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Preparing for the 2014 Development Cooperation Forum

Background study

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"COOPERATION FOR SUSTAINABLE DEVELOPMENT Critical Challenges for Development Cooperation in a post-2015 World"

Development Cooperation Policy Branch
Office for ECOSOC Support and Coordination
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COOPERATION FOR SUSTAINABLE DEVELOPMENT
Critical Challenges for Development Cooperation in a post-2015 World

Preparing for the 2014 Development Cooperation Forum
Switzerland High-level Symposium
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Introduction

This discussion paper is written for the 2014 Development Cooperation Forum (DCF) Switzerland High-level Symposium "Development cooperation in a post-2015 era: sustainable development for all". This symposium is the latest in a series of meetings organised by DCF, the latest hosted by Ethiopia earlier in 2013. The paper does not attempt to summarise the outcome of these meetings. Rather it seeks to contribute to ongoing discussions about the future of development cooperation by responding to some of the definitional and conceptual barriers that remain to be resolved.

Two features above all define the forthcoming post-2015 era and the international development goals to be agreed. First, the dual and complementary focus on planet as well as people, recognising the urgent need to pursue an environmentally sustainable path to poverty reduction, economic growth and prosperity. Second, and related to this, the insistence that all countries come under the purview of the goals, recognising that the problem of unsustainable development is located in all countries.

In the opening section of this report we outline the overall structure of a single post-2015 development framework and how development cooperation is located within it. This analysis is supplemented by a glossary of terms at the beginning of the report.

Having explained briefly our proposed terminology, we go on, in the following three sections to explore major conundrums faced by an increasingly ambitious and complex development cooperation effort. It is well-known that today's development cooperation differs significantly to the world leading up to the millennium and we do not intend to repeat these shifts at any length here. Suffice to say that an increasing number of development actors are seeking to support an increasing number of development objectives within severe environmental constraints, even as absolute poverty is tackled (on average) on an unprecedented scale. We look at the impact of this changed context on allocating public resources (section 2), leveraging private resources (section 3), and the overall management structures required to monitor and govern – to the extent possible – this complex field (section 4).

Finally, in section 5, we offer six recommendations for how to proceed towards a post-2015 framework for development cooperation that is effective, legitimate and realistic in its ambitions. These are:

1. Agree on an operational definition of development cooperation

2. Improve metrics covering sustainable development finance (SDF) via an inclusive process

3. Agree on a central institution to provide light supportive governance functions for development cooperation

4. Begin an annual global report series on development cooperation

5. Don't give up on promoting more delivery through multilateral channels

6. Integrate private/NGO sources of development cooperation more fully

Glossary of terms

Global partnership for development: The group of actors working together to achieve the MDGs, as invoked by MDG8, and crystallised in the Monterrey Consensus. To be renewed under a post-2015 framework.

MDG8: The eighth and final MDG - "Develop a Global Partnership for Development". Often associated with the call for increased aid, but in fact much broader, including improved trading and financial systems.

Means of implementation: The means, broadly understood, with which the post-2015 goals will be implemented. Term associated with the Rio processes.

Enabling environment: The global institutional, regulatory, financial and policy context required to facilitate the achievement of the goals

Development cooperation (DC): The range of actions members of the global partnership take to contribute to achieving the goals, including financial and non-financial activities. By definition integrates climate change action and finance.

Sustainable development finance (SDF): Not in common usage; a term we use in this paper to describe those aspects of DC that are financial i.e. involve cross-border financing in the public interest.

ODA (official development assistance): The term given to a carefully defined subset of SDF delivered by countries belonging to the OECD's Development Assistance Committee (DAC) and their proxies.

Aid: An imprecise term, sometimes used interchangeably with ODA, but also including financial transfers of some non-DAC countries.

South-south cooperation: Development cooperation between two or more non-DAC countries.

Triangular cooperation: Development cooperation between three or more countries in which the money is mostly provided by one country, generally a DAC member.

Innovative financing: A term covering a broad set of sources considered new and additional to previous options. Sometimes also used to describe new mechanisms to deliver existing resources.

Climate finance: Finance spent on the mitigation of or adaptation to climate change. Includes domestic and international sources, from both private and public sectors.

Policy coherence for development: A situation in which domestic and foreign policies of a contributor to development cooperation support rather than undermine the objectives of that cooperation.

Resources: While sometimes used to mean "financial resources" we think it is important to separate the financial from other available resources for international cooperation, be they human or in-kind.

Global Partnership for Effective Development Cooperation (GPEDC): A structure which emerged from the Fourth High Level Forum on Aid Effectiveness in Busan which seeks to improve the effectiveness of aid and development cooperation.

1. Defining development cooperation

The importance of international cooperation to support the achievement of the next set of internationally agreed goals – both those set for national-level achievement and global scale objectives – is obvious. Many goals will be impossible to achieve without joint-working and partnership. This explains the renewed call for a "global partnership for development" in which all relevant actors play their part in achieving progress.

However, while teamwork is clearly required, there is not yet clarity on the nature of the proposed "partnership", nor how it would differ from other "global partnerships". Terms such as "enabling environment" and "means of implementation" are in frequent use but, again, lack definitional clarity. In fact, the very term "development cooperation" can mean different things to different people. In this section we seek to shed more light on the role development cooperation could play in achieving the post-2015 goals.

1.1 Global partnership for development

The term "global partnership" has a long history, especially within the UN. Since the turn of the century it has been used as part of the Millennium Declaration to describe the attempt by countries and other actors to achieve the MDGs by the target date of 2015 (MDG8). In current UN documents, most notably the report by the High Level Panel on post-2015 (1), a "new" global partnership is called for. This partnership would consist of entities well beyond national governments including subnational governments, regional and international institutions, civil society, private sector, foundations and philanthropists, the scientific and academic community, and indeed the public at large. It is thus still quite a vague catch-all term risking a lack of substance.

