CENTER FOR GLOBAL DEVELOPMENT

THE FUTURE OF OFFICIAL DEVELOPMENT ASSISTANCE: INCREMENTAL IMPROVEMENTS OR RADICAL REFORM?

Masood Ahmed, Rachael Calleja, and Pierre Jacquet, editors

CENTER FOR GLOBAL DEVELOPMENT
2055 L Street, NW Fifth Floor
Washington, DC 20036

1 Abbey Gardens
Great College Street
London
SW1P 3SE

www.cgdev.org

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Any omissions, errors, or misreports are unintentional, and the authors' own.

List of Contributors

Bård Vegar Solhjell is director general at the Norwegian Agency for Development Cooperation (Norad). He previously served as Norway's minister of education and as minister of the environment and secretary general at World Wide Fund for Nature (WWF) Norway.

Gerardo Bracho is a Mexican diplomat specialising in development cooperation and an associate researcher at the German Institute for Development and Sustainability (IDOS). He is posted to the Mexican Delegation at the OECD, and he served as deputy director general at La Agencia Mexicana de Cooperación Internacional para el Desarrollo (AMEXCID) and as senior adviser at the OECD Development Assistance Directorate.

Dr Håvard Mokleiv Nygård is director of knowledge and innovation at the Norwegian Agency for Development Cooperation (Norad) and previously served as research professor and research director at the Peace Research Institute Oslo.

Dr Homi Kharas is a senior fellow in the Center for Sustainable Development at the Brookings Institution in Washington, D.C., following almost three decades at the World Bank, where he served as chief economist of the East Asia and Pacific Region after the 1997 regional financial crisis.

Jean-David Naudet is an economist and statistician responsible for research at the Agence Française de Développement (AFD) and is the author of several books and articles devoted to the analysis of development aid issues.

Jean-Michel Severino is a senior fellow at "Fondation pour les études et recherches sur le développement international" (FERDI), a board member of Overseas Development Institute (ODI) and a member of l'Académie des technologies. He is an investor in African start-ups and SMEs as the chair of Investisseur et Partenaires (I&P), a former CEO of the Agence Française de Développement (AFD) and a former vice-president for East-Asia at the World Bank.

Jérémie Daussin-Charpantier is a senior expert on development finance at the Agence Française de Développement (AFD). Prior to that he held senior management positions in major French cities. At AFD, he served as a local finance and decentralization expert and as deputy director of AFD Tunisia. He then joined headquarters as deputy executive director of strategy, partnerships, and communication.

Jorge Moreira da Silva is the UN under-secretary-general and executive director of the United Nations Office for Project Services (UNOPS). He previously served as director of the OECD's Development Co-operation Directorate. He also held roles as senior environmental finance adviser and programme manager on climate change innovative finance at the United Nations Development Programme (UNDP) and as member of the European Parliament. He also served as Portugal's minister for the environment, territorial planning and energy between 2013 and 2016.

Dr Jürgen Karl Zattler is a development and macroeconomist working as a distinguished non-resident fellow at the Center for Global Development (CGD) and the German Institute for Development and Sustainability (IDOS) in Bonn. He is the former director-general of the German Ministry for Economic Cooperation and Development.

Dr Kalpana Kochhar is director for development policy and finance at the Bill & Melinda Gates Foundation. She spent 33 years at the International Monetary Fund in various leadership positions, and between 2010 and 2012, was seconded to the World Bank as chief economist for South Asia.

Masood Ahmed is president emeritus of the Center for Global Development (CGD). He joined the Center in 2017 following a 35-year career in economic development at the International Monetary Fund, the World Bank, and the UK Department for International Development.

Nikolai Hegertun is a senior adviser at the Norwegian Agency for Development Cooperation (Norad). Hegertun recently left his position as a doctoral research fellow at the Center for the Environment and Development (SUM-UiO) to join the project '2030: Rethinking Development' at Norad.

Dr Olivier Cattaneo is the head of the policy analysis and strategy unit at the OECD's Development Cooperation Directorate. He was previously a senior economist at the World Bank and worked in various French ministries and the French Parliament as a speech writer and political adviser.

Pierre Jacquet is the former president (2012–2022) of the Global Development Network (GDN), and previous chief economist (2002–2012) and executive director of strategy (2002–2010) at the Agence Française de Développement (AFD). He also served as a former deputy director at the Institut français des relations internationales (IFRI), a think tank dedicated to international affairs, based in Paris.

Dr Rachael Calleja is a research fellow at the Center for Global Development (CGD), and a fellow at the Norman Paterson School of International Affairs, Carleton University.

Dr Shantayanan Devarajan is professor of the practice of international development at Georgetown University's School of Foreign Service. He spent 28 years at the World Bank, where he held a variety of senior economics roles.

Dr Susanna Gable is deputy director for development policy and finance at the Bill & Melinda Gates Foundation. Formerly chief economist at the Swedish International Development Agency (Sida), she co-founded multiple networks within the OECD's Development Assistance Committee and served on the Global Council on SDG1 and the Development Committee of the Global Innovation Fund.

Dr Susanna Moorehead was chair of the OECD's Development Assistance Committee (DAC) from 2019 to 2023. She was previously a British ambassador to Ethiopia and Djibouti, UK permanent representative to the African Union, and held leadership roles at the World Bank and the UK Department for International Development.

Dr Thomas Melonio is the chief economist and executive director of innovation, strategy and research at the Agence Française de Développement (AFD). He was previously an adviser on Africa to the President of the French Republic.

Abbreviations & Acronyms

AAAA	Addis Ababa Action Agenda
AFD	Agence Française de Développement
BRICS	Brazil, Russia, India, China and South Africa. As of 2025 the BRICS membership includes: Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran and the United Arab Emirates.
COVID-19	Coronavirus disease
CPA	Country programmable aid
DAC	Development Assistance Committee
GPGs	Global public goods
GNI	Gross national income
GPI	Global public investment
IDC	International development cooperation
IMF	International Monetary Fund
LIC	Low-income country
LMIC	Lower middle-income country
MDGs	Millennium Development Goals
MIC	Middle-income country
Norad	Norwegian agency for development cooperation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PSI	Private sector instruments
SDGs	Sustainable Development Goals
SIDS	Small island developing states
SDR	Special drawing right
SSC	South-South cooperation
TOSSD	Total official support for sustainable development

UNOPS	**United Nations Office for Project Services**
UNCTAD	**United Nations Conference on Trade and Development**

Executive Summary

Masood Ahmed, Pierre Jacquet and Rachael Calleja

Over the last decade, donor country governments have faced new and additional demands for financing international challenges, including providing global public goods (GPGs) and addressing historically high numbers of refugees and humanitarian crises. They have partly done so by re-allocating their official development assistance (ODA) away from its original aim: to support poverty reduction and growth in developing countries. This has led to questions about the integrity and credibility of ODA.

These questions are only likely to grow more pertinent in the coming decade because the pressures on ODA — and on public finances more broadly — are here to stay. ODA budgets are being cut in a number of traditional donor countries and what remains is increasingly being deployed to meet emerging needs beyond traditional development and to reflect a more national security perspective on development cooperation. The time is right, therefore, to ask whether the concept and accounting for ODA need to be modified to ensure that the needy and vulnerable it was designed to serve continue to be protected in the face of fiscal constraints and changing geopolitical circumstances.

This report, a compendium on the future of ODA, aims to provide fresh thinking and inspire the action needed for ODA to remain relevant and effective. It brings together reflections and proposals from leading experts and practitioners, including the under-secretary-general and executive director of UNOPS to a former DAC chair, to inform policymakers.

In this executive summary, we will introduce the key arguments from the compendium contributors. The contributions are organised into four key areas of discussion that reflect the main themes raised in this compendium: the rationale for ODA reform, the political and institutional realities shaping reform, using ODA for climate and for leveraging private finance, and forward-looking proposals for reimagining ODA's role and purpose.

SETTING THE SCENE FOR ODA REFORM

Several authors provide an overview of the key challenges facing the development landscape. Jorge Moreira da Silva argues that despite significant changes in the development finance landscape, institutional structures and governance have remained largely unchanged. He identifies current challenges including poor coordination among funding sources (from ODA and South-South cooperation to private philanthropy and impact investing), fragmentation within the multilateral system, and the lack of coherent approaches to trade, tax, debt, and investment. To address these issues, he calls for new institutional arrangements that bring together all financing sources as well as relevant players, and tackle key aspects of development cooperation, including decision-making, rule-setting, accountability, enforcement, and learning.

ODA is facing a crisis of purpose. Nikolai Hegertun, Håvard Mokleiv Nygård and Bård Vegar Solhjell note that four emerging "ODA rationales"—poverty reduction, humanitarian aid, refugee support, and financing GPGs—are pulling the development system in multiple directions. The authors argue while a shift from a "country-based" approach to a GPG-focused agenda may be necessary, it is also disruptive. This shift requires clarification of ODA's core mission and its role in financing global challenges. The authors posit that a crucial step forward is for the OECD's Development Assistance Committee (the DAC) to adapt and "find the right balance between inclusion, relevance, and effective decision-making".

Meanwhile, Olivier Cattaneo distinguishes geopolitical, financial and systemic challenges characterising the current development landscape. Unmet commitments have eroded trust and limited international collaboration. At the same time, governments are facing unprecedented financial pressures with rising public debt, fiscal constraints, and the failure to mobilise private finance (the "billions to trillions" agenda). Moreover, the increasing complexity of the current system continues to undermine effective development outcomes. To untangle this "gordian knot" of challenges, Cattaneo proposes to revise the ODA narrative to ring-fence its core objectives in support of those most in need while using its potential at the investment margin to support crises response and financing of global public goods, reaffirming development effectiveness principles, and creating a "DAC+" framework that includes new actors to foster inclusivity, coherence, and impact.

POLITICAL AND INSTITUTIONAL REALITIES

The political and institutional realities shaping ODA are rooted in historical structures and shaped by ongoing power struggles between traditional providers, emerging powers, and partner countries. Gerardo Bracho calls for a revised international development cooperation system, which moves beyond the North-South development paradigm that currently underlies development institutions, metrics, and narratives. He argues that in today's divided international context, incremental changes towards a system that establishes a legitimate framework for burden sharing, refines the North-South divide to reflect contemporary realities, and defines metrics capable of capturing different actors' contributions, could be partly achieved through the International Forum on Total Official Support for Sustainable Development (TOSSD).

By contrast, Susanna Moorehead focuses on what drives decision making and change within the DAC, emphasising the central role of culture and politics. She notes that the DAC's consensus-driven approach, often shaped by political compromises among its members, including when deciding ODA reporting rules, helps to preserve common standards, transparency, accountability, and peer review. Looking ahead, Moorehead views reaching consensus on what ODA cannot be spent on as a key challenge for the DAC, while a broader development challenge will be to secure more and better development finance from a broader range of sources to support the SDGs.

USING ODA FOR CLIMATE AND FOR LEVERAGING PRIVATE FINANCE

The overlap between development and climate objectives is another key part of the ODA reform debate. Jürgen Karl Zattler highlights the inseparability of these goals, arguing that integrated approaches are essential to address their overlapping crises. He proposes a cost-benefit approach to identify potential "co-benefits" for development and climate. Zattler argues that while this method will require an investment in data on the national and global benefits of different projects and programmes, it would help policymakers measure the climate and developmental benefits of future interventions.

Financing development and climate action also demands rethinking how resources are allocated. Susanna Gable and Kalpana Kochhar argue that policymakers face the imperative of reducing poverty while responding to and preventing future climate change, calling for a more coherent framing of interconnected development challenges and solutions. They note that the future of ODA requires a new framework under which all countries contribute as they are able through prioritising high-impact investments, matching investments with appropriate financing, and innovating to improve productivity.

Another major concern is the need to scale up financing for global public goods without overburdening ODA. Thomas Melonio, Jean-David Naudet, and Jérémie Daussin-Charpantier's contribution focuses on the concept of leverage, whereby ODA can be used to mobilise additional private finance. They highlight the challenges underlying the "billions to trillions" agenda and advocate for a more complete and accurate measure of leverage effects, by specifying both the leverage source and target.

NEW PROPOSALS FOR REINVENTING ODA

In our introductory piece we propose the ODA reform should start by clarifying the range of legitimate purposes for countries to spend public money beyond their borders. Specifically, our proposal suggests developing a framework for engagement on three main developmental purposes: poverty reduction and economic growth, humanitarian support and crisis response, and global public goods. We believe that such a framework would safeguard resources for each goal, reducing the risk of reallocation during crises while improving accountability. For example, we advocate for treating GPG financing, such as climate action, as a separate category supported by a broader range of public and private instruments, rather than relying solely on ODA. This separation would allow ODA to remain focused on its primary mission of supporting long-term development in the poorest countries.

On another track, Homi Kharas points to pervasive gaps in the current development landscape and long-standing challenges with ODA's allocation, instruments, and impact and accountability. Kharas argues that a potential "big bet" for reform would be to establish a global fund to eradicate extreme poverty through cash transfers. Adopting this "big bet" approach, he suggests, could help to restore attractiveness and support for ODA, which is in urgent need of a success story.

Jean-Michel Severino notes that challenges with exclusive ODA management systems and measurement are opening two avenues for reform: one involving the transformation of ODA into a new global framework for financing international public policies; and one consisting of refining the current development system to improve inclusivity of decision making and address technical challenges related to ODA measurement. He suggests a combination of both paths as a potential way forward and adds that clarifying the purposes of international financial transfers would be a good first step in the process. Accordingly, he identifies three categories of flows: 1) international transfers related to "deep solidarity policies" (such as financing of assistance for refugees), 2) financing for the management of global common challenges and 3) discretionary financing for sustainable growth and convergence.

Lastly, Shanta Devarajan makes the case for the need to re-think ODA beyond a financial transfer. He argues that the underlying constraint to development is often "a lack of a political consensus for reform of policies and institutions," rather than insufficient resources alone. He suggests reimagining ODA to create and disseminate knowledge that will help to build political consensus for change. According to Devarajan, this approach would help to "relax the political constraints to national and global public goods."

A CALL FOR ACTION

Broadly, the contributions gathered in this compendium have a shared message: ODA is at a crossroads and reform is needed to balance the original mission of poverty reduction with the growing demands of global challenges such as climate change. While there is broad agreement on the need to clarify ODA's purpose, modernise its governance frameworks, and develop financing mechanisms fit to today's highly interconnected world, contributors' opinions differ when it comes to envisaging the path forward. Some advocate for incremental adjustments, emphasising cautious evolution, while others call for more radical, transformative reforms.

We hope this compendium serves as a valuable resource for both reflection and action. By pursuing innovative yet realistic reforms, strengthening collaboration among diverse development actors, and upholding accountability ODA can be successfully reformed if policymakers give it the attention it deserves.

1. The Reform of Official Development Assistance: Why It's Needed and What Should Change

Rachael Calleja, Masood Ahmed, and Pierre Jacquet

WHY IS IT IMPORTANT TO REFORM OFFICIAL DEVELOPMENT ASSISTANCE?

Most high-income countries and an increasing number of middle-income states spend some public resources outside their own borders. They do so for a variety of reasons: promoting military or economic security, strengthening political or commercial ties and influence, contributing to shared global challenges, or out of solidarity to help improve the lives and prospects of people living in less fortunate circumstances. Public funding for these objectives is spread across various elements of public budgets, but there is a special focus on official development assistance (ODA), which comprises public funding that "promotes and specifically targets the economic development and welfare of developing countries."[1] What counts as ODA is governed by rules that have been internationally agreed (although mostly by ODA providers acting among themselves), and how much countries should allocate to ODA is also the subject of internationally agreed targets and commitments (which are respected in rhetoric only by most rich countries) (see Box 1.1).

Over the past few decades, the landscape of development finance has become much more complex, with ODA being supplemented by other multilateral and bilateral official flows, private commercial and philanthropic financing, and remittances. While ODA is dwarfed in volume by these other flows,[2] it remains the primary statistic most closely monitored as a measure of North–South budgetary solidarity and is widely recognised as the most reliable annual source of finance for developing countries, even in times of acute crises.[3] It is no surprise, therefore, that the volumes, applications, and results of ODA are closely scrutinised. That scrutiny has increasingly led to questions about the credibility of ODA figures.

The fundamental problem is that donor governments have found it expedient to fund an expanding array of demands – including the provision of global public goods (GPGs) and responding to crises – through a reallocation of ODA budgets away from their original aim of supporting poverty reduction and growth. They have done so by claiming a "developmental purpose" for these new demands, a designation that many partner countries and development analysts do not find convincing. The progressive stretching of Development

1 "Official Development Assistance (ODA)," OECD, accessed November 21, 2024, www.oecd.org/en/topics/policy-issues/official-development-assistance-oda.html.

2 *Development Initiatives, International Financial Flows 2000–2021* (Development Initiatives, 2023), https://devinit-prod-static.ams3.cdn.digitaloceanspaces.com/media/documents/Int_flows_factsheet_final_final_celYBFP.pdf.

3 Yasmine Ahmad et al., "Six Decades of ODA: Insights and Outlook in the COVID-19 Crisis," in *Development Co-operation Profiles* (OECD Publishing, 2020), https://doi.org/10.1787/5e331623-en; Anthony Kiernan et al., "Official Development Assistance Trends in Times of Crisis," in *Development Co-operation Profiles* (OECD Publishing, 2024), https://doi.org/10.1787/479b1a72-en.

