, MA remains focused on recipient governments, with only limited impact so far on provider behaviour.

72. Recipient countries reported several implementation challenges, such as agreeing targets for individual providers, including on gender equality; tracking disaggregated expenditures and results; and securing sufficient investment in MA capacity at local level. Roadmaps for developing or strengthening MA exist in many countries, but they require long-term support and dedicated funding. Evidence shows that a key to progress is government leadership. Equally critical is provider investment in the institutional capacity needed to examine or scrutinize processes and results from development cooperation. Key areas here include staffing, high-quality country frameworks and oversight bodies, such as parliaments and audit and evaluation institutions.

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<sup>45</sup> A national MA mechanism is considered functional if a country has in place: an agreed aid or partnership policy; annual targets for effective development cooperation; joint regular progress reviews towards targets; discussion of reviews in coordination forums that involve all stakeholders; and a process to publish findings of such exercises.

73. The growing diversity of providers suggests opportunities to capture the effectiveness of development cooperation beyond ODA in aid or partnership policies and in progress reviews towards targets for effective development cooperation. National aid or partnership policies provide a framework to ensure ODA is properly integrated and linked to the government's management of its own budget, to hold providers accountable, and to coordinate and monitor off-budget flows. The number of countries with such policies has increased considerably, from 39 countries in 2011 to at least 47 countries in 2013, mainly in Africa.<sup>46</sup>

74. Multiple regional and global mechanisms aim to promote accountability in development cooperation – from independent “spotlights” to multi-stakeholder initiatives and inter-governmental arrangements. These demonstrate efforts to address knowledge gaps, for example, by balancing the sources and analysis of information, representing different actors and providing sufficiently frequent assessments.

75. External evaluations suggest that global and regional mechanisms remain insufficiently used at country level, let alone aimed explicitly to reinforce country-level MA. The division of labour needs to be clarified to consolidate such mechanisms and ensure better linkages and increased cooperation. Engagement of parliaments and civil society must be strengthened as complements to domestic social accountability, in both developing and developed countries.

## **B. Managing development cooperation information**

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<sup>46</sup> Angela Bester, *Third Global Accountability Survey on Mutual Accountability*, Background Study for the DCF Germany High-level Symposium, March 2014.

76. Effective mutual accountability requires better availability of comprehensive, fully accessible and user-friendly information on development cooperation flows, implementation and results at all levels. Data needs to be disaggregated sufficiently for different purposes. New technologies to make data collection easier, participative and accessible should be exploited.

77. In half of the countries surveyed for the DCF in 2013-14, mutual accountability has triggered demand for development cooperation information, mainly used by government agencies and providers. Most governments surveyed have formal systems for tracking ODA information at least annually, with a focus on current and future disbursement. Tracking of gender-disaggregated expenditures and results remains weak.

78. Global and regional initiatives to collect and make available development cooperation information are dominated by provider concerns. Despite increased efforts to balance sourcing, the data continues to be drawn mainly from provider sources and not always aligned with national classification systems used in programme countries. The users of the information are primarily Northern-based academia and civil society for the analysis of trends and provider comparisons.

### **C. Towards a global monitoring and accountability framework for development cooperation post-2015**

79. There is no one approach to accountability for development cooperation commitments and no one size fits all. A primary or basic, well-structured and fully-recognized global monitoring and accountability framework for development cooperation can draw together analysis of progress in mutual accountability processes at all levels and provide incentives to

mobilize all Member States and other actors to engage, with the promise of lasting results on poverty eradication and sustainable development as the most powerful motivation. Such a framework or architecture should be simple in design and have the following among its key features:

- Provide adequate policy space and flexibility for all actors to engage to share knowledge and progress on quantity- and quality-related commitments, taking into account their different capacities and responsibilities;
- Build on the evidence base from existing accountability mechanisms at global, regional, national and local levels to support good quality decisions and effective results;
- Use stronger modalities of horizontal accountability, such as peer reviews and mutual accountability, to move beyond monitoring and surveillance;
- Promote accountability for commitments and results in a way that does not overburden already stretched development cooperation teams on the ground;
- Ensure that all stakeholders are fully capacitated to engage in robust and integrated consultative processes, with parliaments at the centre of national accountability mechanisms;
- Serve as an integral part of the monitoring and accountability of the broader post-2015 development agenda, being intrinsically linked to the global partnership for development, global enabling environment and systemic issues; and
- Promote greater policy coordination and policy coherence for development for better results.

## **VII. Key messages and recommendations**

80. In reviewing trends and progress in development cooperation, this report sets out the following key messages and recommendations.