There are, of course, many other global partnerships, including on oceans and education – the phrase is quite common in a number of fields. The most similar to the proposed post-2015 global partnership is probably the recently formed Global Partnership for Effective Development Cooperation (GPEDC), which is an evolution of the Paris-Busan process on Aid Effectiveness and calls itself the "Global Partnership" for short (2). In an attempt to move beyond a limited focus on aid, and to engage non-DAC donors, the Fourth High Level Forum on Aid Effectiveness in Busan announced this new "global partnership" to continue the work of making aid, and development cooperation more broadly, more effective. There are likely to be substantial overlaps between the work of the GPEDC, which is located largely in the OECD although with continuous interaction with UNDP, and UN-located universal development cooperation initiatives, which are broader in scope and reach.

A note on the term 'partnership'

While optimistic stakeholders have a tendency to proclaim "partnerships" at a global level, it is important to be clear on the real nature of such constructs. Successful partnerships must have[2]:

a) clearly specified objectives agreed by all the partners,
b) ideally with allocated roles and tasks,
c) and preferably some mechanisms to ensure compliance.

This implies that partnerships are more likely to be successful when there are a relatively smaller number of goals and, perhaps more importantly, a smaller number of partners, who share a genuinely common agenda and can hold each other to account. The concept of a "global partnership" may therefore be something of an oxymoron, given the diversity of views of the various countries involved, not to mention the attempt to bring actors as diverse as radical civil society organisations into the same "partnership" as large multinational businesses.

1.2 Enabling environment

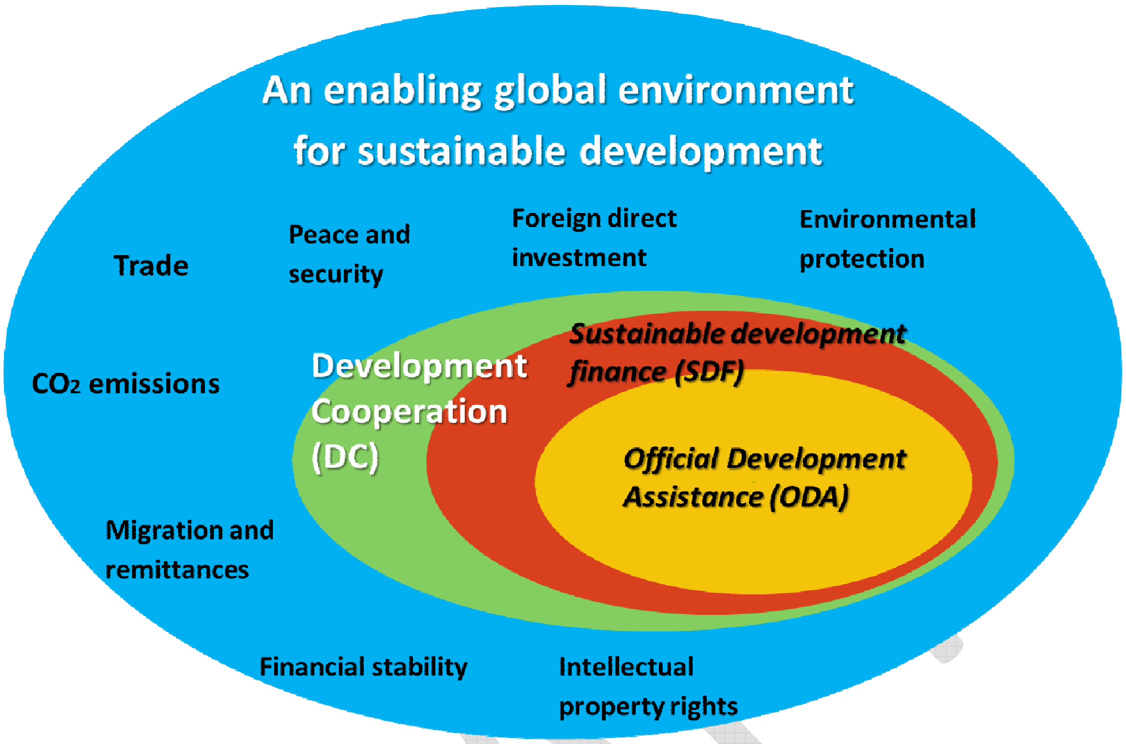
The phrase "means of implementation" has become post-2015 and Rio jargon but it simply means exactly what it says i.e. the means, broadly understood, with which the goals will be implemented. Another common and related phrase emanating from the Monterrey Consensus (6), and picked up by the Post-2015 HLP, albeit it somewhat loosely, is the need to create a "global enabling environment" for the achievement of the post-2015 goals.

It is acknowledged that the MDG era emphasised, probably too much, the role of aid in achieving the international development goals. There is a broad consensus not to make that mistake again. Thus the creation of an "enabling environment" means getting the policies, regulations and institutions right at a global level so that progress can be made at a national and local level, on areas as diverse as intellectual property rights, data collection, carbon emissions, tax evasion and the proper regulation of foreign trade and investment. The Monterrey Consensus, and more recently the increasing number of discussion focussed on domestic resource mobilisation, also insisted on a greater focus on a <u>national</u> enabling environment.

The enabling environment is presented graphically in Figure 1, where development cooperation (including financial and non-financial interventions) is only one part of a much broader enabling environment for change. This diagram is a very simplified depiction of a selection of the many elements required for an enabling environment and does not seek to prioritise them.