Assistance Committee (DAC) rules to permit this reallocation has also damaged the credibility of the governance structure, which is seen as catering excessively to the short-term political imperatives of donor governments. Consider, for instance, the declining shares of ODA allocated as country programmable aid (CPA), which represents predictable finance that reaches partner countries and now accounts for less than half (43 percent in 2022) of reported bilateral ODA.[4] As a result, there is no shared vision between developed and developing countries about the very concept of "development," and today's ODA has lost its authority as a reliable source of solidaristic global finance, raising important questions about how governments should fund growing international needs while restoring ODA's legitimacy.

To help address these questions, this compendium contributes to discussions about the future of ODA and how to rethink the way that public money spent internationally is committed, monitored, and measured towards multiple goals. We believe that it is of strategic importance, especially in the current global geopolitical environment, to review the case for official development finance and its role within the wider context of spending by sovereign states for international purposes.

To do this, we bring together perspectives from leading thinkers and policymakers on the future and reform of ODA ahead of the Fourth International Conference on Financing for Development, which we see as a major opportunity to critically rebuild the integrity of development finance through designing a vision for the use of public money that is fit for the future. We also present our own proposal for a new conceptual approach for clarifying the range of legitimate purposes of development finance, including ODA, and for financing and monitoring each purpose on its own merits. This approach is intended to improve the integrity and accountability of international public finance by recognising that funding for each purpose serves a different goal and can be most impactful if designed and measured against its own criteria.

BOX 1.1. WHAT IS ODA?

ODA is government money that "promotes and specifically targets the economic development and welfare of developing countries"[1] and that is defined by its development orientation and concessional character.[2] As such, ODA represents a subset of public money spent overseas, which can also include non-concessional spending, and does not include private sector contributions.

Government spending can be counted as ODA only when it is allocated to countries on the OECD's DAC list of ODA recipients, which uses an income threshold to define ODA eligibility. High-income countries, with per capita gross national income above US$13,845, are not eligible to receive ODA.[3]

Over time, the specific activities included in the ODA definition and metric have changed (see section 2 below for a brief overview). Notably, however, ODA does not include government transfers designated as military aid or most peacekeeping expenses.[4]

1 OECD, "Official Development Assistance (ODA)."
2 "Official Development Assistance – Definition and Coverage," OECD, accessed November 21, 2024, www.oecd.org/en/topics/sub-issues/oda-eligibility-and-conditions/official-development-assistance--definition-and-coverage.html.
3 "DAC List of ODA Recipients," OECD, accessed November 21, 2024, www.oecd.org/en/topics/sub-issues/oda-eligibility-and-conditions/dac-list-of-oda-recipients.html.
4 OECD, "Official Development Assistance – Definition and Coverage."

4 CPA data used for this calculation was provided directly by the OECD, based on the OECD's Creditor Reporting System. Bilateral gross disbursements from DAC providers in US$ current 2022 prices are used as the denominator for the share of CPA calculation.

Why is public money under pressure in a changing development landscape?

Several major international trends have amplified long-standing shifts in the needs and purposes served by development finance. Chief among them is the recognition of the growing scale and frequency of global challenges such as climate change, biodiversity loss, pandemics, and conflicts. Given their global impact, there is a self-interest argument for addressing these challenges, and this is reinforced by the negative impact they can have on the achievement of sustainable development. As a result, many donor governments have stepped up funding for GPGs as part of their international offering. Demand for action on these global challenges now sits alongside demand for traditional country-focused action and comes in tension when the expanded needs must be met from increasingly constrained ODA budgets. Such pressures are made more acute by growing country-focused needs, as worsening economic outlooks driven by the COVID-19 pandemic, rising debt burdens, high interest rates, and inflationary pressures have reversed decades of global economic convergence, pushing millions back into poverty and deepening global inequalities. Estimates of financing needs to achieve the UN Sustainable Development Goals (SDGs) and to help developing countries address the impact of climate change vastly exceed current financing and, even if this comes in many forms, higher ODA will necessarily be part of the equation.[5] The combination of cross-border and in-country crises has also contributed to growing humanitarian needs which require immediate financial responses, with governments often reallocating ODA funds from other priorities to meet emergent needs.

At the same time, mounting geopolitical tensions are altering the objectives of development cooperation as well as heightening the recurring tension between the development motive as seen from the perspective of beneficiaries and the perceived national interests of ODA providers. Thus, many high-income countries have become more "strategic" in their ODA engagements and are explicitly instrumentalising ODA to secure domestic interests – including those related to national security, migration, or commercial or diplomatic aims.[6] While partly driven by the expanding range of development actors, including new official funders which do not subscribe to ODA rules and are transparent about their approach to pursuing development in the "mutual interest," such shifts also mirror domestic political changes in many traditional donor countries that are increasingly seeing a surge in populist ideals in the wake of the 2024 elections super-cycle.[7] On the heels of the inflationary and cost-of-living crises that followed the COVID-19 pandemic, appetite for spending taxpayer money abroad has waned, and pressures on domestic budgets and calls to secure national interests have resulted in announced ODA cuts from several major donors.[8] Without substantive efforts to clarify the role and purpose of ODA in order to renew its credibility, rising pressure on increasingly limited ODA funds threatens to further dilute remaining resources.

Key challenges facing today's ODA

In this context, pressure on ODA as the primary source of international finance for a growing array of purposes has led to concerns about the integrity of the measure. Some of the criticisms reflect distrust of ODA's justification and effectiveness and contend that ODA programmes should be cut or dismantled. These critics argue that:

5 United Nations, *The Sustainable Development Goals Report 2024* (United Nations, 2024), https://unstats.un.org/sdgs/report/2024/The-Sustainable-Development-Goals-Report-2024.pdf.

6 Rachael Calleja and Beata Cichocka, *Development Effectiveness in the "New Normal": What Do the Changing Roles and Purposes of ODA Mean for the Effectiveness Agenda?* CGD Policy Paper No. 255 (Center for Global Development, 2022), www.cgdev.org/publication/development-effectiveness-new-normal-what-do-changing-roles-and-purposes-oda-mean.

7 Consider recent elections in Austria, for the EU Parliament, and in Portugal, for instance.

8 See, for example, France, Germany, and Sweden. Sarah N'tsia, "Finance Bill 2025: France Slashes Development Aid by 18% to Curb Deficit," *Euractiv*, September 13, 2024, www.euractiv.com/section/development-policy/news/finance-bill-2025-france-slashes-development-aid-by-18-to-curb-deficit/; Andrew Green, "Germany Plans Billions in Cuts to Development, Humanitarian Aid," *Devex*, September 10, 2024, www.devex.com/news/germany-plans-billions-in-cuts-to-development-humanitarian-aid-108259; "Swedish Government Pledges Further Aid Cuts in Coming Years," *Development Today*, September 18, 2024, https://development-today.com/archive/2024/dt-7--2024/swedish-government-pledges-further-aid-cuts-in-coming-years.

1. ODA is an increasingly small and irrelevant share of international development finance, particularly alongside new donors – including from the private sector, philanthropies, and countries beyond the OECD DAC – and other sources of development finance, such as remittances and domestic savings.
2. Evidence of ODA's contribution to economic growth is mixed,[9] and ODA has been shown to create dependencies which incentivise governments to respond to donors' demands over citizens' demands.[10]

Others believe in the rationale of ODA. They may not disagree with some of the points made by the critics of ODA, but they contend that shortcomings can be addressed – by coordination among various sources of development finance and by continuing efforts to improve effectiveness and ownership by the beneficiaries. For them, there are other important issues that ODA reform needs to address:

1. ODA is spread across too many priorities and is not well targeted towards the poorest populations or traditional development aims (i.e., poverty reduction and economic growth).
2. The tension between ODA as an instrument of foreign policy and ODA as the international expression of "altruistic" goals has moved too far towards the first vision.
3. Technical accounting of ODA is no longer credible, as changes to the definition have diluted the ODA concept and sparked ongoing measurement challenges.[11] In particular, moving from the ODA figure to the actual budgetary effort that it represents for ODA providers remains opaque and cumbersome to identify.

In this context, ODA is seemingly caught between its role as the sine qua non of development finance and the negative impact of the changing landscape on both its legitimacy and utility for tackling the challenges ahead. While past attempts to tinker with the ODA definition indicate recognition of the need for change, such revisions have been technical in nature and largely ignored broader questions related to how ODA should adapt to remain relevant, given the scope or scale of the finance needed to meet today's complex development challenges. Indeed, the shifting objectives to which ODA responds likely require a more fundamental rethink of the narratives and structure of what should be considered finance for sustainable development, and where ODA is best placed to contribute to outcomes in the current development era.

The remainder of this introductory chapter frames the conversation on the future of ODA, highlighting the key challenges, opportunities, and approaches for meaningful ODA reform. We begin with a brief history of ODA to provide context for the major changes in the ODA definition since the DAC first adopted the concept in 1969. We then explore questions related to ODA's continued relevance, followed by an overview of reform proposals to date. The final section of this chapter presents our proposed approach to ODA reform, building on conversations with senior leaders and experts over the past year.

BACKGROUND: A BRIEF HISTORY OF ODA

ODA's credibility challenges can be linked – at least in part – to ongoing renegotiations of the ODA definition and operational principles in response both to shifting economic and political contexts in donor countries and beyond, and to coordination between donors to improve ODA's role, relevance, and effectiveness, all that without commensurable increases in ODA's budgets. Given the DAC-led nature of ODA decision making, changes often also reflect new spending priorities for donors and have more often sought to expand the range of activities that "count" under the ODA definition and towards the 0.7

9 Steven Radelet et al., "Aid and Growth: The Current Debate and Some New Evidence," in *The Macroeconomic Management of Foreign Aid*, ed. Boriana Yontcheva et al. (International Monetary Fund, 2006); Sebastian Galiani et al., "The Effect of Aid on Growth: Evidence from a Quasi-Experiment," *Journal of Economic Growth* 22 (2017): 1–33, https://doi.org/10.1007/s10887-016-9137-4.
10 Todd Moss et al., "An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa," CGD Working Paper No. 74 (Center for Global Development, 2006), www.cgdev.org/sites/default/files/5646_file_WP_74.pdf.
11 Sara Casadevall Bellés and Rachael Calleja, "The Evolution of the ODA Accounting Rules," CGD Note No. 376 (Center for Global Development, 2024), www.cgdev.org/sites/default/files/evolution-oda-accounting-rules.pdf.

percent spending target.[12] A full timeline of major changes to the ODA definition from 1969 onwards is provided in Figure 1.1.

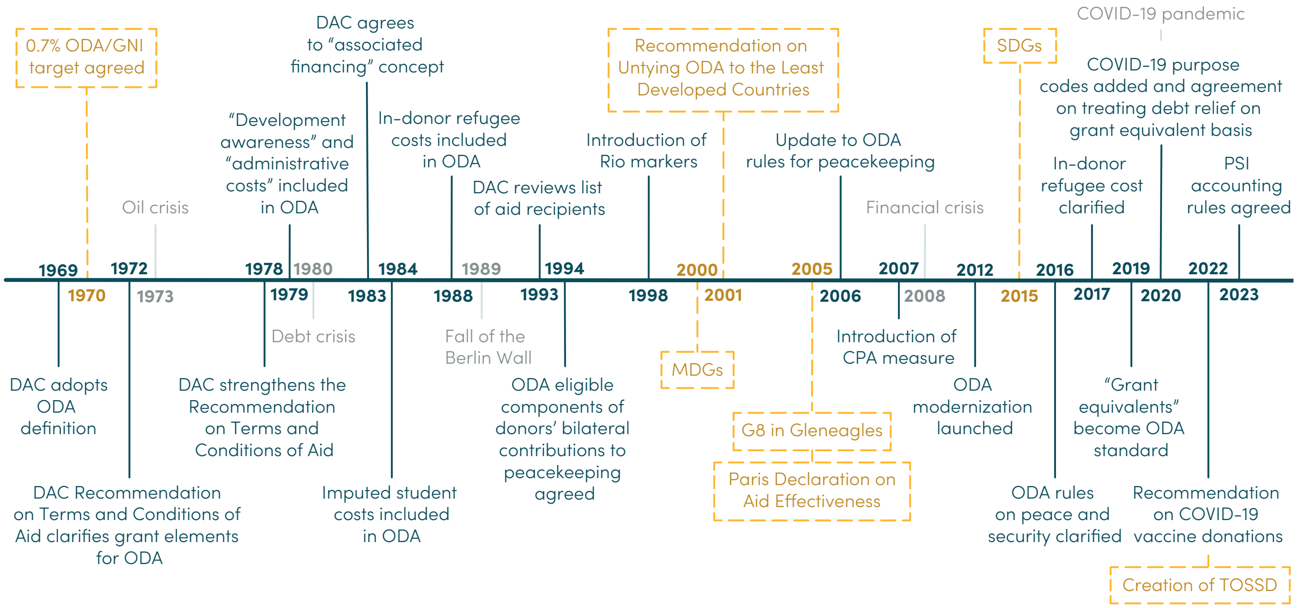
The concept of ODA emerged in 1969, when members of the newly created OECD DAC agreed to formalise a shared understanding of what counts as official "development assistance."[13] This definition distinguished ODA from other development flows based on two key features: (1) the public nature and concessionality of transfers, and (2) the requirement that such spending serve a developmental purpose.[14] Over the decade that followed, the DAC further refined this initial understanding to clarify the minimum grant element that would be needed for financing to qualify as ODA, eventually settling on the 25 percent standard,[15] and to redefine the activities that "count" as ODA to include the administrative costs of operating development programmes[16] and spending for "development awareness" activities in donor countries.[17]

By the 1980s, the global economic slowdown had raised concern that ODA was being watered down by efforts to use development spending to "gain commercial advantage" for provider countries through tying aid and subsidising export credits.[18] In response, the DAC agreed to a new statistical concept of "associated financing," which aimed to safeguard the "development orientation" of ODA by stipulating that only the grant or soft loan portion of flows can be counted as ODA when concessional resources are combined with other official flows, export credits, or other non-concessional transactions.[19] Other changes to the ODA rules throughout the decade included the addition of imputed student costs to ODA and new rules for reporting the first year of costs associated with refugee hosting as ODA.[20] The decision – particularly on in-donor refugee spend – came despite reservations concerning the "developmental motivation" of such spending, with some donors initially choosing not to report such costs.[21]

The 1990s and 2000s saw only minor changes to ODA accounting rules. In the 1990s, key changes were primarily related to the end of the Cold War; these included rules to count bilateral contributions to peacekeeping as ODA,[22] a review of the DAC recipient list to add new recipient countries (e.g., Albania, Armenia, and Azerbaijan) following the dissolution of the Soviet Union, and recognition of a new category of "countries in transition" – including high-income countries such as Estonia, Poland, and Slovak Republic – which could receive "official aid" but not ODA.[23] The 2000s saw further minor adjustments to the counting of peacekeeping, with new rules to report 6 percent of multilateral contributions to UN peacekeeping as ODA, as well as changes to reporting directives for "technical cooperation and civilian support to security systems reform" in the aftermath of 9/11.[24] However, a potentially important new measure was introduced in 2007, that of "country programmable aid" (CPA), to identify and track actual ODA flows over which recipients have significant control. CPA excludes in-donor expenses, refugee costs, humanitarian aid, debt relief, and costs of ODA administration. This designation is

12 Casadevall Bellés and Calleja, "The Evolution of the ODA Accounting Rules."
13 William Hynes and Simon Scott, "The Evolution of Aid Statistics: A Complex and Continuing Challenge," in *Origins, Evolution, and Future of Global Development Cooperation: The Role of the Development Assistance Committee (DAC)*, ed. Gerardo Bracho et al. (Deutsches Institut für Entwicklungspolitik, 2021), 248–71, www.idos-research.de/uploads/media/Study_104.pdf.
14 Helmut Führer, *The Story of Official Development Assistance* (OECD Publishing, 1996), https://one.oecd.org/document/OCDE/GD(94)67/en/pdf.
15 Simon Scott, "The Accidental Birth of 'Official Development Assistance,'" OECD Development Co-operation Working Paper No. 24 (OECD Publishing, 2015), www.oecd-ilibrary.org/docserver/5jrs552w8736-en.pdf?expires=1709718778&id=id&accname=guest&checksum=019E655EBF741F239CC1DA21E0D077DF.
16 Hynes and Scott, "The Evolution of Aid Statistics," 256.
17 Hynes and Scott, "The Evolution of Aid Statistics"; Scott, "The Accidental Birth of 'Official Development Assistance.'"
18 William Hynes and Simon Scott, "The Evolution of Official Development Assistance: Achievements, Criticisms and a Way Forward," OECD Development Co-operation Working Paper No. 12 (OECD Publishing, 2013), 6. http://dx.doi.org/10.1787/5k3v1dv3f024-en.
19 Hynes and Scott, "The Evolution of Official Development Assistance."
20 Hynes and Scott, "The Evolution of Aid Statistics," 256.
21 Hynes and Scott, "The Evolution of Official Development Assistance," 9.
22 The UN notes that peacekeeping activities expanded throughout the 1990s, as "the end of the Cold War created new opportunities to end civil wars through negotiated peace settlements"; see "Peace and Security," United Nations, accessed May 2024, www.un.org/en/global-issues/peace-and-security#:~:text=UN%20peacekeeping%20expanded%20in%20the,others%20acting%20with%20UN%20support.
23 "History of DAC Lists of aid recipient countries," OECD, accessed December 10, 2024. https://web-archive.oecd.org/temp/2024-02-12/75435-historyofdaclistsofaidrecipientcountries.htm.
24 Hynes and Scott, "The Evolution of Aid Statistics," 260.

