

## Policy Brief No 3:

### Aid reform and the changing landscape of international cooperation

Today's changing aid landscape features a widening variety of governmental players (including some that both receive and provide aid) regional organisations, global funds and initiatives, foundations, corporations and civil society organisations. Interest and activity in 'South-South' and 'triangular' cooperation has been growing rapidly, as has engagement by regional and local authorities. At the same time, there is a greater awareness of the important forces that drive development, forces well beyond the realm of aid, such as trade, investment, and workers' remittances.

#### New diversity and new challenges

The wider range of sources and types of development aid is welcomed as expanding both the resources and options available to partner countries. At the same time, many of the Evaluation's country reports and a special study have noted a critical lack of transparency and reliable data about many of the growing, non-traditional forms of aid.<sup>1</sup> It is roughly estimated that the global total of flows of aid not yet covered by the Declaration is about US\$28-US\$29.5 billion annually. This compares with aid from OECD/DAC sources at about US\$125 billion.

The substantial role of these non-Declaration aid providers points to an even greater need than before for transparent information, coordination and harmonisation since the number and diversity of actors, especially civil society organisations, is widely reported as increasing 'transaction costs' for aid receiving countries.

Assistance to developing countries to combat climate change is a major and growing feature of international financing flows, potentially coming to rival traditional aid or Official Development Assistance in size. It has many different strands and a great deal of further negotiation and institution-building to go through. It is clear, however, that these forms of assistance will create many of the same challenges as have other forms of aid – perhaps even more. Yet there has been very little coherent thinking or planning about adapting and applying lessons and good practices in effective aid to these new financing flows. Different institutions are involved in both partner and donor countries and internationally, and only the first tentative discussions have begun on how to anticipate and manage concerns about effectiveness. This is a

<sup>1</sup> Aid is mainly distinguished from other types of international financial flows by its concessionality or grant element and a developmental public purpose.

critical issue of policy coherence and merits major attention at senior levels in the coming months.

In another area of growth - South-South cooperation - focusing on financial flows does not capture or reflect some important dimensions of these relationships. They are understood to be strongly based on knowledge exchange between partner countries, sometimes also bringing in multilateral organisations and traditional donors in particular "triangular" roles. The High Level Forum in Korea is expected to receive extensive information and analysis on South-South cooperation. The Forum may also offer the opportunity to define better the boundaries and dimensions of various types of cooperation that are sometimes loosely grouped under this heading, and thus enhance understanding and transparency as a basis for its further development.

**Conclusions:** Development cooperation actors, relationships and arrangements have multiplied and taken on diverse forms, many based mainly on normal interests in international relations. Where existing and emerging forms of development cooperation aspire to the mission of development assistance, the principles and norms of good practice elaborated - and now tested - in the Declaration reforms can offer a sound and transparent basis for their effectiveness. By applying and adapting these disciplines, new forms of development assistance can avoid repeating past errors and painstakingly negotiating new ways to ensure quality.

#### Aid and other resources for development

The Evaluation highlights that, in all countries, aid is only one factor in development, among many powerful drivers, obstacles and resources.

This is not new. Domestic enterprise and revenue generation, bolstered by foreign trade and investment have always been the main engines of growth, and a wide range of other factors can determine success or failure. Even today, however, when private capital flows are the main source of international development financing in global terms, they are still overwhelmingly concentrated in middle income and a few low-income developing countries.<sup>2</sup> For most low-income countries,

<sup>2</sup> From the 1970s to the present, an average of 70 per cent of global Foreign Direct Investment to developing countries was concentrated in 10 middle-income countries. Over the same period, low-income countries received an average of only 4.2 per cent of Foreign Direct Investment net inflows.



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therefore, aid still has a crucial strategic importance for their development.

Two major factors are new in this global picture of development resources. One is the recognition of the vital importance of the enterprise sector in economies, with new areas of dynamism in many countries and a general drive to stimulate private sector development. This creates concerns to avoid “crowding out” private sector activity with aid to the public sector, and to seek ways to catalyse private sector growth, beginning with creating an enabling policy environment, and the essential social, legal and economic infrastructure for growth. One reflection of the new approaches in aid is the growing interest and activity in “aid for trade” in many regions. It should be noted that the analysis conducted so far on these types of aid finds very similar challenges in ensuring effectiveness to those in more established programme areas.

The wider understanding of what drives development points to the need for more realistic expectations on both sides of aid relationships, including the need to accept and manage risks, and to maintain openness to learning. At the same time it calls for more targeted aid contributions in areas where aid can add the most value in helping generate broad development results.

The second important new trend is the rapidly increasing global presence and activity of emerging economic powers and actors, including private, state and parastatal enterprises, alongside official development cooperation activities of various kinds. Many of these involvements are based on normal economic and political interests in international relations, without distinguishing the special attributes of development assistance. This pattern is similar to the early decades of aid from Western countries driven by political and commercial interests. The resulting problems led to agreed norms for defining, quantifying and setting quality standards for aid, such as “untying” procurement from donor suppliers.

Better policy coherence will be critically important. This is the case for both partner countries and aid providers. It applies especially in the face of new challenges such as the need to ensure the effectiveness of climate change and other new sources of development financing. Aid providers need to work towards greater coherence – as a group; individually across their different policy areas which affect development; and in several cases even within their own internal aid systems.

## Recommendations

With a modest number of refinements and adaptations, almost all of the 56 commitments of the Declaration – beginning with those that increase transparency - have proven valid and useful as basic norms and disciplines in virtually all forms of international support for development that have a concessional or grant element. They have started to yield improvements and have also attracted the

interest of aid providers operating outside the Declaration framework, stimulating a lively global debate about improving the effectiveness of all development cooperation efforts.

Important evidence has emerged in the country studies and the overall Evaluation on the distinctive roles and challenges in the work of a wide range of providers of aid and other development resources. These include: national and international civil society organisations; providers of concessional finance that have not yet endorsed the Declaration in that capacity (governments, global programmes, foundations and philanthropic organisations and private sector actors); as well as participants in regional, South-South, triangular and other forms of development cooperation, including lending and investment, which may or may not involve concessional resource transfers.

Several of these groups of actors have been engaged in parallel effectiveness efforts, and in the case of civil society organisations, have undertaken to report at the Busan Forum. It would greatly enhance the value of this global forum if others were to participate fully as well.

In the meantime, while it is beyond the mandate of this Evaluation to recommend specific actions to these other groups, it is important to stress that the evidence strongly indicates that all the recommendations made to traditional providers of aid and partner countries endorsing the Declaration are also relevant to all other actors. They will bring their own perspectives and experience to any wider global discussions and agreements. But it is clear from the evidence in a good number of country evaluations that without their engagement and cooperation, the benefits of aid and aid reforms to developing countries will be greatly reduced. Hard-won progress toward transparency and harmonisation could be reversed or new cycles of bad practice triggered. Furthermore, there are important areas identified where their own work would definitely benefit from the recommendations emerging from the Evaluation.

**Recommendation:** Those already endorsing the Declaration should work to extend the aid reform gains to all forms of international cooperation.

The unprecedented coalition in the international campaign for more effective aid and the most important improvements achieved now needs to be further widened to engage other forms of aid and other actors with their own approaches and innovations. This includes cooperation in fragile and humanitarian situations, new forms of support such as climate change financing, and the concessional development cooperation of providers now working outside the Declaration framework and parts of non-governmental, regional, South-South and ‘triangular’ cooperation.