[2] Specifications of participants' rights and obligations, transparency, limited numbers (from both cost and benefit perspectives) and effective sanctions against free riders have long been recognized as requirements for successful collective action. By extension, they apply to action-oriented "partnerships". See e.g. Olson (1965) and for recent applications to development cooperation Ostrom et al (2002) and Barder (2009) – (3, 4, & 5 in reference section).

Figure 1: The place of development cooperation within an enabling environment



One logical consequence of this is that any post-2015 settlement will need to be cemented by a Monterrey-style consensus which sets out credible undertakings to deliver global action on this wider front. Within this new consensus, commitments to continue to improve the quantity and quality of development cooperation should presumably take a more modest, albeit still significant, supporting role than they did at Monterrey in 2002 (6). Any attempt to boil the bigger challenge down into a narrow "pledging conference" would at best fall far short of the bigger prize. At worst, it could degenerate into an unproductive debate on burden-sharing metrics across very different categories of actors, given that there is no solid basis of agreement as yet on what principles should be followed in counting public resource contributions.

1.3 Development cooperation

An important part of the enabling environment will be development cooperation. In the past (especially in Spanish) development cooperation has been more or less synonymous with financial cooperation, or aid. However, in current usage, the term is in danger of stretching to cover a large range of activities between countries and other entities that contribute to development such that it is not always easy to delineate precisely what counts as "development cooperation" and what counts as creating a global "enabling environment". This definitional problem matters because attempts to work together on development cooperation risk failure if their scope is too large, seeking to cover too many aspects of the development conundrum, and therefore failing to achieve significant progress in any of them.

In our definition, development cooperation implies a specific transfer of resources to support development in another country or region, or in support of global public goods. These resources will often be financial but, increasingly, technical capacity building and technology transfer is offered in kind, especially by the emerging providers (south-south cooperation). Non-financial components may increase in importance as the economic situation in many recipient countries improves. Cooperation carried out by non-state actors such as foundations and NGOs also comes into our broad definition of DC. Figure 1 shows how we locate development cooperation (DC) within the broader enabling environment. Note that this definition would exclude those parts of ODA that are spent in the contributing country.

Thus, for example, improving the terms of trade for poorer countries, reducing carbon emissions, or changing legislation to better regulate the financial system may be crucial to building the enabling environment to achieve the post-2015 goals, and may require a high-level of cooperation between nations, but would not be described as "development cooperation" *per se*. On the other hand, the sharing of resources (financial or otherwise) to help other countries reduce carbon emissions, or improve legislation, certainly would. There are, in practice, a number of blurred lines between development cooperation and attempts to improve the global enabling environment in which development agencies are often heavily involved, sometimes known as the *policy coherence for development* agenda such that domestic and foreign policy supports development cooperation efforts. These overlaps are inevitable – the resource transfer test is a useful but imperfect shortcut.

1.4 Financial cooperation

An important part of development cooperation is financial, of course, and includes ODA, ODA-like flows from non-DAC countries, other and arguably less concessional official support (including what is formally identified as Other Official Flows, OOF) and financial assistance from international NGOs and, increasingly, from private foundations and individuals.

As with development cooperation more broadly, defining what should be categorised as financial cooperation for sustainable development is challenging and has got harder in recent years. The lines between financial and non-financial cooperation are blurred. All cooperation needs to be funded, but some is not monetised. In fact about 20% of ODA is technical assistance, which usually means external consultants being paid to support or help build capacity. Many southern countries engage in this kind of activity without monetising it (i.e. absorbing the cost in salaries and ministry budgets rather than imputing it to a cooperation budget) and there are on-going discussions as to whether monetisation would be beneficial.

Terminology has been dominated for decades by the OECD's ODA definition, which has itself become synonymous with "aid". But the OECD is itself reassessing this definition, which has long been criticised for its somewhat arbitrary definition of concessionality, among other things (see Box 3 below).

A complicating factor in recent years has been the emergence of climate finance as an important new paradigm but under a different international process. On the one hand, some of the rhetoric associated with international public climate finance (a subset of the overall climate finance envelope) is useful, implying a shift from gift to obligation and new governance structures with more power in the hands of potential recipients. On the other, we see no evidence in practice that international public climate finance yet differs significantly from ODA. In a new post-2015 framework, we propose that the same evolved structures monitor and evaluate all SDF, with a view to ensuring complementarity and reducing the burden of bureaucracy, as implied by the discussion in the following section. See Box 1 for a discussion of the fraught rhetoric of "additionality".

A new category catching all public/philanthropic development finance

We propose a broader definition that should be acceptable to all contributors (including non-state contributors) and potential beneficiaries and which brings together the various streams of financial development cooperation under one roof. A term such as Sustainable Development Finance (SDF, see Figure 1) would encompass most of what is traditionally scored as ODA but also much that is not, either because its financial terms or objectives do not fall within the traditional ODA definition or because its sources do not self-identify as ODA.

A recent ODI assessment (7)[3] identifies three criteria for a funding flow's denomination in this wider circle including but going beyond ODA:

1. It serves the public interest, broadly defined
2. It transfers resources across borders
3. It offers improved financial terms compared to purely market-based options

With regard to the "public interest" criterion, the range of accepted political motivations for development cooperation is fairly wide, with <u>enlightened self-interest</u> (in global public goods) and bilateral <u>mutual benefit</u> (in expanding and thickening trade and investment links) accompanying <u>solidarity</u> (for poverty elimination abroad). These objectives often fortunately overlap in several respects. Note that many philanthropic and civil society sources fall under the first criterion, as well as most sovereign sources.