FIGURE 1.1 Timeline of major changes to ODA definition, 1969–2023



Source: Authors’ reconstruction from Casadevall Bellés and Calleja, “The Evolution of the ODA Accounting Rules”.

Notes: 1. Acronyms: CPA = country programmable aid; DAC = Development Assistance Committee; GNI = gross national income; MDGs = Millennium Development Goals; ODA = official development assistance; PSI = private-sector instruments; SDGs = Sustainable Development Goals; TOSSD = Total Official Support for Sustainable Development. 2. Colour code: In green = changes to ODA definition; In yellow = Milestones in international development; In grey = Significant moments in the international economic and political context.

informative and relevant, but it has not been upgraded to become the main vector of communication about development assistance.

During the 2010s, the ODA accounting rules underwent a substantial “modernisation” process in response to the changing fiscal landscape following the 2008 financial crisis. Notably, low interest rates following the crisis meant that even non-concessional loans met the ODA tests (i.e., 25% grant element and 10% discount rate), resulting in attempts to correct for the overcounting via the introduction of the “grant equivalent” standard for accounting for ODA loans, with the methodology later extending to also cover debt relief.[25] Despite the aim of correcting for overcounting, the grant equivalent approach has been widely criticised for overestimating the “true value” of ODA loans[26] and for the potential to double-count “risk” in the application to debt relief.[27] Additionally, tightening public budgets in the aftermath of the financial crisis led DAC members to explore methods for counting investments in private-sector instruments (PSI) as ODA. While negotiations initially stalled, in 2023, the DAC agreed to count either capital increases to institutions that extend PSI (namely, donor development finance institutions), or individual activities under a range of PSI modalities (i.e., loans, equities, guarantees, mezzanine finance, etc.) as ODA.[28] The PSI rules similarly sparked concern, with some arguing that the new rules could functionally allow providers to “score

25 Hynes and Scott, “The Evolution of Aid Statistics,” 263–64; “Frequently Asked Questions: The Modernisation of Official Development Assistance (ODA),” OECD, accessed May 2024, www.oecd.org/dac/financing-sustainable-development/development-finance-standards/oda-modernisation-faq.htm.

26 Euan Ritchie, “Mismeasuring ODA – How Risky Actually Are Aid Loans?” CGD Note (Center for Global Development, 2020), www.cgdev.org/publication/mismeasuring-oda-how-risky-actually-are-aid-loans-0; Stephen Cutts, “Overcounting the ODA in Loans,” ODA Reform, accessed May 10, 2024, www.odareform.org/oda-loans.

27 Euan Ritchie, “Measuring ODA: Four Strange Features of the New DAC Debt Relief Rules,” CGD blog, September 9, 2020, www.cgdev.org/blog/measuring-oda-four-strange-features-new-dac-debt-relief-rules.

28 Simon Scott, “The Ongoing Debate on the Reform of the Definition of Official Development Assistance,” *Brookings*, November 18, 2019. www.brookings.edu/articles/the-ongoing-debate-on-the-reform-of-the-definition-of-official-development-assistance.

ODA for their commercially viable investments."[29] Beyond the DAC's "modernisation" efforts, the 2010s also saw minor revisions to ODA eligibility and accounting rules related to peace and security[30] and in-donor refugee costs,[31] as well as the creation of new purpose codes for migration[32] and, eventually, the COVID-19 pandemic.

This brief history highlights the difficulty of settling on the main concepts and accounting principles for ODA, leaving a number of questions open for debate:

- What should be included under the "development" heading? This determination can arguably evolve over time and may differ depending on the perspectives of various parties (especially donors versus beneficiaries).
- How should "concessionality" be defined in a world in which market rates continuously fluctuate, and in which provider countries have better access to financial markets than developing countries?
- How should ODA be reported? Should it be reported as total flows and expenses (including those incurred in provider countries), whether they are financed through grants or through loans? Actual costs to providers? Grant elements only?
- How should ODA be best coordinated among donors, including between DAC and non-DAC donors?
- When should ODA be used to encourage private spending and investment, and how should it be justified and monitored?

WHAT DOES TODAY'S ODA MEASURE?

Despite some attempts to narrow or clarify the ODA definition – consider the 25 percent concessionality condition – the history of ODA largely shows a progressive loosening of restrictions related to the expenditures that can be counted as ODA.[33] While DAC members' differing perspectives on various ODA accounting rules (in-donor refugee costs, for instance) may have moderated the pace of change to the ODA definition, the overall strategy of propping up aggregate ODA numbers at the expense of weakening ODA integrity has had the long-term consequence of reducing the credibility of ODA figures and the underlying enterprise. The result of these changes has been the need to take stock and reform today's weakened version of ODA.

In particular, changes to the ODA definition have resulted in a concept and metric that many consider misleading in terms of what it measures and represents, particularly as core values of ODA – "development orientation" and "concessionality" – have seemingly been worn down over time.[34] With regard to "development orientation," a key concern relates to questions around the development value of finance which remains in provider countries (e.g., in-donor refugee spending, student costs, etc.).[35] For instance, while hosting refugees in provider countries is a legitimate development purpose, funding such costs from ODA has sparked criticism when it displaces other cross-border flows (e.g., when spikes in refugees lead to the

29 Simon Scott, "Making Nonsense of Aid Measurement," *Development Today*, January 4, 2024, www.development-today.com/archive/2024/dt-1-2024/making-nonsense-of-aid-measurement.

30 Namely, agreeing to six ODA-eligible security items: "(1) management of security expenditure; (2) enhancing civil society's role in the security system; (3) child soldiers; (4) security system reform; (5) civilian peace building, conflict prevention and conflict resolution; and (6) small arms and light weapons"; see Gerardo Bracho et al., eds., *Origins, Evolution, and Future of Global Development Cooperation: The Role of the Development Assistance Committee (DAC)* (Deutsches Institut für Entwicklungspolitik, 2021), 410, www.idos-research.de/uploads/media/Study_104.pdf.

31 Including clarifying the meaning of "refugee" and different categories of refugee, specifying the 12-month rule, and defining eligibility of specific cost items. See: Development Assistance Committee, "Clarifications To The Statistical Reporting Directives On In-Donor Refugee Costs," DCD/DAC(2017)35/FINAL, October 31, 2017, https://one.oecd.org/document/DCD/DAC(2017)35/FINAL/en/pdf; "In-Donor Refugee Costs in Official Development Assistance (ODA)," OECD, accessed May 2024, www.oecd.org/en/topics/sub-issues/oda-eligibility-and-conditions/in-donor-refugee-costs-in-official-development-assistance-oda.html.

32 "The Modernisation of Official Development Assistance (ODA)," OECD, accessed May 2024, www.oecd.org/dac/financing-sustainable-development/development-finance-standards/modernisation-dac-statistical-system.htm; DAC Working Party on Development Finance Statistics, "Proposed New Purpose Code for 'Facilitation of Orderly, Safe, Regular and Responsible Migration and Mobility,'" DCD/DAC/STAT(2018)23/REV3, May 25, 2018, https://one.oecd.org/document/DCD/DAC/STAT(2018)23/REV3/en/pdf.

33 Casadevall Bellés and Calleja, "The Evolution of the ODA Accounting Rules."

34 Hynes and Scott, "The Evolution of Official Development Assistance"; Andrew Rogerson and Euan Ritchie, *ODA in Turmoil: Why Aid Definitions and Targets Will Come Under Pressure in the Pandemic Age, and What Might Be Done About It*, CGD Policy Paper No. 198 (Center for Global Development, 2020), www.cgdev.org/sites/default/files/PP198-Ritchie-Rogerson-ODA-Turmoil.pdf.

35 Julia Ravenscroft and Matthew Simonds, "Poorest Countries Continue to Lose Out as Wealthy Donors Pocket Their Own Aid, According to Latest OECD Data," *Eurodad*, April 11, 2024, www.eurodad.org/preliminary_aid_2023_reaction.

reallocation of ODA budgets to respond to immediate needs),[36] as well as due to a lack of clarity over accounting rules, which has led to some countries counting much higher per-head hosting costs than others, even when adjusted for different price levels across countries.[37] Similarly, many have noted concerns regarding the "concessionality" principle following the recent ODA modernisation process,[38] with some arguing that the discount rates applied to ODA loans, debt relief, and PSI "are so high that they almost guarantee that every conceivable loan or guarantee, no matter how profitable, will score positive ODA.[39] While part of the challenge is linked to the DAC-led nature of ODA decision making,[40] the erosion of ODA's defining features raises questions about whether today's ODA still offers – or measures – developmental value to recipient countries.

For governments, the dilution of ODA's core objectives creates problems not only for communicating the value of ODA to the public but also for reporting the results achieved through taxpayer money spent abroad. In a context in which ODA has become a misleading measure of provider effort and solidarity, the focus has largely been on ODA volumes, with donors incentivised to "pad" ODA budgets with additional purposes to meet domestic or international spending targets or to re-allocate spending across new demands. As a result, some providers have been trapped in the logic of not wanting to directly cut ODA volumes, due to potential blowback related to performance vis-à-vis targets, despite the likelihood that inflated volumes which respond to multiple purposes will be less credible and more difficult to link to clear results, given the split purposes that ODA aims to serve. The risk, however, is that in periods in which donors face fiscal and political pressures to cut spending – as has been the case in the current political climate – the pre-existing dilution of ODA could incentivise less-credible allocations if reduced volumes remain spread thinly across competing purposes with different aims and results. Indeed, in this case, a conceptually clearer measure of ODA, and what it intends to achieve, could lead to a more credible and effective use of public money even in smaller volumes.

In this context, the question then is how ODA's credibility as a measure of solidaristic finance can be meaningfully restored in the years ahead, despite the growing complexity of development challenges and the multiple demands on providers which are unlikely to wane. While a number of options for restoring ODA's credibility have been – and continue to be – put forward, opinions vary on whether the challenges facing ODA justify its replacement or necessitate refocusing to strengthen its impact.

WHAT ARE THE OPTIONS FOR ODA REFORM?

Types of reform proposals

So far, the proposals put forward on how ODA should be reformed to ensure its continued relevance can be broadly categorised into three main groups:

1. New "beyond ODA" concept

Several proposals have argued for the creation of a new development finance concept that includes the wider array of financing sources available to tackle both global and local development challenges. Under this proposal, ODA is understood as part of a wider financing mix, alongside flows allocated by the full range of cooperation providers – including

36 As was recently the case in Sweden, for instance; see Vince Chadwick, "Sweden Pulls $1B in Foreign Aid for Ukrainian Refugees at Home," *Devex*, May 5, 2022, www.devex.com/news/sweden-pulls-1b-in-foreign-aid-for-ukrainian-refugees-at-home-103164.

37 Ian Mitchell and Sam Hughes, "The Costs of Hosting Refugees in OECD Countries and Why the UK Is an Outlier," CGD blog, September 25, 2024, www.cgdev.org/blog/costs-hosting-refugees-oecd-countries-and-why-uk-outlier.

38 Nerea Craviotto, *Aid Under Threat: The Shadowy Business of Private Sector Instruments* (Eurodad, November 2023), https://assets.nationbuilder.com/eurodad/pages/3214/attachments/original/1699953252/ODA-PSI-report-final-nov14.pdf?1699953252.

39 Scott, "Making Nonsense of Aid Measurement"

40 Stephen Cutts, "The Need to Reform the Governance of ODA Rules," ODA Reform, accessed May 2024, www.odareform.org/oda-governance.

the private sector, philanthropies, and emerging providers.[41] While this proposal assumes that ODA alone cannot address the range of complex challenges that define today's development landscape, there is little consensus on what should be included in any "beyond ODA" metric, and whether a new concept should cover only public flows or the broader spectrum of public and private finance.

The technical and political work needed to define and agree to the new accounting standards proposed under this approach is likely significant. Not only will the formation of new financial concepts require careful work to determine what flows count and under which conditions but replacing the ODA standard will necessarily require agreement across a diverse range of finance providers on how the new metric will be accounted, reported, and monitored. While voluntary standards that aim to account for broader financial flows – such as Total Official Support for Sustainable Development (TOSSD) (see Box 1.2) – have been in the international sphere for quite some time, mixed uptake and methodological concerns highlight the difficult political realities of reaching consensus around a new finance standard. At the same time, a key strength of proposals under this approach is the potential to design a more inclusive financial concept, offering perhaps the greatest opportunities to break from the "North–South" development paradigm through building a shared development standard that accounts for the diverse perspectives and approaches that exist in today's development system.

BOX 1.2. WHAT IS TOSSD?

TOSSD is an international standard that measures a broader array of resources allocated to promoting sustainable development in developing countries. The measure includes all official resources, private flows mobilised through official means, and contributions for international public goods.[1] The framework for the TOSSD measure has been agreed by a diverse group of countries and organisations and ultimately aims to "ensure a coherent, comparable, unified system to track SDG-related investments" across cooperation providers beyond those that report ODA.[2]

1 "What Is TOSSD?" TOSSD, accessed November 21, 2024, www.tossd.org/what-is-tossd/.
2 TOSSD, "What Is TOSSD?"

2. Split concepts which separate ODA from GPG spending

The second category of proposals similarly develop new concepts for measuring and conceptualising the full range of development finance flows needed to support the SDGs yet argue that the ODA concept has continued value, particularly for the poorest countries. As a result, these proposals often suggest a two-pronged or tiered approach, in which the full vision for development finance includes either separate financing concepts[42] or differentiated volume targets that separate poverty-focused spending from funding for GPGs.[43] In these proposals, ODA is typically called upon to support poverty reduction and welfare in poor and fragile states,

41 See Jean-Michel Severino and Olivier Ray, "The End of ODA: Death and Rebirth of a Global Public Policy," CGD Working Paper No. 167 (Center for Global Development, 2009), www.cgdev.org/publication/end-oda-death-and-rebirth-global-public-policy-working-paper-167; Jan Vanheukelomet et al., *Reporting on Development: ODA and Financing for Development – Final Report for The Netherlands Ministry of Foreign Affairs and the German Federal Ministry for Economic Cooperation and Development* (ECDPM, 2012), https://ecdpm.org/work/reporting-on-development-oda-and-financing-for-development-final-report-for-the-the-netherlands-ministry-of-foreign-affairs-and; Andy Sumner and Richard Mallett, *The Future of Foreign Aid: Development Cooperation and the New Geography of Global Poverty* (Palgrave Pivot London, 2013), https://doi.org/10.1057/9781137298881; Yijia Jing et al., *New Development Assistance: Emerging Economies and the New Landscape of Development Assistance* (Palgrave Macmillan Singapore, 2019), https://doi.org/10.1007/978-981-13-7232-2.
42 Thomas Melonio et al., *Official Development Assistance at the Age of Consequences*, AFD Policy Paper No. 11 (Agence Française de Développement, 2022), 1–43, www.afd.fr/en/ressources/official-development-assistance-age-consequences; Ole Jacob Sending et al., *Investing in a Common Future: A New Framework for Development Policy* (Norwegian Ministry of Foreign Affairs, 2023), www.regjeringen.no/en/dokumenter/investing-in-a-common-future/id2977341/.
43 See Age Bakker, "How Can Development Co-operation Address Global Challenges?" in *Development Co-operation Report 2014: Mobilising Resources for Sustainable Development* (OECD Publishing, 2014), https://doi.org/10.1787/dcr-2014-21-en; Rogerson and Ritchie *ODA in Turmoil*.

with some noting the need to refocus and reform ODA to strengthen its development orientation and impact (see also Box 1.3).[44] This "narrowed" vision of ODA is complemented by a second financing concept for measuring contributions to financing shared challenges.

Perhaps the key benefit of such proposals is the ability to clearly separate, define, and measure spending on GPGs versus more traditional developmental concerns. Technical work, however, would be required not only to refocus ODA on a narrower subset of actions or objectives, but also to define how public money should be used to support GPGs. Moreover, a key question is whether reforms designed to bring clarity to ODA go far enough towards solving the incentive-based problems that have led to concerns over a dilution in ODA quality (i.e., the need to increase what "counts" and the provider-only governance of ODA), as well as towards broadening the inclusivity of development finance governance in line with a shifting global order.

3. Universal development commitment

A smaller subset of reform proposals have put forward a universal approach to development finance. Based on the understanding that the SDGs are shared and global goals, these proposals call on all countries – regardless of income level – to contribute finance for sustainable development, either according to their ability[45] or based on a target scaled by income level.[46] Similar to the new "beyond ODA" concept approaches, these proposals develop a new measure of "global public investment" which pools finance (both ODA and other sources) from across countries with the aim of redistributing funds based on developmental need, with providers also able to access financial flows. Functionally, such approaches would require a central governance mechanism capable of managing and allocating funds, presumably by consensus.