81. While ODA will remain crucial, its use will have to be adapted, to meet new demands and respond to a unified and universal post-2015 development agenda. Progress towards the United Nations' 0.7 per cent ODA to GNI target needs to be accelerated.

82. Developing countries will all need continued support in efforts to eradicate poverty and transition to sustainable development. The type of support should be flexible and country-specific.

83. More ODA should be provided to support successful efforts to mobilize domestic resource, build productive capacity and incentivize private investment in countries and sectors otherwise deemed too risky or unprofitable. Given the potential, yet shortcomings, of leveraging or blending public and private sources to generate additional resources, efforts are needed to ensure sufficient development impact and full transparency, accountability and country ownership of this modality.

84. Countries' increasing reliance on a diverse mix of development finance puts an even higher premium on policy coherence between aid and non-aid policies and an enabling domestic and international environment as determining factors for development progress.

85. International public finance used for global public goods is conceptually different from ODA, though it may entail large developmental benefits for developing countries. Financing

flows for global public goods should be accounted for separately and accurately, and it should be ensured that these are additional to existing commitments.

86. Current commitments on the quality and effectiveness of ODA should be met. More efforts are needed to reduce conditionalities, optimize inter-country allocation, ensure flexibility to respond to shocks, increase concessionality and reduce fragmentation of ODA.

87. Voluntary monitoring should be extended to these ODA quality principles, complementing the progress report of the Global Partnership for Effective Development Co-operation, and reflected in accountability and transparency initiatives tracking ODA performance. Tracking systems to identify commitments to direct investments in women and girls and gender-sensitive monitoring and accountability need to be strengthened and underpinned by rigorous impact evaluations.

88. Continued global policy dialogue and effective monitoring are needed for intensified collective action on effectiveness of development cooperation. Effectiveness principles of different players should also be explored as input to a renewed global partnership for development. Despite differences on technical aspects, there are common strands on national ownership, on trust-based, inclusive partnerships and on focusing on long-term, cost-effective development impact. As for the private sector, the impact of its engagement in development needs to be assessed regularly in future.

89. Southern partners have stressed the importance of strengthening evaluation of the achievements and development impact of South-South cooperation (SSC) projects. Some

have suggested to rethink the framing of SSC approaches, modalities and issues by developing a lexicon suited to SSC.

90. The principles, approaches, features and practices of South-South cooperation can inform global efforts to orient future development cooperation. Greater availability and quality of information on SSC is needed to meet the strong demand for peer-learning among the South. Multilateral institutions and the United Nations Development Cooperation Forum are expected to play a more active role in facilitation of such learning.

91. A transformative post-2015 development agenda must be matched by a different scale and scope of international support. The Monterrey Consensus on Financing for Development can serve as a starting point for renewing the global partnership for development, as a dynamic partnership that can adjust to evolving needs and the changing macroeconomic environment in the coming years. Such a partnership should bring together the Monterrey and Rio tracks on Financing for Development and Means of Implementation.

92. While Governments should take the lead in renewing the global partnership for development, the breadth of development actors must be engaged from the outset in its design and implementation. The roles of the different actors, given their different responsibilities and capabilities, should be clearly defined. A renewed global partnership for development should help support and stimulate multi-stakeholder partnerships, which advance implementation by engaging different stakeholders and enabling them to apply their respective strengths.

93. In development cooperation, accountability serves to ensure delivery on commitments and progress towards sustainability of development results. It can also bring actors together to improve management and targeting of their efforts. National mutual accountability (MA) for ODA remains, in practice, more focused on recipient governments, with only limited impact so far on provider behaviour. Yet, there is growing consensus that MA can improve ODA effectiveness by freeing up resources and capacities through cost-effective modalities and predictable funding with limited conditionality.

94. While no one-size-fits-all, a primary or basic global monitoring and accountability framework for development cooperation, including successor arrangements to MDG8, can draw together analysis on progress at all levels and provide the right incentives to mobilize all actors to engage, with the promise of lasting results on poverty eradication and sustainable development as the most powerful motivation.

95. Such a global monitoring and accountability framework for development cooperation should function as an integral part of the monitoring and accountability of the broader post-2015 development agenda. It should be intrinsically linked to a renewed global partnership for development, global enabling environment and systemic issues.

96. The 2012-2014 cycle of the United Nations Development Cooperation Forum has stood out for the candid discussions on how a renewed global partnership could work in practice and on the implications of a unified and universal post-2015 development agenda for the future of development cooperation. The discussions have revealed readiness among the broad range of stakeholders to look anew at the fundamentals of development cooperation, suggesting that space is opening up for mobilizing international support that matches the

ambition of a transformative post-2015 development agenda. The Development Cooperation Forum provides an appropriate platform for furthering these discussions as part of a coherent global architecture for development cooperation.