The second criterion mainly rules out expenditure that stays within source countries on, for example, debt relief, scholarships and refugee costs. The third criterion looks at terms from a pragmatic country viewpoint and accepts that much so-called "Other

[3] The taxonomy used in the Age of Choice report cited here was "traditional versus non-traditional" flows of development finance in the public interest. It does not itself use the term SDF, but the criteria are the same and the combination of traditional and non-traditional closely approximates, in aggregate, SDF.

Official Finance" (OOF) also offers terms better than those available in the capital markets. Moreover, it is very hard to separate cleanly public expenditure with "development" as its stated objective from similar programmes designed, for example, to promote investments, which also generate development impact.

A core issue to take into account in such definitions is the incentivising nature of targets, which makes them useful, even when their boundaries are somewhat arbitrary. A definition including non-sovereign giving, for instance, might encourage countries to incentivise private (NGO and foundation giving) actors to complement their own official contributions. It is worth remembering that the original 0.7% UN target was set alongside a larger (and clearer) 1% target for whole-of-country total giving level with respect to national income.

Box 1: The end of the road for… "Additionality"

A term peculiar to the world of aid, in the context of climate financing "additionality" is the requirement that resources contributed by OECD countries to finance mitigation and adaptation be "new and additional" to development aid. The term has previously been used in discussions over debt cancellation, and is also in use with regard to "innovative sources of finance" such as international taxation and sometimes as a synonym for "leveraging" private sector contributions, discussed as such in Section 3. The climate change additionality term is ambiguous and could be variously interpreted as meaning at least that a) new international public climate spending should rise rapidly from past levels, while overall aid at least does not fall, or more stringently b) that such new spending should so rise while aid also continues to rise, as promised to meet the UN's 0.7% target.

However, there is a high intrinsic purpose overlap between adaptation spending especially, but also mitigation spending, and much other development spending: cleaner power generation or more efficient transport or higher flood dykes have obvious dual benefits, for example. Thus a majority of publicly funded climate finance is already counted within ODA. A broader SDF definition would also include a wider range of partly concessional loans for climate change. To ensure strict additionality given this overlap, a further restriction would therefore be needed that c) the portion of ODA (or SDF) that does *not* have significant adaptation or mitigation elements should at least not fall, while the part that does rises. Otherwise finance for climate change would be seen as crowding out development cooperation for other legitimate purposes.

In reality, the term additionality no longer serves any useful purpose. It is next to impossible to track and measure such baselines and changes with respect to them, particularly given that reaching the UN 0.7% target alas remains, in almost all cases (i.e. excepting a handful of European countries) a commitment that is not time bound even where still accepted in principle. The way forward looks therefore to be increased integration of MDGs/SDGs into climate-compatible development strategies, which will hopefully make the climate finance additionality issue moot at some point.

2 Allocating public resources

Balancing national poverty and global challenges

The basic logic of a "global public good" is that it offers sizeable spill over benefits beyond the single country, or even region. By the same token, it is not rational for one nation-state to pay for that benefit in full, as against relying mainly on others to do so. Left to their own devices, the sum total of national development strategies would therefore not, most likely, amount to enough action to tackle the most pressing global problems, such as climate change or health pandemics. That requires collective action and resourcing at global as well as country level.

These externalities pose a major dilemma for a global development cooperation system predicated mainly on country-owned strategies supported by SDF allocations based on poverty needs. Why might that be? The country distribution of climate change *mitigation* priorities, for instance, maps to where carbon emissions can be reduced fastest, i.e. in the highest-emitting emerging economies, like China and Brazil. There, average incomes are relatively higher and poverty rates are typically lower, and falling faster, than in many countries at lower stages of development. Their poverty gaps expressed as a share of GDP are also lower, and closing them entirely with domestic resources becomes a realistic prospect within the next 10-15 years (8) Thus there is a potential allocation tension between a primary concern with using SDF to target poverty in low-income, low growth, high-poverty gap contexts and an alternative priority to reduce carbon emissions first and foremost where this can have the greatest impact at least cost.. If the latter aim is considered paramount, and until major new global resources materialise to meet such global challenges, the balance of SDF allocations would logically have to shift toward them and away from countries in arguably greater short and medium-term 'MDG-type' need. (8)

Adaptation priorities map somewhat better to poverty needs, but not entirely: some of the more ecologically vulnerable countries are island and coastal economies that have relatively higher incomes at present. Again, shifting resources rapidly toward them is not an obvious way of ensuring greater poverty focus. The problem is also a mismatch of time horizons, as failure to provide for climate resilience now will in the longer run damage their economies and increase poverty. See Box 2 for an illustrative conundrum.

Box 2: An illustrative example – shifting DC towards CO2 emitters in Asia

To consider an extreme hypothesis purely for illustration, assume it is proven that a) Africa's very survival depends on dramatic emissions reduction in Asia, and b) moreover that Asia cannot achieve that objective absent substantial additional SDF. If so, what are the political and practical implications of an attempt to reallocate SDF away from Africa's direct needs and toward this new indirect imperative?

We do not know exactly how poverty eradication and sustainable development priorities will dovetail, including what kinds of growth and poverty reduction trajectories will be deemed sustainable for what categories of countries. Ideally the way forward to resolve such tensions is through careful integration of sustainability and allocation priorities and time horizons into a single comprehensive framework agreed by all countries, contributors and recipients.