The challenge with this approach, however, is in its implementation. Indeed, the political effort needed not only to create a global governance mechanism to manage pooled funding but also to agree to the terms of funding and reallocation and monitor (and perhaps enforce) participation is likely to be substantial. At the same time, there are questions about the type of resources to be captured via this model, and

BOX 1.3. PROPOSALS FOR "NARROWING" ODA

In addition to the reform proposals that separate ODA from GPGs, there have been several proposals aimed at measuring a "narrowed" or "refocused" vision of ODA, each of which subtracts spending on key activities – such as, in-donor costs – from total ODA volumes, with the goal of capturing flows with the greatest development value. These proposals include "Real Aid" (2011),[1] "Net Aid Transfers" (2012),[2] "Official Development Effort" (2014),[3] and "Finance for International Development" (2020),[4] which applies its approach to concessional cross-border spending reported by 40 DAC and non-DAC countries. While all the concepts are slightly different, they share attributes with CPA, yet each break with the CPA method by including humanitarian spending in their measures.

1 Anna Thomas et al., *Real Aid: Ending Aid Dependency* (ActionAid, 2011), 43, www.actionaid.org.uk/sites/default/files/doc_lib/real_aid_3.pdf.
2 David Roodman, "Straightening the Measuring Stick: A 14-Point Plan for Reforming the Definition of Official Development Assistance (ODA)," CGD Policy Paper No. 44 (Center for Global Development, 2014), www.cgdev.org/sites/default/files/straightening-measuring-stick-redefining-oda_0.pdf.
3 Hynes and Scott, "The Evolution of Official Development Assistance."
4 Ian Mitchell et al., "Finance for International Development (FID): A New Measure to Compare Traditional and Emerging Provider Countries' Official Development Finance Efforts, and Some Provisional Results," CGD Working Paper No. 529 (Center for Global Development, 2020), www.cgdev.org/sites/default/files/WP529-FID-Mitchell-Full.pdf.

44 Melonio et al., *Official Development Assistance at the Age of Consequences*; Sending et al., *Investing in a Common Future*; Thomas Melonio et al., *Double Standards in Financing for Development*, AFD Policy Paper No. 14 (Agence Française de Développement, 2024), www.afd.fr/en/ressources/double-standards-financing-development.
45 Jonathan Glennie, *The Future of Aid: Global Public Investment* (Routledge, 2020), https://doi.org/10.4324/9780429356384.
46 Andy Sumner et al., "A Proposal for a New Universal Development Commitment," Global Policy 11 (2020): 478–85, https://doi.org/10.1111/1758-5899.12844.

whether it would apply exclusively to public or grant-based funding. While a clear strength of this approach is the theoretical inclusiveness that could be achieved through a truly "global" finance model, potential implementation problems raise serious concerns about its feasibility in practice.

Other issues related to ODA reform options

Beyond specific questions on the ODA statistic and its continued relevance, proposals for the future of ODA reform have often also sought to address complementary issues related to questions of inclusivity and governance, the usefulness of financial targets, the potential role for TOSSD, and, crucially, the implications of different approaches for development effectiveness. As some of the contributors to this volume note,[47] these issues need to be addressed whatever the final outcome on ODA coverage and measurement.

Governance

Much of the conversation around ODA reform has centred on questions of governance, particularly given long-standing criticisms of the DAC-led nature of ODA decision making.[48] At its core, the issue is that DAC members alone are responsible for setting, and resetting, ODA accounting standards, meaning that the rules governing ODA prioritise the incentives of providers without seeking input from partner countries about whether current or proposed approaches are beneficial from their perspective.

The result is a system in which DAC members' interests dominate ODA rulemaking, despite a changing landscape that features a growing array of beyond-the-DAC cooperation providers. The exclusive nature of the DAC, in combination with the rise of new donors, not only means that the constituency bound by ODA definitions and standards is necessarily limited, but also raises questions about the continued legitimacy and usefulness of ODA, which increasingly applies to a smaller share of official development finance. Indeed, recognition that ODA is no longer sufficient for measuring public finance allocated by the spectrum of official providers has led to the creation of alternative development finance accounting measures, such as TOSSD, which are aimed at providing a more inclusive approach.

To account for such challenges, many of the ODA reform proposals put forward so far recognise that any future vision for reformed ODA must be more inclusive. The problem lies both in identifying a particular international body or forum where conversations on ODA reform (or on beyond-ODA financing concepts) can meaningfully take place and in creating the conditions for sustained and meaningful dialogue. While several possible forums have been identified – including the OECD, UN, and G20[49] – none are a perfect solution, and all will require a governance model that attracts and sustains participation from a variety of stakeholders.

Targets

Many of the proposals for ODA reform include or consider potential financial targets for annual contributions from donors. These include, for instance, dual targets under "tiered" models, where goals for ODA spending are complemented by a parallel target for allocations on global investment,[50] or scaled contribution targets under more universal commitment models.[51] Yet the usefulness of financial targets has often been a source of debate, with some arguing that targets incentivise the "gaming" of metrics to meet target goals (loosely known as Goodhart's law),[52] and often incur political costs when unmet, not the least of which is the potential to

47 See chapters 2, 3, 4 and 5 of this volume.
48 Cutts, "The Need to Reform the Governance of ODA Rules."
49 Alain Le Roy and Jean-Michel Severino, "Diversification and Fragmentation of Public Financing for Development," FERDI Working Paper No. 321 (Fondation pour les études et recherches sur le développement international, 2023), https://ferdi.fr/dl/df-AWENkNBBXyG3BtK5RqTsertp/ferdi-wp321-diversification-and-fragmentation-of-public-financing-for.pdf.
50 Rogerson and Ritchie, *ODA in Turmoil; Melonio et al., Official Development Assistance at the Age of Consequences*; Sending et al., *Investing in a Common Future.*
51 Rogerson and Ritchie, ODA in Turmoil.
52 Rogerson and Ritchie, ODA in Turmoil.

further dilute international trust.[53] By contrast, the value of targets is the ability to clarify ambitions and agree upon a goal for development finance, which can then be used to hold governments to account.

In the context of ODA reform, the question of whether or not a financial target should accompany any future vision for development finance remains open for debate. If a target is utilised, it will be important to consider both the types of finance that will count towards the spending goal and which actors will be responsible for meeting any new quantified target.

TOSSD

Given that many of the proposals for ODA reform aim to expand the inclusiveness of the governance of development finance standards, TOSSD often appears in conversations as a potential – and pre-existing – metric to replace ODA. Initially envisioned as a universally accepted measure for capturing public finance for sustainable development,[54] including its role in mobilising private finance, the benefit of TOSSD is that it already has a defined methodology, a beyond-DAC governance structure, and a verification mechanism that could support buy-in and provide a starting place for broader debate. However, the uptake of TOSSD has seemingly been slow, with questions about global interest in TOSSD as well as a range of methodological concerns.[55] As a result, where, whether, and to what degree TOSSD could act as an alternative metric for development finance in the future remains an open question.

Leverage

While the potential to use public money to mobilise or leverage private funds for development was emphasised in the Addis Ababa Action Agenda, poor evidence on the quantity and quality has raised questions about both the impact and the measurement of leveraged funds.[56] On measurement in particular, some have raised concerns that current methods of development finance accounting do not adequately capture the "spillover and leverage effects of public action," particularly from multilateral development banks, necessitating a rethink of measurement approaches to better monitor leveraged flows.[57] From this perspective, improving the measurement of leveraged flows offers the potential to evaluate the scale of mobilised resources vis-à-vis other flows and provides a clearer basis for monitoring overall effectiveness.

Effectiveness

Discussions about the future and reform of ODA also reflect perceptions of what it means to allocate resources effectively to achieve impact; any reform proposal adopted will necessarily put forward an understanding of the impact that public money spent internationally is expected to achieve. This means that ODA reform is also an important opportunity to consider a future vision for what it means to allocate development resources effectively to reach the 2030 Agenda and beyond. This includes engaging with tough questions about when, where, and under what (if any) conditions ODA should be used to support GPGs. While the trajectory of ODA reform is yet to be determined, it is worth reflecting on how reform proposals interpret development impact and how to keep the focus on improving the effectiveness of the resources available.

A PROPOSAL FOR ODA REFORM

From our perspective, ODA reform should start by clarifying the range of legitimate purposes of development finance, how they should be funded, and the desired outcome for each development goal. Based on the understanding that the current approach to development finance – where ODA is

53 Rachael Calleja et al., *Exploring Barriers and Opportunities for Deepening Cooperation Across DAC and Non-DAC Providers*, CGD Policy Paper No. 321 (Center for Global Development, 2024), www.cgdev.org/publication/exploring-barriers-and-opportunities-deepening-cooperation-across-dac-and-non-dac.

54 Andrew Rogerson and Homi Kharas, "Don't TOSSD the Baby Out with the Bathwater: The Need for a New Way to Measure Development Cooperation, Not Just Another (Bad) Acronym," Brookings, April 15, 2016, www.brookings.edu/articles/dont-tossd-the-baby-out-with-the-bathwater-the-need-for-a-new-way-to-measure-development-cooperation-not-just-another-bad-acronym/.

55 Neissan Besharati, *New Development Finance Measure Should Be TOSSD Out the Window!* SAIIA Policy Insights No. 45 (South African Institute of International Affairs, 2017), https://saiia.org.za/wp-content/uploads/2017/05/Policy-Insights-45.pdf.

56 Samantha Attridge, "Blended Finance: What Donors Can Learn from the Latest Evidence," Overseas Development Institute, April 26, 2019, https://odi.org/en/insights/blended-finance-what-donors-can-learn-from-the-latest-evidence/; Charles Kenny, "Blended Finance Is (Still) a Mess," CGD blog, February 21, 2024, www.cgdev.org/blog/blended-finance-still-mess.

57 Melonio et al., *Double Standards in Financing for Development.*

stretched across multiple aims – is not working, we propose a new vision that establishes a basis for financing and monitoring each purpose on its own merits. Doing so is intended to improve the integrity and accountability of international public finance, including ODA, by recognising that funding under each purpose serves a different goal and can be most impactful if designed and measured against its own merits. Specifically, our proposal suggests developing unique technical and conceptual guidance for engagement on three main developmental purposes:

- Poverty reduction and economic growth: Pressure on governments to respond to global challenges and crises has often reduced the financing available for long-term development-oriented investments, despite these remaining the primary purpose of development cooperation. To ensure more stable financing for long-term development objectives, this purpose should be the primary focus of ODA, which remains a unique and limited financing instrument that is intended, by definition, to support development outcomes primarily among the poorest countries.
- Humanitarian support and crisis response: Growing humanitarian needs and the increased frequency of international crises – including pandemics, conflict, and natural disasters – require a dedicated pool of finance to improve the predictability of resourcing available to respond to short-term and immediate needs. While humanitarian support is closely interlinked with poverty-related purposes, we see value in establishing separate categories to ensure that each objective is independently resourced, reducing the risk of reallocation in response to emergent crises.
- Global public goods: While the provision of GPGs – including those related to climate – has been recognised as central to achieving sustainable development, the reliance on ODA to fund this objective has often been called into question.[58] Instead, funding GPGs will require a broader range of public financing instruments and commitments, including those designed to mobilise private finance. It is also important to recognise that the financing needs for addressing climate change and biodiversity alone far exceed current ODA and any plausible projections for ODA in the coming decade. Diverting ODA flows to meet a fraction of these needs at the expense of cutting back much-needed poverty reduction and development programs is not only poor policy but also ultimately unsustainable. To clearly delineate such spending, public resources for GPGs could be called "sustainable development investment"[59] or "international financing for collective goods."[60]

The benefit of our approach is the ability to disentangle core development purposes to better safeguard, measure, and monitor funding for each goal. Doing so can help renew ODA's credibility by more clearly presenting and accounting for money spent across purposes. However, achieving this aim will require a clear understanding of the activities and public resources that "count" towards funding commitments, as well as principles and metrics for understanding effectiveness and measuring impact towards each goal.

To support the development of clear guidelines on funding and effectiveness for each purpose, we propose that a new expert committee be created with a mandate to develop technical and normative recommendations on the activities and instruments that should be "counted" towards financial commitments under each category, and principles and metrics for understanding effectiveness and measuring impact under each purpose. This committee should be inclusive and representative of policymakers and experts from the range of public cooperation actors, including "Northern" and "Southern" providers, as well as from recipient countries. Ensuring

58 Charles Kenny, "Does Mitigation ODA Reduce Emissions?" CGD Note No. 359 (Center for Global Development, 2024), www.cgdev.org/sites/default/files/does-mitigation-oda-reduce-emissions.pdf; Charles Kenny, *Official Development Assistance, Global Public Goods, and Implications for Climate Finance*, CGD Policy Paper No. 188 (Center for Global Development, 2020), www.cgdev.org/sites/default/files/PP188-Kenny-ODA-GPGs-Full.pdf.

59 Melonio et al., *Official Development Assistance at the Age of Consequences*.

60 Jean-Michel Severino and Sylviane Guillaumont Jeanneney, "Financing Global Policies: But Why?" FERDI Working Paper No. 317 (Fondation pour les études et recherches sur le développement international, 2023), www.econstor.eu/bitstream/10419/269596/1/ferdi-wp317en.pdf.

an inclusive committee structure will be critical for building buy-in and legitimacy for any recommendations proposed. Such a committee should be charged with producing proposals; however, decision-making authority should be held by a higher-level decision-making body, which could be hosted under the G20 or UN.

Given that a crucial objective of this proposal is to prevent the reallocation of funding across purposes, we propose that countries be encouraged to devise separate national targets for each of the three funding objectives. Producing targets at the national rather than global level would allow countries to make financial commitments based on feasibility in their individual circumstances, which would better account for the reality of the current political and fiscal climate facing donor governments. Doing so would allow donor-country publics to hold their governments to account without the feasibility challenges that often follow grand global targets. Creating targets at the national level should also ensure that different types of countries can set targets according to differing responsibilities for funding solutions under each purpose (e.g., while high-income DAC and non-DAC countries should commit to supporting poverty reduction purposes, all countries may commit some form of public money to GPGs in alignment with nationally determined contributions).

CONCLUSION

The next 12 months – including and beyond the forthcoming Fourth International Conference on Financing for Development – provide a unique opportunity to rethink and reform the configurations of ODA that will govern sustainable development finance as we look to the 2030 Agenda and beyond. While it is clear that reform is needed to bring clarity to the roles of different sources of development finance in tackling today's complex development challenges, the specific path forward is still to be determined.

In the remainder of this volume, we have compiled a series of opinions from leading experts and policy thinkers on the path forward for the reform and future of ODA. These contributions offer a range of unique perspectives on the ODA reform debate and are intended to serve as high-level inputs into ongoing conversations.

We hope this volume provides a starting place for discussions, sparking debate at the highest levels – both nationally and internationally – and leading to the development of a shared vision of effective development finance in a post-ODA world. We are convinced that in a progressively more challenging context for international development cooperation, settling for a marginal modification of the status quo - "kicking the can down the road" – is no longer a wise strategy. Instead, we need to make a renewed and robust case for the financing of development cooperation within a broader approach to financing international challenges that are critical for a sustainable and prosperous shared future.

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PART 1

Setting the Scene for ODA Reform

2. Is the International Development Architecture Fit for Tomorrow's Challenges?

Jorge Moreira da Silva

Eighty years since the creation of Bretton Woods Institutions, the task of reforming our international financial architecture has never seemed more urgent.

This year's Summit of the Future, and the 2025 Fourth International Conference on Financing for Development along with a number of other important meetings, are key. At these stages traditional voices will issue calls for action, and for the investments that are necessary to tackle the climate crisis and achieve the Sustainable Development Goals (SDGs). We are talking about the established practice. But let's make no mistake. Our development agenda – including its governance and architecture – needs reforms. It goes way beyond finance.

It is often said that we live at an inflection point in history. A moment marked by complex, interconnected challenges, in a rapidly changing world.

The climate crisis is wreaking havoc. The year 2023 was the warmest on record, with global temperatures nearing the critical 1.5°C threshold. Greenhouse gas emissions and atmospheric CO2 concentrations continue to reach new highs.[1] All while fossil fuel subsidies hit a record high globally in 2022, exceeding US$1.5 trillion. Biodiversity loss is decimating our planet – over half of global GDP[2] is dependent on nature, and air pollution alone is estimated to kill 7 million people every year.[3]

Today we live in an increasingly violent and fragile world, not seen since the Second World War. We see dire and unprecedented humanitarian needs, and protracted and proliferating conflicts at record levels. Around 2 billion people, a quarter of humanity,[4] live in places affected by conflict. By May 2024, an unprecedented 120 million people had been forcibly displaced from their homes, while civilian casualties in armed conflicts surged by 72 percent in 2023. And as we know, beyond their immense human suffering, wars also reverse progress on human development. Simply, there is no sustainable development without peace.