It is hard to make the empirical case that the mere *existence* of the MDGs distorted allocation behaviour, although there is anecdotal evidence that donors increased allocations for social services much more rapidly in the first decade of the new millennium than before, coinciding with the MDGs. Since the Millennium Declaration, and over the 2005-2010 period especially, the share of a number of MDG-related areas in donor portfolios increased within rising ODA spends. This was particularly true for health and for MDG6 pandemics within health. However, precisely because ODA itself was rising quite fast, as were several SDF items not counted as ODA (such as the contributions from the Bill and Melinda Gates Foundation, or the IFFim), this boom in health assistance did not automatically detract from other sectors/objectives. The same (so far) seems to be true of climate finance, albeit at a lower level. There is moreover reason to believe that if, as is likely, ODA levels are now flatlining or falling across the board with the notable exception of the UK, such allocation tensions will become aggravated in future. There is also some evidence (9) that the direct social-spending boom phase has peaked and the pendulum is swinging away from these areas, as donors turn greater attention to, for example, private sector and growth finance as well as climate-compatible investments.

Other cross-country allocation considerations

The allocation tensions triggered by climate change financing imperatives are a special case of a more general concern with ensuring balance and equity in allocations serving a newly unified development agenda. This includes promoting adequate sectoral coverage, fairness between countries at different stages in development, and equity within countries. We have to bear in mind that there are already hundreds of significant providers of DC, including dozens of governments and large intergovernmental organisations. Most of them make their allocation choices based on sovereign processes and criteria that are at best partially informed, not necessarily influenced, and certainly not driven, by those of others. Attempts to improve coherence in allocation decisions have been limited in their success.

Self-interest, whether enlightened or otherwise, has long been a motivation behind development cooperation, as well as solidarity with poorer countries. With a renewed emphasis on global public goods, and with the rise in south-south cooperation, the range of accepted political motivations for DC is expanding, including increased talk of enlightened self-interest and bilateral mutual benefit (in expanding and thickening trade and investment links). There is a contingent risk that the focus on poverty gets dissipated in implementation, if not in the headline goals.

It is, at present, no-one's responsibility, moreover, to correct for any resulting imbalances, in the sense of egregiously under-supported countries or sectors. The thousands of non-governmental organisations which also form part of the DC landscape are no better at sharing burdens in an efficient way, and respond as much to market pressures (i.e. sources of funds) as they do to pro-development strategies. Moving forward, there would be value in an international consensus on how these situations are to be determined and monitored, with perhaps some multilateral responsibilities assigned. Multilateral development agencies have advantages in reach (geographic coverage larger than most bilaterals) as well as in legitimacy, transparency and (relative) freedom from political interference in allocation decisions (10). The OECD has sensibly proposed a "watch list of under-aided countries", a modest first step to resolving this problem (11).

In terms of achieving equitable distribution across countries at different incomes, poverty incidence and human development levels, there may be no substitute for each source prioritising its scarce resources, by which we mean the grant element, not the face value of SDF. More creditworthy countries (generally but not always corresponding to higher-income thresholds) should have greater loan access and vice versa. Some sectoral applications (such as cash-generating infrastructure) are also intrinsically more suited for loan instruments, within a given country creditworthiness context. Even if a country is creditworthy, however, it is worth noting that such instruments could lead to higher and at times unsustainable levels of debt.

Upper-middle-income countries that still have large absolute numbers of their citizens living in poverty pose a particular global policy problem. There should be no rigid cut-off for DC (or SDF) based purely on income per capita thresholds. All but a few countries will shortly have crossed the somewhat artificial LIC-MIC line (as an inexorable consequence of sustained growth), and therefore there may soon be as much variation in needs within, as across, these categories. However, it remains reasonable to link allocations to both the fiscal capacity and determination of a country to close most of its own poverty gap, and the likelihood therefore of external contributions still making a significant difference.

3 Leveraging private resources

The first international conference on Financing for Development in Monterrey in 2002 (6) was visionary in several respects, not least by legitimising an expansion of the scope of development finance into arenas well beyond “aid”, which have since loomed progressively larger in the cooperation agenda: notably, *domestic resource mobilisation* efforts, migrant *remittances*, private *philanthropy,* privately managed but publicly encouraged *trade and foreign investment* flows, and the now topical area of reducing *illicit capital flows* and tax evasion. To this core list we can add *climate change finance,* which is predominantly private and domestic, but also has major public international components, as discussed above.

SDF is only a small subset of these broader finance flows even when SDF is inclusively defined to going beyond ODA-terms aid and encompass multiple sources and instruments as we propose. It is fast becoming common ground that the judicious use of SDF should therefore mobilise that broader set of resources, rather than operate as a standalone tool. A paper prepared for the DCF 2014 Switzerland Symposium by the Elcano Institute (12) delves much more deeply into these issues – we restrict ourselves in this section to a reflection on the difficulty of measuring and monitoring such a use.

A major caveat (sometimes ignored in this discussion) is that the global aggregates mask a sharply differentiated landscape across countries. Fragile states and LDCs without large mineral resources, in particular, face far more limited and volatile access to wider domestic and market-based flows, and correspondingly greater dependence on narrower, aid-like SDF, especially in the face of global shocks (13). This holds true for the skewed geographic concentration of global FDI, as well as for those of migrant remittances and climate change mitigation opportunities. All of these distributions typically favour larger middle-income countries, which also tend to have better-developed tax systems. So within any broader basket of development resources, there is a need for SDF to act more as a balancing-wheel, and compensate to some extent the cross-country inequalities that these other flows tend to reinforce.

Thus, political attention is being paid to how public action may help mobilise these larger resources as well deliver resources directly into developing country contexts. For example how can:

- national tax collection efforts be galvanised;
- transfer costs of remittances be reduced;
- tax shelters be dismantled; and
- public-private infrastructure partnerships constructed.

This would be achieved through the effective application of scarce SDF, in cash or kind, as an adjunct to private and domestic efforts and international regulatory action. Not all of SDF would necessarily need to be spent in this way to "crowd in" other flows, but considerably more than is presently the case.