At the same time, economic downturns and a worsening debt crisis make it difficult for countries to recover. And we are

1 World Meteorological Organization, "Greenhouse Gas Concentrations Hit Record High. Again," press release, November 15, 2023, https://wmo.int/news/media-centre/greenhouse-gas-concentrations-hit-record-high-again.
2 Karin Erika Kemper and Vivek Patha, "The Business Case for Nature," World Bank blog, May 21, 2021, https://blogs.worldbank.org/en/voices/business-case-nature#:~:text=According%20to%20the%20World%20Economic,have%20created%20new%20biodiversity%20funds.
3 "Air Quality," UNEP, accessed November 2024, www.unep.org/topics/air.
4 United Nations, "With Highest Number of Violent Conflicts Since Second World War, United Nations Must Rethink Efforts to Achieve, Sustain Peace, Speakers Tell Security Council," meetings coverage, SC/15184, January 26, 2023, https://press.un.org/en/2023/sc15184.doc.htm.

clearly not on track to reach the SDGs, with only 17 percent of the SDG targets on track.[5]

Despite this complicated, rapidly evolving context, our development architecture – which should help us respond to these crises – was designed six decades ago, in slower, simpler, pre–artificial intelligence, pre-Internet, pre–climate crisis times.

Since the 1960s very little has changed in terms of the institutions, bodies, and governance that make up this picture. This, despite the many transformations that have happened, especially since 2015, on the development finance landscape, development cooperation framework, and official development assistance (ODA) modernisation.

A CHANGING DEVELOPMENT LANDSCAPE

A new development finance landscape has emerged, with new sources of finance beyond ODA. New governments are providing aid. Innovative finance, such as blended finance and impact investing, are on the rise. Private philanthropy is a growing source of development funding, and nongovernmental actors, particularly civil society organisations, are adopting a more vocal role, beyond just channels of aid.

The adoption of the 2030 Agenda for Sustainable Development and the focus on the prevention agenda have reframed development cooperation approaches – from poverty eradication to sustainable development, from donor-recipient aid to partnership and cooperation, and from ODA to multi-source financing for sustainable development. There is now consensus that we need to align development cooperation with climate action, and the focus on the humanitarian-development-peace nexus is bringing attention to the need for a holistic approach that addresses the root causes of fragility and responds to immediate needs while working towards building resilient and peaceful societies.

A new tool, Total Official Support for Sustainable Development, captures a wider stream of resources flowing into developing countries beyond traditional ODA.[6] This includes South–South cooperation, private resources mobilised through official means, and contributions to international public goods.

Crucially, too, debates around development effectiveness now include the increasing importance of the private sector. The Kampala Principles,[7] for example, offer practical guidance to help address global challenges and deliver on the 2030 Agenda through private-sector engagement.

Taken together, we now see a scenario where trends in aid and development provision are riddled with contradictions.

ODA IN PRACTICE

Many of these contradictions are deeply intertwined with questions about the relevance and need for reform of ODA. Despite its shrinking share of total financing for development, ODA is still seen as a reliable source of development finance, especially for poverty reduction. Its scale and effectiveness remain closely scrutinised as a key measure of North–South solidarity.

Yet key questions hang over its scope, volume, and effectiveness, as well as the urgent need to make it more inclusive.

In 2023, aid from official donors rose to a new all-time high of US$223.7 billion.[8] Despite the rise, the ODA total is well below the UN target of 0.7 percent of gross national income (in 2023, only five countries met or exceeded that target).

Humanitarian aid and spending on in-donor refugee costs are on the rise. Spending on in-donor refugee costs by members of the OECD Development Assistance Committee (DAC) amounted to US$31 billion in 2023, and humanitarian aid also reached its highest level and amounted to US$25.9 billion. Together, emergency-driven finance (humanitarian aid and

5 United Nations, *The Sustainable Development Goals Report 2024* (United Nations, 2024), https://unstats.un.org/sdgs/report/2024/.
6 "Total Official Support for Sustainable Development (TOSSD)," TOSSD, accessed November 2024, www.tossd.org/.
7 "Kampala Principles Toolkit," Global Partnership for Effective Development Co-operation, accessed November 2024, www.effectivecooperation.org/landing-page/kampala-principles.
8 "Official Development Assistance (ODA)," OECD, accessed November 2024. www.oecd.org/en/topics/policy-issues/official-development-assistance-oda.html.

in-donor refugee costs) reached 25 percent of ODA in 2023 (compared to 10 percent in 2012).

These figures speak to fundamental questions such as who should benefit from ODA, given limited resources. Similarly, should ODA finance global public goods,[9] and if so, to what extent and which goods?

According to the OECD, aid spending on the provision of global public goods by DAC members has grown from an estimated 37 percent of average bilateral ODA in 2007–2011 to around 60 percent in 2017–2021.[10] This is in large part due to spending on climate challenges, costs for refugees in donor countries, food security, and infectious diseases. Yet over that same period, the share of aid financing to meet country-level development priorities has declined, now accounting for less than half of total ODA. So, rather than additional mobilisation, the focus on development-related global challenges has reduced support to country-driven demands for assistance.

We see a similar contradiction in investment in ocean sustainability. Ocean protection is a global public good, with over 3 billion people relying on oceans for their livelihoods,[11] but ODA to support a sustainable ocean economy accounts for a fraction of global ODA (1.6 percent).[12]

A key challenge for ODA, given limited resources, is ensuring that development and climate funding work to reduce inequalities and poverty. This is particularly important in the context of efforts to ensure a fair and just green transition.

Another defining challenge relates to issues of inclusiveness. Over the past years, there have been increasing calls for a more equitable international development sector where civil society organisations from the Global South receive a bigger share of power and funding from Global North donors.[13]

FINANCIAL FLOWS IN LOW-INCOME AND FRAGILE CONTEXTS

Meanwhile, despite calls for increased investment in prevention in a more violent world, ODA spending on peace in fragile contexts is decreasing.[14] Likewise, foreign direct investment remains difficult in fragile contexts. In 2020, inflows to Least Developed Countries,[15] landlocked developing countries,[16] and small island developing states (SIDS)[17] combined accounted for only 3.5 percent of the world total.[18]

Against a challenging economic outlook in developing countries, remittances offer a critical lifeline to the poorest households and play an increasingly important role in development finance. In 2023, migrants' remittances to low- and middle-income countries reached US$669 billion, exceeding the foreign direct investment flows.[19] Yet despite this vital role, transaction costs continue to be too high. In 2023, sending remittances cost an average of 6.20 percent of the amount sent globally.[20]

Blended finance – designed to bring in much-needed private finance to development projects – is on the rise, but to date,

9 United Nations, "Nations Large and Small: A New Global Deal to Deliver Global Public Goods and Address Major Risks," in *Our Common Agenda: Report of the Secretary-General* (United Nations, 2021), www.un.org/en/content/common-agenda-report/assets/pdf/Our_Common_Agenda_English_Section_4.pdf.
10 Kerri Elgar et al., "Development Co-operation and the Provision of Global Public Goods," OECD Development Co-operation Working Paper No. 111 (OECD Publishing, 2023), https://doi.org/10.1787/aff8cba9-en.
11 United Nations, "Stressing Oceans Sustain Livelihoods of Over 3 Billion People, Secretary-General Says Humankind Must End War on Nature, in Observance Message," press release, June 1, 2021, https://press.un.org/en/2021/sgsm20754.doc.htm.
12 "Ocean," OECD, accessed November 2024, www.oecd.org/en/topics/sub-issues/ocean.html.
13 Global Fund Community Foundations, *Too Southern to Be Funded* (Global Fund Community Foundations, 2024), https://globalfundcommunityfoundations.org/wp-content/uploads/2024/04/TooSouthernToBeFunded.pdf.
14 "Development Aid for Peace in Fragile Countries Falls to 15-Year Record Low," Development Aid, November 1, 2023, www.developmentaid.org/news-stream/post/169653/development-aid-for-peace.
15 "UN List of Least Developed Countries," UNCTAD, accessed November 2024, https://unctad.org/topic/least-developed-countries/list.
16 "List of Landlocked Developing Countries," UNCTAD, accessed November 2024, https://unctad.org/topic/landlocked-developing-countries/list-of-LLDCs.
17 "List of SIDS," United Nations, accessed November 2024, www.un.org/ohrlls/content/list-sids.
18 "Foreign Investment Flows to Structurally Weak Economies Remain Fragile in 2020," UNCTAD, June 21, 2021, https://unctad.org/news/foreign-investment-flows-structurally-weak-economies-remain-fragile-2020.
19 "Remittances," World Bank, September 18, 2024, www.worldbank.org/en/topic/migration/brief/remittances-knomad.
20 "Remittance Prices Worldwide: Making Markets More Transparent," World Bank, accessed November 2024, https://remittanceprices.worldbank.org/.

most of this has gone to middle-income countries that have lower risk profiles. Between 2012 and 2020, only 12 percent of mobilised private finance went to projects in low-income countries.[21]

Similarly, sustainable finance, while welcome, seems to have inadvertently magnified inequalities,[22] with high-income countries holding 97 percent of newly established sustainable investment funds.[23]

Urgently needed climate finance, too, is equally misaligned, with developing countries estimated to need around US$2.4 trillion in climate investment each year by 2030. This is 4 times higher than the current investments and 27 times higher than the climate finance provided and mobilised by developed countries for developing countries in 2021.[24]

The challenges that SIDS face illustrate this broken system: They are among the most vulnerable groups to external shocks, including the impacts of climate change – losing between 1 and 9 percent of their GDP each year in natural disasters.[25] They were severely hit by the economic consequences of the COVID-19 pandemic,[26] and they face higher levels of debt distress than other developing countries, connected in part to reconstruction costs in the aftermath of natural hazards.[27] Yet they have very limited access to ODA and climate and green funds. Between 2017 and 2021, no more than 1.55 percent of total global ODA flows accrued to SIDS.[28]

Practical solutions are needed both to broaden the development and climate financing options and to address the debt and liquidity challenges of SIDS. This includes diversifying SIDS' access to concessional development finance, as recognised through ongoing work on the UN Multidimensional Vulnerability Index, which aims to include economic, environmental, and social vulnerability and resilience indicators to provide better access to concessional development financing for SIDS.

Against a background of growing needs, private philanthropy offers much-needed resources, but here, too, there is a need for far more accountability. Additionally, issues of access to development finance are complicated by the fragmented way in which decisions on debt relief and suspension have been made.

Crucially, too, discussions on the implementation of climate measures or SDGs tend to be focused on two main gaps: of finance and policy. This emphasis is misplaced, overlooking a third gap that requires strong commitment: the implementation gap. To turn development and climate ambitions into actions that improve the lives of millions, we need to redouble our efforts to provide technical assistance and support on implementation, where these are required.

A DEVELOPMENT SYSTEM THAT CAN MEET TOMORROW'S CHALLENGES

In short, in many ways our model is a paradox. Some institutions have strong normative mandates and like-minded participation but do not represent all sources of finance and all providers. Other institutions are inclusive and represent

21 OECD, *Private Finance Mobilised by Official Development Finance Interventions* (OECD Publishing, 2023), www.oecd.org/content/dam/oecd/en/publications/reports/2023/01/private-finance-mobilised-by-official-development-finance-interventions_b2e9927e/c5fb4a6c-en.pdf.
22 Olivier Cattaneo, "7 Sustainable Finance Challenges to Fix Global Inequality," World Economic Forum, May 19, 2022, www.weforum.org/stories/2022/05/sustainable-finance-challenges-global-inequality/.
23 UNCTAD, *The Rise of the Sustainable Fund Market and Its Role in Financing Sustainable Development* (UNCTAD, 2021), unctad.org/system/files/official-document/diae2021d1_en.pdf.
24 OECD, *Scaling Up the Mobilisation of Private Finance for Climate Action in Developing Countries: Challenges and Opportunities for International Providers* (OECD Publishing, 2023), https://doi.org/10.1787/17a88681-en.
25 OECD, "Characteristics and Vulnerabilities of Small Island Developing States," in *Making Development Co-operation Work for Small Island Developing States* (OECD Publishing, 2018), https://doi.org/10.1787/9789264287648-6-en.
26 OECD, *Recovering from COVID-19: How to Enhance Domestic Revenue Mobilisation in Small Island Developing States* (OECD Publishing, 2023), https://doi.org/10.1787/45f29680-en.
27 UNCTAD, *Building Resilience in Small Island Developing States* (UNCTAD, 2022), https://unctad.org/system/files/official-document/aldcinf2022d2_en.pdf.
28 United Nations, "Enhancing Critical Forms of Financing and Aid Effectiveness Through Collaborative Partnerships: A Conversation," Background Note for the Interactive Dialogue 2, 4th International Conference on Small Island Developing States "Charting the Course Toward Resilient Prosperity," 2024, https://sdgs.un.org/sites/default/files/2024-05/ID%202%20clean.pdf.

a broad range of providers beyond traditional donors but do not have a mandate on standards, norms, measurement, and policy. Furthermore, topics such as trade, investment, aid, tax, and debt are often addressed in a fragmented and even incoherent manner.

Our multilateral systems are fragmented. Yet multilateralism, imperfect as it may be, is a matter of necessity.

Eighty years after the Bretton Woods Conference, and 64 years since the creation of the donor-focused OECD DAC, our development cooperation architecture has delivered much that is good for communities around the world. In a multipolar world, we need institutions that can meet tomorrow's challenges.

A commonality in our current contradictory models is that they have by and large all been designed by and for the North, whereas we need approaches that do more than just listen to the South, and that respect that countries are best placed to determine their own development priorities. And stakeholders from wealthier nations should be collectively working together on the best way to practically deliver development progress that is of benefit to all.

So, as we rightly consider reforms to development cooperation (including ODA) and the metrics or targets that will govern sustainable development finance for the remaining years of the 2030 Agenda and beyond, we need to also take a deep look at our broad development architecture – and make it fit for purpose for our age of polycrisis.

The future of development trajectories is one of stark choices.

We can continue business as usual, with societies ravaged by a cascading sequence of catastrophes: climate-driven mega heatwaves, and droughts and floods making vast parts of the world uninhabitable.

We can continue to suffer extended patterns of instability and interrelated crises at enormous cost to countries and communities, and make incremental changes within an increasingly unstable and unpredictable world.

Or we can practically consider how to set aside our current models and introduce bold, new thinking for collective problem solving, with verifiable targets, concerted efforts to redistribute wealth and opportunities, and reformed multilateral institutions and instruments to incentivise economic behaviours compatible with staying within planetary and social boundaries.

The bottom line is that it is time to find new institutional arrangements that overcome fragmentation and inconsistency and can simultaneously (1) bring together all sources of finance (ODA, South–South, remittances, foreign direct investment, domestic resource mobilisation, blended finance, impact investing, philanthropic finance, debt) and all public, private, and civil society actors, and (2) address all key elements of the development cooperation architecture, from decision making and rule setting to accountability, enforcement, and learning.

Crucial to this endeavour is the ability to bring together all the protagonists involved in our broad development architecture, from the countries most in need of development progress, to providers of finance and resources, to policymakers and, crucially, those who implement projects for a sustainable and peaceful future.

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3. Aid in the Interregnum

Nikolai Hegertun, Håvard Mokleiv Nygård, and Bård Vegar Solhjell[1]

The old is dying and the new cannot be born; in this interregnum a great variety of morbid symptoms appear. – Antonio Gramsci

THE TROUBLES FACING OFFICIAL DEVELOPMENT ASSISTANCE

Official development assistance (ODA) is a unique global policy born from a distinctive era in human history. However, its legitimacy and effectiveness are now threatened on multiple fronts – some exogenous to ODA and some inherent in the very fabric of ODA.

The *external* factors have been brewing for several years and extend well beyond international development cooperation. They include the shift towards a more multipolar world and the discontent of the Global South over some of the key institutions of the global financial architecture; the rise of populism that threatens global solidarity in traditional provider countries; the critique of multilateralism; the persistent inequality manifested in our response to global threats such as the COVID-19 pandemic; and the slow global growth and a global economy "stuck in low gear."[2]

The *inherent* challenges to ODA include questions regarding the inclusivity and representation of the Development Assistance Committee (DAC); difficulties in measuring development efforts in a way that partner countries can easily track; and the ever-evolving envelope of ODA and the confusion regarding its overall mandate when refugee costs, private-sector mobilisation, and truly global challenges are included. The latest "Europeanization" of ODA following the Ukraine war only adds to the contestation. The provision of global public goods (GPGs) is of particular concern for Norad given the paradoxical nature of Norway's economy – both as a global leader in the transition to electric cars and a strong supporter of tropical forest conservation, yet heavily reliant on fossil fuel extraction.

In 2021, Norad published the report *Development Cooperation and Global Investments: What's Next for Development Cooperation?*[3] The report introduced a new "logic" for development cooperation: a clearer separation between efforts to provide GPGs and those efforts aimed at improving the welfare of the world's most vulnerable countries and populations. The idea grew out of a growing frustration: It seems every year it's getting harder to make sense of what the overall purpose – or rationale – for development cooperation is, and consequently, how to most effectively pursue it.

It is important to underline, however: We are not questioning the increasing integration of climate and development. Climate change and biodiversity loss are systemic crises that threaten to halt or even reverse development. However, the provision of these GPGs will require transformational changes to most countries' economies – including vast investments that go far beyond the current levels and potential of ODA.