But a note of caution. Terms such as "leveraging" or "catalysing" are positive-sounding and in-vogue – who would not wish their actions to be seen as "catalytic", or to "leverage" others as much as possible? But they are opaque and contain conceptual and measurement pitfalls (14). On the measurement side, what should we count as the leveraged amounts? If a unit of SDF buys a small equity stake or a guarantee for some risks on some loans in a 100 unit financing package, do we claim credit for all 100, or only for a smaller portion? There is no international consensus yet on how to do this – see Box 3 for a brief explanation of how "concessionality" works in ODA and how it might evolve under a broader SDF framework.

Behind this technical ambiguity also lie serious policy concerns. These are best illustrated by another thought experiment: is it better to contribute 1 unit of public for 99 private, or 1 public for 9 private (the arithmetically less leveraged option)? Part of our instinctive response is to challenge whether the 99 would not have occurred on its own, or put differently, whether it is credibly triggered by the 1. If the answer to the triggering question is no, then public money merely subsidises, but does not leverage, private resources. Putting that question to an evidence-based test is however very hard, as we rarely have a direct counterfactual comparison to hand, in which a similar investment is being considered without public participation and we can tell the difference. Usually these are package deals, with private and public participation effectively co-determined. One partial solution, used for example to assess DFI impact (15) is to simulate private investment at the macro level with and without such external public engagement.

Part of the way forward must be to have a much better international understanding of how to define leverage, giving full credit where it is due but not to opening the floodgates for subsidies tied to national sources, which could be a highly ineffectual form of SDF. In the absence of such a consensus, a healthy scepticism is warranted in this area.

Box 3 – Evolution of a confusing concept… "Concessionality"

At one level, the question of whether and how to count official loans in or out of ODA or any other SDF definition is purely technical. Discounting tools allow us to compare supposedly concessional loan profiles against relevant benchmarks and show the present-value of any difference (grant element). This enables us to add up apples (pure grants) with apples (grant element of loans), source-by-source and country-by-country. The current ODA shortcut, whereby if the grant element is 25% or higher, the whole of the loan counts, and if lower than 25%, none of it does, is misleading. So is its equally arbitrary use of a universal 10% discount rate, especially when international market reference rates are far lower.

Such quirks reduce the credibility of the contributions claimed by some sources and tend to encourage inflation of aid <u>effort</u> figures and/or hardening of terms to the limit allowed by such scoring rules, not what borrowers need or can afford. The way forward is to seek international agreement on improved definitional standards, but that will not come easily, as these thresholds are politically sensitive for a few institutions and of no pressing concern to many others.

Perhaps more relevant to the post-2015 discussion is the subtler question of whether SDF <u>impact</u>, for any given effort level, could be improved by ensuring there is a broader spectrum of loan terms on offer to countries that need them. This could include some from multilateral agencies that are effectively market-based, yet better than some borrowers can obtain on their own, if they have effective access at all.

Hypothetically, countries could even be offered a grant element envelope by their official lenders and then choose more freely within that limit (and their debt sustainability prospects) how much to draw down as pure grants versus pure market-terms loans and everything in between. Such flexibility may improve development impact (for example by front-loading larger nominal amounts where appropriate) compared to the current formulas, which tend to be fixed within country income bands. The arguable downside is that such diversity indirectly encourages less sustainable debt behaviour, but that runs contrary to huge improvements in debt management by many developing countries over the past decade.

4 Managing development cooperation

In section 1 we located the role of development cooperation (DC) within the broader enabling environment required for progress and in turn located financial cooperation (SDF) within DC, the largest component (though not always the most important). Then, in sections 2 and 3, we discussed two of the biggest challenges to DC in the coming era, allocation of public resources and attempts to leverage private resources.

The implication of all three preceding sections, which we sometimes made explicit, was the need for an evolved and improved framework for managing complicated flows of resources in a coherent and complementary manner. However, it must be recognised that to date no attempt at doing so has been successful, even in an era significantly less diverse than today's, where the number and type of DC provider has increased rapidly, and the complex objectives behind DC contributions are more openly understood.

Fragmentation of development cooperation
According to ODI's estimates (7) the non-traditional component of SDF (all new sources, plus some ODA through non-traditional channels like climate funds) grew from 8% of the total in 2000 to 30% in 2009, i.e. a much faster growth rate despite the intervening "boom years" of ODA (Figure 2). Moreover if most OOF (net of repayments) were included, the overall total would rise to over USD200 billion and the non-traditional component to over half (Figure 3). Obviously the scale of official export and investment finance, not included in OOF, would dwarf that in turn.

Figure 2: Rapid increase in "non-traditional" SDF, OOF <u>not</u> included.