1 The authors would like to thank Olivier Cattano for providing useful feedback.
2 Kristalina Georgieva, "A Low-Growth World Is an Unequal, Unstable World," IMF Blog, July 23, 2024, www.imf.org/en/Blogs/Articles/2024/07/23/a-low-growth-world-is-an-unequal-unstable-world.
3 Nikolai Hegertun, "Development Cooperation and Global Investments: What's Next for Development Cooperation?" (Norad, 2021), www.norad.no/contentassets/8b464ebc5e5a418c8579c579b4653c0f/development-cooperation-and-global-investments---whatss-next-for-development-cooperation/.

As most traditional aid providers keep falling short of the 0.7 percent target of gross national income committed to ODA, adding more ambitions will most likely just reduce the effectiveness of our efforts. The historical target has gradually shifted from a rather delineated goal of fostering economic growth in poor countries to a far-reaching global agenda of sustainability, making the international community's chances of reaching it even more precarious.

As a "traditional" development agency, Norad stands at the forefront of this evolution – or deterioration, depending on one's outlook. We're dealing with a "global policy" overloaded with objectives, divergent rationales, numerous challenges, actors, and providers, and consequently increased uncertainty about the supply, demand, and effectiveness of aid. Calls for reducing fragmentation and strengthening coherence have yet to yield any result. Crucially, the question of whether development cooperation aligns with the priorities and aspirations of partner countries seems to elude us. Failing the latter risks undermining both effectiveness and legitimacy.

THE DISRUPTION OF THE SUSTAINABLE DEVELOPMENT GOALS

What we are currently witnessing is not a new phenomenon. Indeed, how institutions originally designed for one purpose need to adapt to keep pace with changing circumstances and new objectives is an inherent struggle for institutions.[4] Dilemmas regarding "mission drift," dilution of portfolio, and relevance versus original purpose plague many institutions in our dynamic world. Even changes that we think of as natural and incremental can, over time, sow the seeds of fundamental disruption.

For example, when adopted, the Sustainable Development Goals (SDGs) appeared to be a logical next step from the preceding Millenium Development Goals in the evolution of the international development agenda. In many ways it was, given its continued emphasis on basic needs such as poverty, hunger, education, and health. The almost seamless introduction of global challenges and GPGs, in addition to its elevated ambition, did not, however, cause policymakers to depart from ODA as the primary tool to advance the agenda or to embark on a new kind of "development regime."

Meanwhile, the DAC embarked on a series of reforms to "modernise" ODA and clarify eligibility and accounting rules. These reforms, alongside major events such as the 2016 refugee crisis and the COVID-19 pandemic, had important implications for the "counting" of ODA and what would constitute "donor efforts."[5] While the modernisation process sought to address the recurrent dilemma of "watering down" ODA versus a more principled approach, it did not fundamentally change the international society's approach to the evolving set of challenges it faced.

The Addis Ababa Action Agenda (AAAA) was seen as a comprehensive and complementary framework that would bring in and mobilise additional funding for development. Today, we know that the AAAA did not live up to the international society's expectations – the SDG investment gap now stands at US$4 trillion annually. Most of the SDGs have either "ground to a halt or been reversed," as noted by the latest Sustainable Development Goals Report,[6] and many traditional aid providers still set their hopes on ODA to fill many of these gaps. However, as we underline in this article, the complexification and heightened ambitions in the SDGs have introduced two fundamental disruptions, often overlooked as we stick to the pre-2015 development regime of ODA.

First, the SDGs' focus on global challenges and GPGs marks a significant shift away from the country-based model of traditional development cooperation. We now recognise that countries are increasingly vulnerable to negative "spillover" from one another and are consequently dependent on

4 Francis Fukuyama, *Political Order and Political Decay: From the Industrial Revolution to the Globalization of Democracy* (Straus and Giroux, 2014).
5 Sara Casadevall Bellés and Rachael Calleja, "The Evolution of the ODA Accounting Rules," CGD Note No. 376 (Center for Global Development, 2024), www.cgdev.org/publication/evolution-oda-accounting-rules.
6 UN DESA, *The Sustainable Development Goals Report 2024* (United Nations, 2024), https://unstats.un.org/sdgs/report/2024/The-Sustainable-Development-Goals-Report-2024.pdf.

progress made by others to achieve their own development goals. Indeed, the unique set of challenges facing humanity as a whole – whether it is new technology such as artificial intelligence, the erosion of the biosphere and the water cycle, climate change, and the global repercussions of inflation – introduces new preconditions for development. In a genuinely new terrain, we have no linear model or "developed" country model to emulate; rather, it requires us to manage uncertainty and interdependencies and to *anticipate* development in an entirely different manner. In other words, what supports and what undermines development depends on factors and forces far beyond national boundaries.

Second, by merging climate ambitions and the development agenda, the SDGs introduced a vision of progress and development that diverges from the conventional model of development through economic growth and industrialization. The green transition entails a disruptive shift in the patterns of production and consumption.[7] Indeed, all provision paths of GPGs will inevitably create new winners and losers.

The consequent shift observed in development cooperation – towards GPGs, but also "crisis response" such as humanitarian relief and protection of refugees in aid-providing countries[8] – seems to be accompanied by changing domestic sentiments towards international solidarity. According to the Global Solidarity Report, surveys indicate that younger voters (Generation Z) in rich countries are now less supportive of internationalism than Millennials and see themselves less as "citizens of the world."[9]

THE DIFFERENT RATIONALES OF MODERN-DAY OFFICIAL DEVELOPMENT ASSISTANCE

The recent proliferation of objectives, concerns, and ambitions have placed additional strain on the aid effectiveness agenda, particularly in terms of harmonizing efforts among development partners, aligning with partner countries' priorities, and building a more coherent development architecture. In addition, the decoupling of multilateral arenas seems to have left us less synchronised than ever.

This requires different ways of working: different goals, theories of change, actors, and geographies – even a different distribution of benefits. If we decide to pull our resources and efforts towards providing a GPG like climate, our efforts need to focus on the most effective alternatives to conventional energy production, industrial processes, transportation, and land use. However, countries clearly have different interests and widely different levels of resources to bring to this collective and transformative effort. ODA's simple objective of economic development will not be an adequate framing or avenue for the complexity of incentives, transitions, benefits, and responsibilities involved. During COVID-19, we clearly saw how countries' incentive structure and wide heterogeneity in terms of resources and capabilities resulted in a collective action problem that exacerbated inequality and poverty. Although a vast share of ODA was directed towards pandemic response, other resources and competing interests easily overwhelmed the effort of international development cooperation.

Equally, if we look at humanitarian relief and long-term development, these efforts often play out in the same contexts and are funded by the same ODA budgets. However, their different institutional "homes," principles, and operational mechanisms, frequently result in a fragmented and

7 Shashwat Koiralai and Cian Montaguei, "Lessons from OECD Countries on Just Climate Transitions," in *Development Co-operation Report 2024: Tackling Poverty and Inequalities through the Green Transition* (OECD Publishing, 2024), https://doi.org/10.1787/3584b0bc-en.
8 OECD, *Development Co-operation Report 2023: Debating the Aid System* (OECD Publishing, 2023), https://doi.org/10.1787/f6edc3c2-en.
9 Global Nation, Global Solidarity Report. Global Nation, 2024. https://globalnation.world/global-solidarity-report/.

incoherent development apparatus that does not effectively meet people's needs. Norway's bilateral aid to humanitarian assistance nearly doubled between 2021 and 2023, in large part because of the war in Ukraine. Germany's humanitarian assistance increased more than tenfold from 2012 to 2022.[10] The overall uncertainty and "crisis mode" of ODA has weakened development cooperation's ability to be forward-looking and "investing" in a sustainable future.[11]

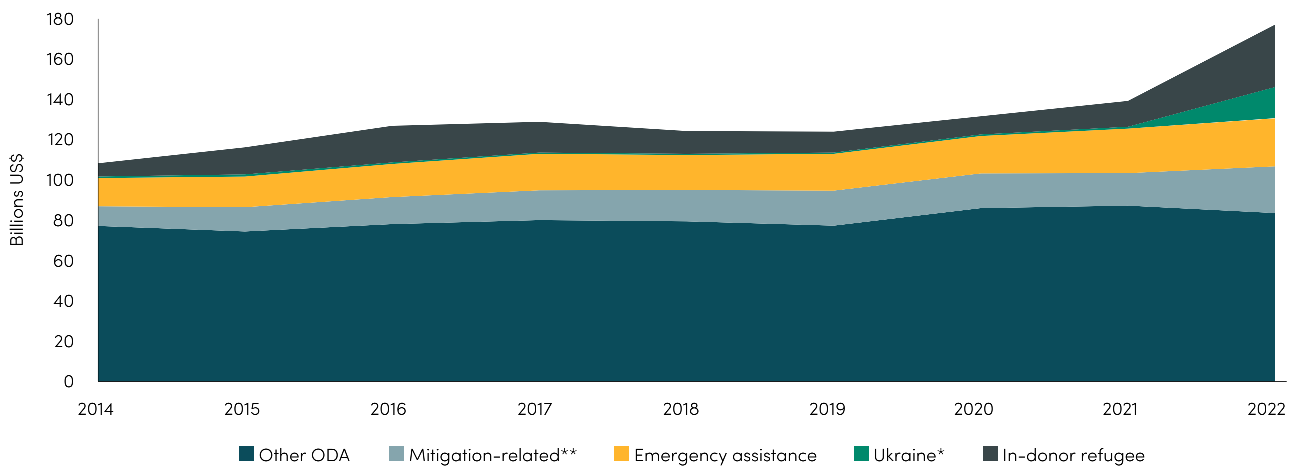
These are just two examples. Currently, we see at least four unique forms of development engagement pulling ODA in different directions, as shown in Table 3.1.

TABLE 3.1 Four emerging rationales of official development assistance

	GPGs	HUM	DEV	REFUGEES
RATIONALE	Global goods for all countries and populations	Needs-based, saving lives, alleviating suffering	Economic and social development, poverty reduction	Supporting and accommodating refugees in donor countries
COLLABORATION	All countries and private actors	Independent and neutral, distanced from government authorities	Collaboration with governments, NGOs, and private sector	Domestic actors in donor countries
WHERE	Everywhere	Areas of acute or chronic crisis	Low- and middle-income countries	Donor countries
TIME HORIZON	No limit	Short term	Long term, yet limited by GDP threshold	No limit

Source: Authors.
Note: GPGs = Global Public Goods; HUM = Humanitarian; DEV = Development.

FIGURE 3.1 Total bilateral ODA disbursements from DAC countries to emerging rationales, in US$ billions



Source: Authors. Data is from OECD Creditor Reporting System. Gross disbursements in US$ constant 2022 prices.
Note: *Excluding emergency assistance and refugees. **Excluding emergency assistance, refugees and Ukraine

10 Jürgen Karl Zattler, "Where to Now for Development Policy? Between Niche and Mainstream, Between Charity and Self-Interest," IDOS Policy Brief 17/2024 (IDOS, 2024), www.idos-research.de/policy-brief/article/where-to-now-for-development-policy-between-niche-and-mainstream-between-charity-and-self-interest/.

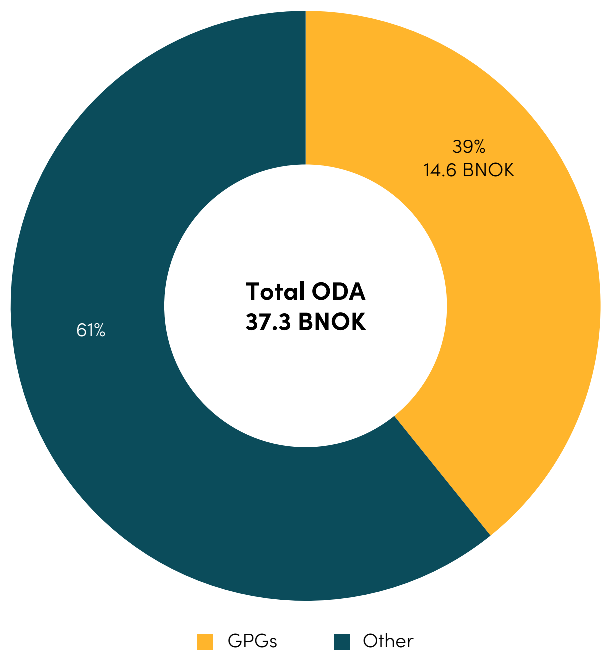
11 Stephan Klingebiel and Heiner Janus, "Global Challenges and Development Cooperation: How the Relationship Is Changing," in *IDEES Special Edition: Rethinking Development Cooperation to Meet the Challenges of the 21st Century*, No. 55 (Centre for Contemporary Studies, 2021). https://revistaidees.cat/en/global-challenges-and-development-cooperation-how-the-relationship-is-changing/.

If we look at some of the "rationales" trends as share of total bilateral ODA from DAC countries (Figure 3.1), there is a clear pattern emerging – of an ODA portfolio in increasing flux in which these rationales explain most of the increase of ODA in recent years. In-donor refugee costs, support to Ukraine (very much a form of strategic "crisis response"), and humanitarian assistance have considerably increased over the last three years, while climate – as a GPG – has steadily increased.[12]

However, we believe the most important trend is the steady increase in GPGs, such as climate, as a share of ODA. According to OECD, the portion of "climate-related development finance" within DAC countries' bilateral ODA increased from 22 percent to 33 percent between 2013–2014 and 2021–2022.[13] In Norway, we witnessed a similar trend over several years, with GPGs growing from 17 percent of bilateral ODA in 2016 to 28 percent in 2021. In fact, when we included core support for multilateral organizations in our analysis, our estimates suggested that 39 percent of total Norwegian ODA went to GPGs in 2021 (Figure 3.2).

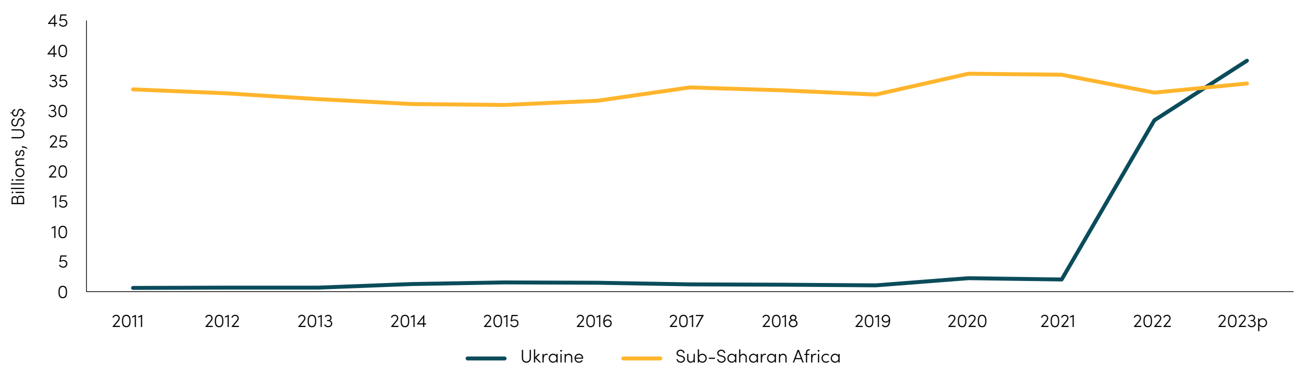
This trajectory was abruptly interrupted, however, by the Ukraine war beginning in 2022. As such, the GPG financing trend is not reversed by a "return" to traditional long-term development in low-income countries, but by a massive influx of ODA to two European countries, namely Ukraine and Moldova (Figure 3.3). This is in line with our overall argument of a fundamentally altered ODA portfolio.

FIGURE 3.2 Global public goods as a share of total Norwegian ODA, in Norwegian kroner billions (BNOK)



Source: Authors. Based on data from an internal analysis conducted at Norad.

FIGURE 3.3 ODA from DAC countries and EU institutions to Ukraine and sub-Saharan Africa



Source: Authors. Data from the OECD Data Explorer, ("DAC2A: Aid (ODA) Disbursements to Countries and Regions."). Disbursements shown in US$ constant 2022 prices.

12 We have distinguished clearly between the categories in the figure to avoid double counting. Following a GPG lens, adaptation is left out, while we have included activities where mitigation is both the primary and significant objective.

13 The numbers from the OECD are based on commitments, not actual disbursed ODA, and combine commitments with a principal and significant climate objective. See "Development Finance for Climate and the Environment," OECD, www.oecd.org/en/topics/development-finance-for-climate-and-the-environment.html.

This is also reflected in the allocation of ODA to different income category groups from all DAC countries, where we see a steady growth in "unspecified" and a sudden surge in lower-middle-income countries (Figure 3.4).