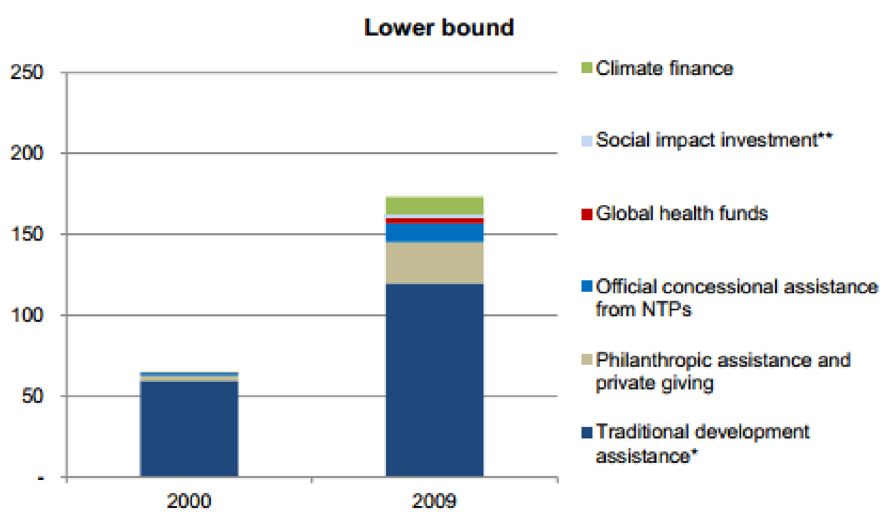
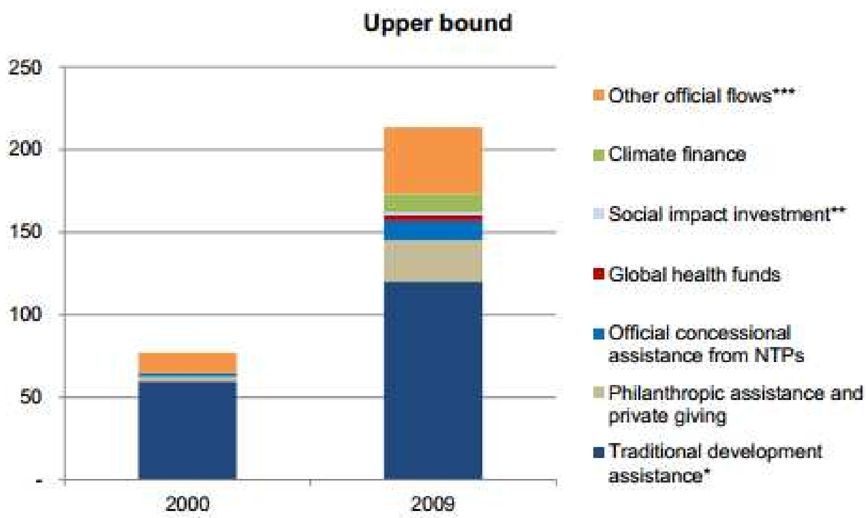


Figure 2: Rapid increase in "non-traditional" SDF, OOF <u>included</u>.



Complex objectives of development cooperation

Crucially, it is more than likely that national policy priorities would generally outweigh international allocation mechanisms just as they have in the past – development cooperation is often wrongly glossed as a gift, rather than an integral part of foreign policy. In a multipolar world in which power is shared more broadly between nations, DC is likely in some circumstances to be part of the increasing scramble for scarce natural resources, as well as a counterbalance to it. The multilateralisation of DC can increase its global good objectives, whereas bilateral DC should be seen as much as an investment for the contributor economy as a contribution to global welfare.

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The question therefore presents itself whether a further attempt to corral a much larger grouping under a somehow-manageable "global funding framework" is a sensible use of energy and time. The answer to this question depends, of course, on the proposed scope and ambition of such a framework.

In our view, an attempt to build a universal funding framework that actually seeks to allocate DC as a whole is not realistic. Given the growing diversity in objectives, terms and fragmentation in delivery channels such an attempt would likely end up juggling with semantics, without necessarily influencing the way DC operates in practice. Development cooperation simply will not follow globally agreed allocation norms – the question therefore is how to inform better, incentivise as far as possible, and fill in gaps where appropriate.

Furthermore, a risk of attempting a force-fit of all providers to all needs, especially in a "grand design" of a universal financing framework, is that many or most feel under-valued for what they do best and pressurised to do things that they have much less knowledge and/or interest in.

Rather, the way forward must be to encourage a differentiated set of contributions, incentivising them to be as publicly-spirited and complementary as possible. As Barder (5) has pointed out, the DC landscape is not a market, because providers are not subject to the usual market disciplines on, for example, exit, and nor can it be run as collective action proposition, because there are far too many players, multiple objectives and no disciplining authority. So this is about networking, with governance institutions focusing on providing good-quality information and as stringent a sense of communal objectives as possible (i.e. the post-2015 framework). Clearly the question arises what a light governance structure would look like, and whether a host of bilateral strategic priorities could be corralled into a set of common principles to frame it?

Better metrics

With regard to aggregation, DC cannot be added mechanically to reach a given, somewhat artificial, headline figure. For example, the financial budgets of South-South cooperation (even where fully monetised) obscure the knowledge transfer and trade links embedded in it and should not be mechanically compared with DAC aid. Foundations and NGOs should also be included in DC, but avoiding double counting is complicated by the inter-flow of resources between parties. It is clear that the ODA concept, whilst remaining useful as a benchmark for historic commitments by DAC members, will most likely never be adopted by many others, and therefore needs to be complemented by other, broader measures, which non-DAC providers need genuinely to “own” and be willing to report, first domestically, and then internationally.

In our view, it would be foolhardy to open up discussions on international burden-sharing responsibilities when so many of the necessary metrics, and agreed data standards, are lacking. For example we have suggested that there are critical missing definitions concerning, among other key concepts including leverage, additionality (especially in the climate change context) and concessionality. The way forward may be to use the Intergovernmental Committee of Experts on Sustainable Development Financing (16), with support of other bodies, to fast-track a core set of sensible definitional improvements that would help frame, and provide consistent accountable measures for, any new commitments that are sought in fulfilment of the post-2015 framework. This is urgent, as the first skirmishes of what might otherwise be a chaotic set of “pledging events” are just around the corner.

Improved division of labour

Experience shows that collaboration can lead to drawing out the best from different contributors. Thus, discussion of the practical implications of the above discussion for different key categories of actors is a priority, including for:

- Direct and indirect DC contributors, such as: DAC and non-DAC bilaterals; the multilaterals (banks and non-banks) they sponsor; global funds; and foundations.

- DC recipient countries (some of whom are also contributors), differentiated by country type
- Monitoring, accountability and norm-setting structures, including UN and regional

The involvement of each actor needs to be approached from the perspective of opportunity and effective division of labour: how might their unique strengths be drawn upon so as to maximise their collective impact? What might some potential risks and how they might be mitigated? In a previous paper (17) we have set out ideas for universally applicable norms for development finance that might be acceptable to all parties and thus more useful than the ten GPEDC norms that have struggled to find acceptance in UN-wide discussions.

The language of "common but differentiated responsibilities" is useful up to a point, but implies that DC is a "responsibility", which is only partially true – the investment opportunities associated with much modern DC should ideally be acknowledged explicitly. It may be more useful to assess which different aspects of DC (multilateral, foundations and NGOs, along with some proportion of bilateral) are most likely to be conducive to mitigating the national-interest-inspired objectives of other aspects (large amounts of bilateral DC).

At the recipient level, the relevance of different types of DC to achievement of the post-2015 goals varies with country context with some countries having, as we have seen, greater vulnerability to shifts in non-DC resources, or chronically restricted access to them, hence greater dependence on DC. Those countries lacking a natural resource base that might be converted, for example, into accelerated infrastructure investments via pledges of future mineral off-take are of particular concern. There may be groups of actors better suited to redressing such imbalances, for example among multilateral development institutions.

5 Recommendations

In this paper we have sought to cut through some of the conceptual ambiguities in the complex field of development cooperation to provide some solid building blocks for a new and realistic model. Ultimately it will be for UN member states to decide how they move forward collectively, along with, we hope, the major private DC providers which are growing ever more important. In this final section we briefly summarise our main recommendations to those whose responsibility it will be to consolidate the role of DC in the post-2015 era.

Recommendation 1: Agree on an operational definition of development cooperation

We have identified lack of clarity about the content and role of development cooperation as an actual and potential barrier to moving forward collectively. While ambiguity is sometimes a useful tool in major international norm-setting, we argue that it has outlived its usefulness in the field of development cooperation. Official development agencies in particular should set out their primary responsibilities, as well as engaging on a range of other important topics with other actors to ensure policy coherence – Table 1 sets this out in simplified form, with relation to Figure 1 above.

Table 1: Clarifying the responsibility of development agencies

Issues and activities	*Responsibility of development agencies*
Development cooperation	Directly responsible
Broader enabling environment	Responsible for advocating policy coherence

Recommendation 2: Improve metrics covering sustainable development finance (SDF) via an inclusive process

Discussions are underway in the Development Assistance Committee of the OECD about changing the definition of ODA, and to some extent in the Intergovernmental Committee of Experts on Sustainable Development Financing. Such discussions should be significantly broadened to cover all SDF as a contribution to post-2015 progress. Only when there is substantially more clarity on a range of metrics and definitions is it sensible to engage in building a framework of incentives, and that will only be possible with the full involvement of all DC contributors and recipients, not just those associated with the OECD-DAC. As definitions become more consistent, without being prescriptive, data will become more universally useful. Equally, without broader consensus about the terms “leverage”, “catalytic” and “concessional” the area will remain something of a black hole in terms of high-quality and easily accessible data. SDF contributors could consider demarcating different pots of money and be much clearer about what proportion of their resources is delivered directly as opposed to in partnership with private and non-profit channels.

Recommendation 3: Agree on a central institution to provide light supportive governance for development cooperation

Attempts to actively manage bilateral and private DC will continue to have only limited success given the national interests/constraints and market forces at work. However, monitoring and pressure can play a role in enhancing the developmental character of DC, and mitigating negative impacts. We therefore propose a light governance structure located in a single institution. Such an institution must be both legitimate, implying that it should be UN-centred, and effective, implying that it should a) attract the best expertise from around the world and b) set itself tasks commensurate with a politically and technically complex field. It should play some role as referee when required, but mostly engage in continuous monitoring of activities and performance, identification of data and real resource gaps, and objective-setting. Political momentum must also be sustained, which is where an annual report to a senior political audience may prove useful (see recommendation 4).

Recommendation 4: Begin an annual global report series on development cooperation

We have been clear that DC is only a part, albeit an important part, of the overall global enabling environment for sustainable development. As such it merits its own report to feed in annually to the overall post-2015 monitoring framework (the HLP on post-2015 (1) suggested consolidating multiple reports on development into one Global Sustainable Development Outlook reviewing how well the post-2015 agenda is being implemented). Such a DC report, which should draw effectively on all the major data and analytical institutions (UN, Bretton Woods, and others) should discuss all types of development cooperation (including climate finance) from the perspective of contributors and recipients, and be presented to politically accountable bodies.

Recommendation 5: Don't give up on promoting more delivery through multilateral channels

We have discussed in this paper the allocative problems associated with a field of development cooperation with ever more actors and objectives. We do not believe it is realistic to envision an over-prescriptive framework for DC – ultimately the reality of bilateral incentives will dominate. But an increasing proportion of DC managed by multilateral bodies will somewhat mitigate these tendencies and make it easier to ensure that global public interest, not just national interests, are paramount in DC spending. We realise however that there is entrenched resistance, based on the weaker influence national interests perceive they can exert on them, to increasing the multilateral share of SDF, and indeed this share has been slowly but steadily eroding for many years (10). The behaviour of the emerging SDF providers in this respect will have a strong signalling effect.

Recommendation 6: Integrate private/NGO sources of development cooperation more fully

While sovereign states and their intergovernmental institutions will rightly always be the bedrock of DC governance, the increasing importance international NGOs, international civil society, and private foundations seeking the common good implies that any sensible framework should integrate such actors to some extent, commensurate with their size and importance. This connection could also help maximise the development contribution of the fast-growing class of institutions known as “social enterprises”, or businesses using private sector models to deliver innovative social outcomes.

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