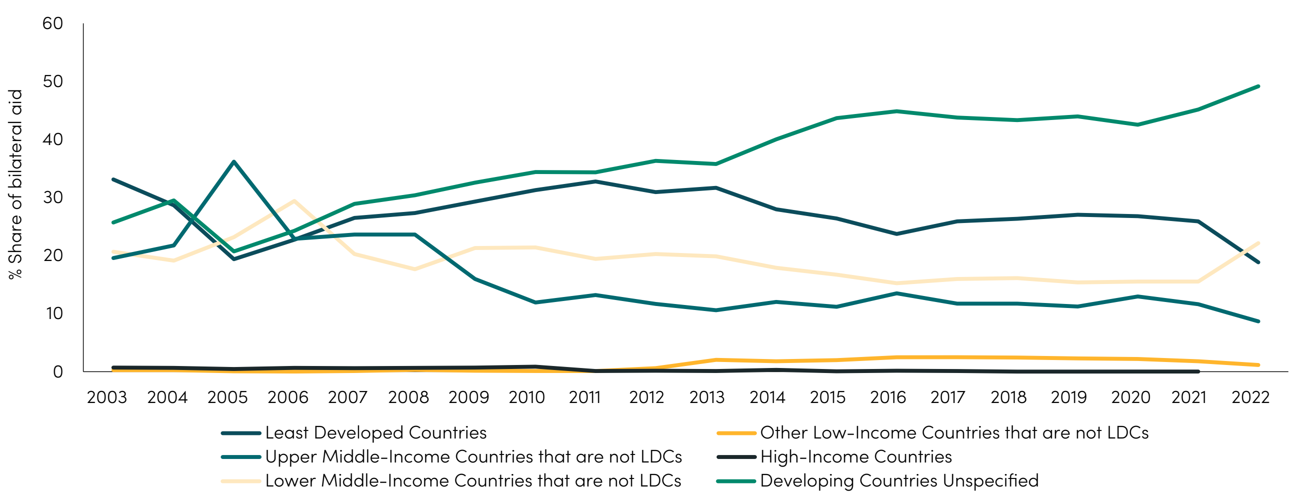
In sum, both the rapid and slow changes to ODA constitute what is usually referred to as "layering" in the study of institutional change,[14] in which new elements and changes over time can lead to paradigmatic shifts. But if we are to take countries' positive or negative contribution to GPGs seriously, we need to consider far more than the volume of ODA disbursements. Indeed, the totality of Norway's policies should ideally be considered because it affects other countries – including the planet's existing stock of public goods and future provision of these.

In short, we need to consider the positive and negative externalities or "spillover" stemming from the Norwegian jurisdiction.[15] An example of why we need a broader mapping of these effects may be found in the so-called SDG spillover ranking, which rank countries according to their positive or negative effect on *other countries' abilities to achieve the SDGs*.[16] While Norway may reside in the top echelons of generosity in terms of ODA volume, we hold the 155th place on the SDG spillover rank. This only serves to underline the fact that we need to be extra careful regarding the composition of the unique resource that ODA still is and lean towards policy coherence for sustainable development to achieve the broader agenda of GPGs. Going forward reducing fossil fuel subsidies, incentivise green investments and technologies, environmental standards and regulations, debt-for-climate swaps, more thorough indexing of net contribution to GPGs and spillover effects will be crucial.

TOWARDS A NEW DEVELOPMENT COOPERATION?

The lack of clarity regarding ODA's purpose remains a vexing problem. A clarification on the core objective and limits of ODA would be a first step to consider. This will not only help in restructuring the overburdened ODA budgets of our time but may help us avoid the problem of new objectives perpetually being added in the future. We believe the time has come

FIGURE 3.4 Share of bilateral ODA from DAC countries over time, by country income groups



Source: Authors.

14 Wolfgang Streeck and Kathleen Thelen, "Introduction: Institutional Change in Advanced Political Economies," In *Beyond Continuity: Institutional Change in Advanced Political Economies*, ed. W. Streeck and K. Thelen, 1–39 (Oxford University Press, 2005), www.ssoar.info/ssoar/bitstream/handle/document/19498/ssoar-2005-streeck_et_al-introduction_institutional_change_in_advanced.pdf?sequence=1&isAllowed=y.

15 Inge Kaul, "Global Public Goods: A Concept for Framing the Post-2015 Agenda?" Discussion Paper 2/2013 (German Development Institute, 2013), www.idos-research.de/fileadmin/migratedNewsAssets/Files/DP_2.2013.pdf.

16 Jeffrey D. Sachs et al., *Sustainable Development Report 2024: The SDGs and the UN Summit of the Future* (Dublin University Press, 2024).

to revisit the foundational principles and purpose of ODA and develop a new and more coherent rationale for development cooperation.

We need to re-align traditional aid providers and countries in the Global South around the primary purpose, principles, and function of ODA. A "new common framework" on development cooperation must, however, be grounded in the dual purpose of development, namely the welfare and well-being of both people and planet. Although historically these have been two different tasks, increasingly we see how progress in one area is intrinsically linked to progress in the other – not always directly or immediately, but to different degrees and certainly over the long term. We nevertheless believe that the efficient provision of GPGs, adaptation and efforts to build resilient economies, and the imperative of human development and poverty reduction will require different approaches, tailored to the unique needs in different contexts and implementation through varied means and financial instruments.

The further development and strengthening of Total Official Support for Sustainable Development (TOSSD), which tracks non-concessional contributions as well as transboundary engagement for GPGs, will be important to provide a more comprehensive map of financing needs and allow ODA to focus on the most vulnerable populations and contexts.[17]

Another crucial step will be to look at the governance structure of the DAC. The evolving, dynamic, and complex development challenges we face require a nuanced and well-balanced response. As a custodian of the unique tool that ODA is, it is imperative that the DAC remains relevant, effective, and legitimate. The traditional donor community's decisions on coordination, measurement, definitions, standards, and principles must be informed and responsive to the needs and preferences of the Global South – many of whom have become aid providers. This is especially true if we are leaving a form of development "assistance," based on re-distribution of resources from rich countries to poor countries, and approaching a form of genuine "collaboration" around shared challenges. Knowledge, statistics, resources, and power are intrinsically linked, and actual influence on agendas, ideas, definitions, and decisions is a way to restore trust between traditional aid providers and countries in the Global South. The DAC needs to find the right balance between inclusion, relevance, and effective decision-making.

The waning support for internationalism – indeed even anti-globalist and protectionist critique – and retreat from a global outlook among young voters is a warning signal at a time when the need for global collective action is imminent. We seem to face a critical juncture that points us in two different directions. In traditional aid-providing countries, we see a tendency towards geopolitical apprehension, protectionism, nationalism, tightening of the budgets set aside for international solidarity, dilution of solidarity, populist critique, and few political leaders being able to muster a progressive response. Outside the DAC, we see a disruption based on critique of the existing order but pointing towards more inclusiveness, de-colonizing aid, "aid debt," loss and damage, reparations, and double standards. For us to find some common ground, we need to realign these paths and find a new equilibrium. The "locally led development" agenda is certainly one step in this direction. Another step must involve a reconsideration, and re-appreciation, of the important role that domestic support and the overall narrative of development cooperation plays. As both ODA and the sentiments towards ODA seem to be changing, we cannot take anything for granted.

As Gramsci's quote underlines, the old is not yet dead; indeed, international ODA is at record levels. But behind the numbers, we see clear symptoms of a struggling and ailing institution. International development cooperation finds itself caught between its original mission of poverty alleviation in the world's poorest countries and the mounting pressures to address global challenges such as climate change, health pandemics, and systemic inequalities that defy borders. While fewer countries are classified as low income, many

17 For more specific recommendations on how to strengthen the TOSSD framework, see Thomas Melonio et al., *Double Standards in Financing for Development*, AFD Policy Paper No. 14 (Agence Française de Développement, 2024), www.afd.fr/en/ressources/double-standards-financing-development.

conflict-ridden and least developed countries will struggle to meet basic needs for decades to come. At the same time, many middle-income countries are exposed to complex and structural vulnerabilities – even as they graduate from middle-income status. Climate change, in particular, has exposed these growing economies' fragility. In this interregnum, between what used to be ODA's purpose and what international collaboration for a sustainable future may look like, ODA is confused, stretched thin, and ultimately less precise and less effective. Whether ODA must die or be renewed as a strengthened institution remains to be seen, but if current trends continue, these morbid symptoms may well become the new normal.

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18 Chat GPT has been applied in editing.

4. The Gordian Knot of International Development Cooperation

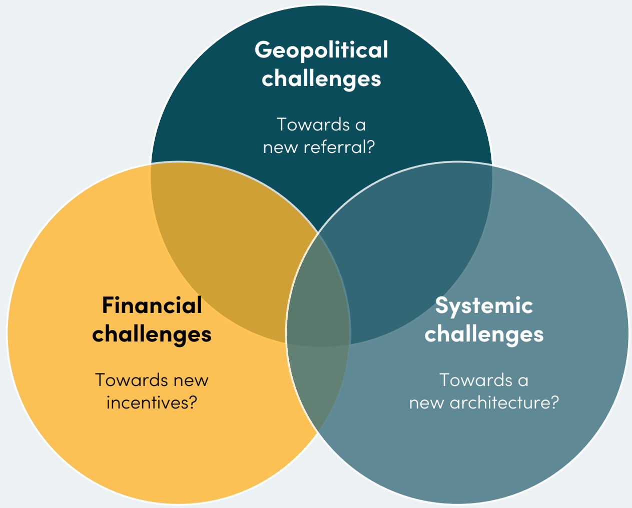
Olivier Cattaneo[1]

INTRODUCTION

Since the COVID-19 crisis, the world has derailed off the Sustainable Development Goals (SDGs) tracks, with growing inequalities that tease domestic and international political tensions. The world is at risk of decoupling, with a profound trust deficit crisis. Development cooperation is at the heart of those tensions, having been a pilar of North-South relations for about six decades. Since the 2022 Bridgetown Initiative,[2] calls for the overhaul of the global financial system inherited from Bretton Woods have multiplied, and reforms have been engaged that should feed the 4th International Conference on Financing for Development in Seville in 2025, where the international community should agree on a new framework for financing the SDGs. There is urgency because many countries lack the resources to support their development at the same time as the climate change and other crises are waving in, putting additional pressure on governments and their budgets to deliver on a multi-layered agenda.

Challenges are so entangled that they resemble a Gordian knot. This paper will explore three sets of challenges that are entwined and weigh in the reform of the global financing architecture and ODA (official development assistance), as shown in Figure 4.1:

FIGURE 4.1 The Gordian knot of ODA



Source: Author.

- Geopolitical challenges – How to restore trust among development cooperation partners while on the edge of decoupling, as well as in a multilateral system and agenda that did not deliver to scale?
- Financial challenges – How to keep pace with growing sustainable development financing needs in times of polycrisis and reduced fiscal space, with incentives that haven't changed fast enough?
- Systemic challenges – How to reform the global financial architecture and evolve conceptual frameworks to

1 The views expressed in this article are the author's only and do not reflect the views of the OECD or its members.
2 Now in its third iteration, the Bridgetown Initiative is a call for urgent and decisive action to reform the international financial architecture (www.bridgetown-initiative.org).

simultaneously embrace old and new development challenges, and adapt governance to shifting distributions of geopolitical and economic powers?

GEOPOLITICAL CHALLENGES

In 2015, the international community adopted the 2030 Agenda and the SDGs that were a new blueprint to achieve a better and more sustainable future for all, as well as the Addis Ababa Action Agenda (AAAA) – adopted at the 3rd International Conference on Financing for Development – a framework for financing sustainable development by aligning all financial flows and policies with economic, social, and environmental policies.

However, a midpoint evaluation of the journey to 2030 reveals significant challenges. Among the assessable SDG targets, a mere 15 percent are on track to be achieved by 2030. Nearly half (48 percent) of the targets that can be assessed show moderate or severe deviations from the desired trajectory. Furthermore, over one-third (37 percent) of these targets have experienced no progress or, even worse, have regressed below the 2015 baseline.[3] An assessment of the AAAA implementation at midpoint points to a similar lack of progress, with financing challenges at the heart of a sustainable development crisis that imperils the SDGs and climate action, and financing gaps that keep growing.[4]

These poor results have triggered credibility and trust deficits that undermine the capacity of nations to collaborate for achieving sustainable development. Recent calls by the UN Secretary-General for an "SDGs stimulus package"[5] received limited echo despite urgency, and industrial policies raise new barriers among nations. International development cooperation is now entrapped into multilayered agendas and sequencing issues: When everyone agrees on the need to address climate change issues, not all agree on the ways to achieve results and to ensure that no country has to choose between people and planet (see question of exploiting newly found oil and gas resources). The "additionality" debate remains unsettled as recent discussions at the COP29 in Baku illustrated.

The world is in a catch-22 situation, unable to turn the page of an agenda that has failed to drive engagement and results to the scale needed, but that cannot be abandoned without accelerating the decoupling as countries or blocks will withdraw behind their individual agendas in a tense geopolitical context. Still, the question of the need to move to a new referral needs to be raised, and the 4th International Conference on Financing for Development (in Seville in 2025) will be a test of the international community's capacity and willingness to react and prevent further divide by addressing the financing issues first. So far, unfortunately, conservatism has prevailed.

FIGURE 4.2 The evolution of ODA drivers over decades

1940s-1960s: Reconstruction of Europe	**1960s-1980s: Post-colonial and Cold War**	**1990s-2010s: Globalization**	**2020s-:**
Aid supports the reconstruction of Europe	Aid supports economic take-off of newly independent states and spheres of influence in the Cold War	Development cooperation supports globalization with twin goals of eradicating poverty and boosting shared prosperity, including to fight against terrorism	Decade of action for the SDGs starts with need to respond to global crises and faces risks of great divergence and decoupling in a context of climate change

Source: Author.

3 UN, *The Sustainable Development Goals Report 2023* (United Nations, 2023), https://unstats.un.org/sdgs/report/2023/The-Sustainable-Development-Goals-Report-2023.pdf.

4 UN Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2024: Financing for Development at a Crossroads*, (United Nations, 2024), https://developmentfinance.un.org/fsdr2024.

5 UN, *United Nations Secretary-General's SDG Stimulus to Deliver Agenda 2030* (United Nations, 2023), www.un.org/sustainabledevelopment/wp-content/uploads/2023/02/SDG-Stimulus-to-Deliver-Agenda-2030.pdf.

Proposed actions:

- Restore trust by revising targets in a robust monitoring framework for Seville and refraining from unrealistic "announcement" pledges that are purely political.
- Reframe the discussion on policy coherence and include the consideration of trade-offs.
- Clarify accounting methodologies and overlaps/complementarities of different agendas, in particular of green and development agendas (question of additionality).
- Apply higher standards for management of development cooperation (improvement of impact measurement).
- Open the question of post-2030 and the revision of the SDGs and AAAA framework with a view to change rather than just update the international development cooperation software.

FINANCIAL CHALLENGES

Geopolitical tensions are exacerbated by an unprecedented pressure on government resources that simultaneously affects both development cooperation providers and their partner countries. Global public debt has surged because of responses to and consequences of the COVID-19 crisis to reach levels three times higher than in the 1970s. This resulted from a scissors effect of a sudden increase in financing needs and a contraction of income linked to the lockdown and disruption of trade and other activities. Many developing countries are facing debt problems, with interest rates that in 2024 remain on average two to three times higher than pre-COVID-19 and a slower forecasted decline than in developed countries.[6] More is expected from governments with less fiscal space: In times of budgetary restrictions, political agendas are essentially driven by domestic priorities, and when geopolitical tensions occur, the isolation temptation is even greater, as illustrated by recent election results in major democracies. Development cooperation then becomes a hard sell unless it clearly serves domestic interests, and a number of major providers have already announced significant cuts in their related budgets.

Private finance mobilisation is put forward as a solution to unlock the trillions necessary to close the SDGs financing gap. There is no doubt this solution strikes many chords: the trillions are in the system, and global assets under management keep growing at a fast pace, representing more than 100 times the amounts needed for the SDGs; private finance is currently the only source of finance at scale to harness the challenges of sustainable development; private investment resonates with a more utilitarian approach to development cooperation, levelling the playing field with emerging economies and supporting the narrative of "win-win" partnerships; and at the origin of the 0.7 percent target discussions, private finance was included in the equation (1 percent of the World Council of Churches) but later removed because no commitments could be made in the name of private actors.

However, the private-sector mobilisation agenda has largely failed (the "billions to trillions" initiative was already launched by the multilateral development banks in 2015[7]), and it will continue to fail unless incentives are changed. A new approach to SDG alignment of finance is needed that would simultaneously remove barriers to alignment in countries of origin of outward investment, in intermediary actors, and in developing countries.[8] The current focus on instruments and leveraging private finance with ODA is reaching its limits, and more attention should be brought to the enabling role of ODA – in the spirit of the "cascade approach." Figure 4.3 identifies some of the trillions in the system (stocks and flows, both domestic and external sources) and the amounts spent on the leveraging function of ODA for each source of financing.

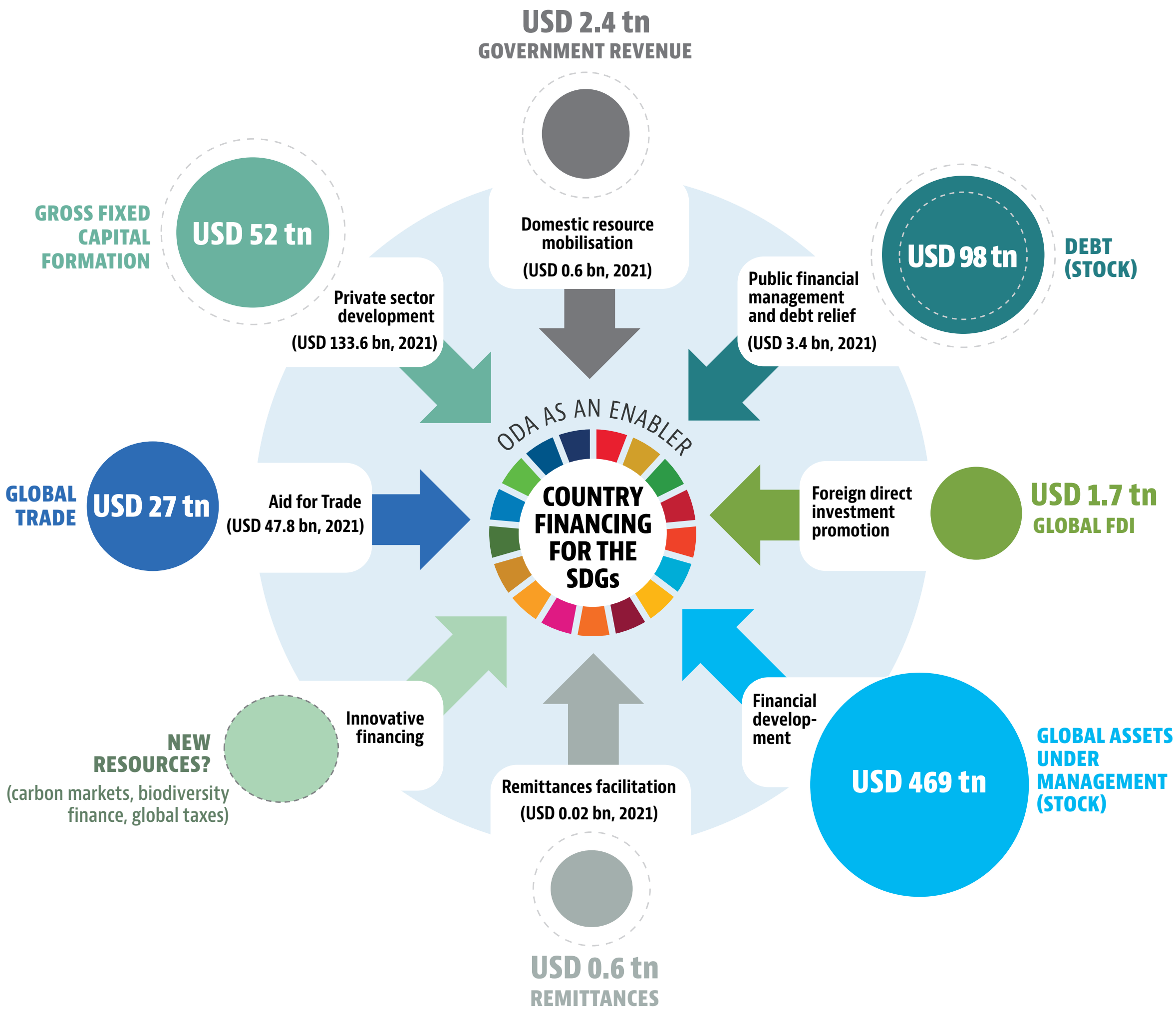
Incentives also need to change to attract more private finance in developing countries and in sectors that have a positive impact on sustainable development. There is a strong

6 IMF, *Annual Report 2024: Resilience in the Face of Change* (International Monetary Fund, 2024), https://cdn.sanity.io/files/yg4ck731/production/305c76ee35a5e231ed9b2720ff64d8f980a4101e.pdf/English%202024%20IMF%20Annual%20Report.pdf.

7 World Bank, *From Billions to Trillions: MDBs Contributions to Financing for Development* (World Bank, 2015) https://documents1.worldbank.org/curated/en/602761467999349576/pdf/98023-BR-SecM2015-0233-IDA-SecM2015-0147-IFC-SecM2015-0105-MIGA-SecM2015-0061-Box391499B-OUO-9.pdf.

8 OECD-UNDP, *Framework for SDG-Aligned Finance*, (OECD-UNDP, 2020), https://sdgfinance.undp.org/resource-library/framework-sdg-aligned-finance.

FIGURE 4.3 Where are the resources to be mobilised for financing sustainable development?



Source: Author.

economic case for investing in the SDGs, but short-term returns continue to prevail and guide investors as well as credit rating agencies.[9] A recent IMF study shows that a net zero carbon emissions by 2050 scenario would add another 8 points of GDP with mitigation costs below 2 points of GDP.[10] Yet, as suggested by the OECD-UNDP Framework for SDG-aligned finance, this shift to sustainable investment won't happen unless there is a clear regulatory steer; in the mean-time, investors will always be tempted to have a last bite at the apple, and "brown assets" have record high returns. In 2023, the benefits of Saudi Aramco alone were greater than total ODA excluding Ukraine, COVID-19, and in-donor refugee costs.

Part of changing incentives could also consist of valuing new assets such as oceans, forests, and the like, and setting up efficient carbon markets, thereby automatically shifting assets to resource-rich developing countries, such as small island developing States (SIDS) for the oceans. However, the experience of oil that has become a curse for many countries suggests that good management practices should be put in place early to avoid land and resource grabbing that starts to

9 Jeffrey D. Sachs, Guillaume Lafortune, Olivier Cattaneo, and Abdoulaye Fabregas, *The Case for Long-Term SDG Financing*, UNSDSN Reflection Paper, (UN Sustainable Development Solutions Network, 2023) https://files.unsdsn.org/the-case-for-long-term-sdg-financing-e3a35f12.pdf.
10 Jens Mehrhoff, "Benefits of Accelerating the Climate Transition Outweigh the Costs," IMF Blog, December 5, 2023. www.imf.org/en/Blogs/Articles/2023/12/05/benefits-of-accelerating-the-climate-transition-outweigh-the-costs.

take place in some African countries (e.g., purchase of forests by some oil-producing countries to offset emissions).[11]

These could be among new sources of financing for sustainable development to be created. In the current discussions on reform of the global financing system, the idea of creating new global taxes – such as a tax on international shipping, 15 percent minimum corporation tax, or a tax on high-net-worth individuals – has gained new traction. How the loss and damage fund announced at COP28 will be funded remains unclear even after COP29. The use of Special Drawing Rights (SDRs) is also highlighted. The work of the Leading Group on Innovative Financing for Development (established in 2006) could be reinvigorated to identify innovative solutions and sources of financing for closing the SDG financing gap.

Proposed actions:

- Accelerate the SDG alignment work and adopt a list of objectives on the basis of a revised OECD-UNDP Framework to be adopted by the international community.
- Revise the mobilisation agenda to clarify its scope and objectives, focusing on country implementation and absorption capacities (enabling versus leveraging).
- Reinvigorate the work on innovative financing for sustainable development for the financing of global public goods, for example through the Leading Group on Innovative Financing for Development.
- As part of the SDG alignment work, provide a clear regulatory framework for sustainable investment, and reward/sanction good/bad practices.

SYSTEMIC CHALLENGES

The ultimate challenge is to unlock institutional or systemic obstacles to the emergence of a new international development cooperation model: It is at the heart of current discussions of the global financial architecture reform. For decades, the model hasn't evolved except at the margins, with new layers of complexity added as new needs arose, resulting in a "spaghetti bowl" of instruments and modalities attached to hundreds of bilateral, regional, or multilateral/vertical funds, in spite of aid effectiveness principles that recommend greater coordination.[12] The complexity of the system has become in itself a barrier to access to finance in developing countries, even in countries most in need that should have a facilitated access to grants and concessional finance; insufficient efforts are put into creating an environment conducive to the deployment of innovative financial solutions, as illustrated by poor disbursement rates of some funds dedicated to least developed countries (e.g., some IDA windows, Enhanced Integrated Framework on aid for trade, and green funds in SIDS).

ODA that has been the reference of international development cooperation since the 1960s must evolve to better reflect the reality of demand and supply in the SDG era. There is a tension between the need to expand the definition of ODA to reflect the growing diversity of objectives and instruments assigned to development cooperation, and the need to avoid diversion or dilution of ODA in support of its original objectives and countries most in need. It is likely time to reform ODA to allow for a ring-fencing of core ODA objectives in support of those most in need, while unleashing its potential at the investment margin to support crises response and financing of global public goods with an additional measure or set of measures, most of which are already captured by OECD databases and the recent Total Official Support for Sustainable Development

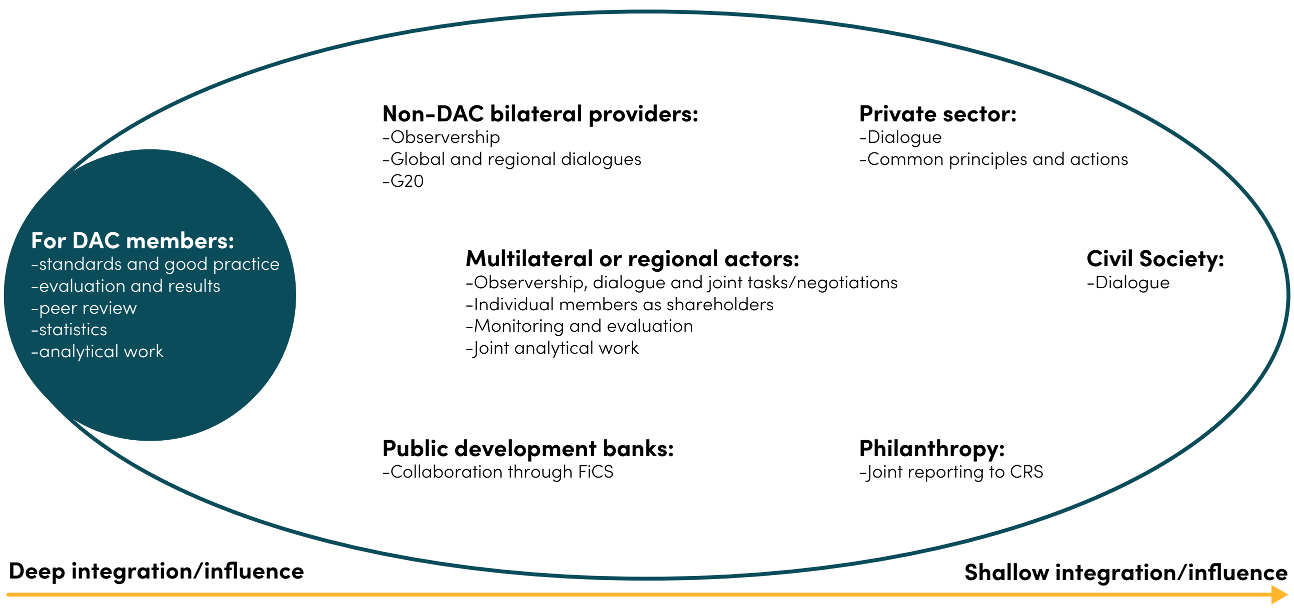
11 Blue Carbon LLC, an Emirati company, acquired in 2023 exclusive rights for 30 years to 10% of the total surface area of Liberia, as well as Tanzania, Zambia, and 20% of Zimbabwe, for a total of 25 million hectares. See Clément Bonnerot, "The United Arab Emirates' Take-Over of African Forests," *Le Monde*, December 10, 2023, www.lemonde.fr/en/le-monde-africa/article/2023/12/10/the-united-arab-emirates-takeover-of-african-forests_6328426_124.html.

12 OECD, *Multilateral Development Finance 2024* (OECD Publishing, 2024), www.oecd.org/en/publications/multilateral-development-finance-2024_8f1e2b9b-en.html.

(TOSSD). A number of recent research papers point in that direction.[13] Accordingly, the TOSSD could be further developed to add the recipient and SDG perspectives in the development cooperation measurement toolkit: More than 120 countries already report to TOSSD, which has become independent of the OECD in 2024.

The effectiveness agenda should also be revisited to bring its core principles in the SDGs era and make the most of resources available to developing countries. The quality of development cooperation is just as important as quantity: too much finance faces disbursement delays or is difficult of access to countries most in need;[14] too much finance is allocated in an inefficient way, with some areas of support over-funded and others under-funded, overlaps and gaps across portfolios of actors due to lack of transparency or coordination, and misalignment with country strategies. Now that about one-half of ODA is channelled through the multilateral system, shareholders of the system cannot shy away from imposing on multilateral organizations the same effectiveness principles they assigned to themselves.[15] The same way the DAC was created at the onset of the 1960s to coordinate actions of bilateral donors that at the time represented the near totality of development cooperation, a "DAC+" (with a variable geometry) would be needed to develop common standards and metrics, share good practices, peer reviews, and result assessments for a broader range of actors. In recent years, the DAC has already participated to a number of dialogues (LAC-DAC, Arab-DAC, CSO-DAC) and a Global Providers meeting that could be the premises of this new configuration.

FIGURE 4.4 State of cooperation of the DAC with different actors



Source: Author.

13 Thomas Melonio, Rémy Rioux, and Jean-David Naudet, Double Standards in *Financing for Development*, AFD Policy Paper No. 14 (Agence Française de Développement, 2024), www.afd.fr/en/ressources/double-standards-financing-development; Serge Tomasi, "Les Financements Publics du Developpement et des Biens Publics Mondiaux : Comment les Mesurer?," Rapport Ferdi (Fondation pour les Etudes et Recherches sur le Développement International, 2024), https://ferdi.fr/dl/df-BLuAp8VCEdvi55JphsKvNvnL/ferdi-rapport-2024-les-financements-publics-du-developpement-et-des-biens.pdf.

14 Jorge Moreira da Silva, "Overcoming the Development-Project Implementation Gap," *Project Syndicate*, April 22, 2024, www.project-syndicate.org/commentary/replenish-international-development-association-ida-funds-and-tackle-project-implementation-gap-by-jorge-moreira-da-silva-2024-04.

15 OECD, *Multilateral Development Finance 2024*.

Proposed actions:

- Revise the ODA narrative to ring-fence core objectives and/or targets and allow for greater flexibility at the investment margin by adding data on new types of flows, including in TOSSD.
- Reaffirm the effectiveness principles and enhance their implementation, including bringing effectiveness up to scale to encompass a broader variety of actors (governance of the multilateral system).
- Reform the global financial architecture with a renewed ambition for the DAC, with strengthened engagement strategies with non-DAC providers and new actors including public development banks, international financial institutions, and private and philanthropic actors in a format to be defined.

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PART 2

Political and Institutional Realities

5. In Search of Metrics for a Post-North-South International Development Cooperation Agenda

Gerardo Bracho[1]

At the Summit for the Future, Antonio Guterres warned that the world is on a dangerous path, approaching a catastrophe the UN is powerless to address. He emphasised the need to revive the agendas of the Sustainable Development Goals (SDGs) and the Paris Agreement on climate change. As highlighted in the preparatory document for the upcoming Fourth International Conference on Financing for Development (FFD4) summit in Seville, international development finance is crucial to achieving these goals. Yet the current paradigm of international development cooperation (IDC) – based on an outdated North-South divide that places all IDC responsibilities on the North with vague and sometimes collective commitments (in which the free rider strategy is pervasive) – is totally out of step with the magnitude and nature of our current challenges. As this divide has lost legitimacy, moreover, Northern donors have been diluting their contributions (in quantity and/or quality), causing the old system to function even less effectively than before. The SDG framework has 17 goals and 169 specific targets across them. Yet there is no clear route to achieve them.

This article advocates for a new IDC system, based on a redefinition of the North-South divide, aimed at more effectively addressing global challenges. Recognizing today's divisive international context, it proposes an incremental approach that builds on existing metrics, institutions, and narratives rather than creating an entirely new system. It focusses on how the main metrics we have today – namely ODA, South-South Cooperation (SSC), and Total Official Support for Sustainable Development (TOSSD) – could be used to advance this vision.

A NEW IDC SYSTEM BASED ON A RENEWED NORTH-SOUTH BURDEN-SHARING SCHEME

The new IDC system we need should rest on a legitimate and just framework for burden sharing that establishes concrete commitments and clearly indicates who should do what and how. To achieve this, we need to reevaluate the outdated North-South divide, which has been disrupted by the rise of emerging Southern powers.[2] The latter, while retaining their right to ODA, have been acting more as providers than as recipients and no longer fit neatly within this binary classification. To create a new IDC system of transparent and quantifiable contributions, accompanied by global taxes and other

1 Gerardo Bracho is an Associate Researcher at IDOS and a member of the Mexican Foreign Service. Mr. Bracho takes full responsibility for the views expressed in this article, which should not be attributed to the Mexican government.

2 Gerardo Bracho, "In Search of a Narrative for Southern Providers: The challenge of the Emerging Economies to the Development Cooperation Agenda," DIE Discussion Paper 1/2015 (German Development Institute, 2015), www.idos-research.de/fileadmin/migratedNewsAssets/Files/DP_1.2015.pdf.

instruments, we need a legitimate metric or system of metrics to measure the contribution of each nation to the common endeavour. Finally, this system/metric would need to be established and monitored by an empowered United Nations.

Given the current geopolitical divides and pervasive lack of trust, strengthening our battered multilateralism will not be easy, but we need to make the effort and be pragmatic. Expecting a quick fix, such as a single UN summit that would replace the old IDC system with a new one, is unrealistic. Instead, we must make incremental progress through our current institutions, gradually moving toward a better system for tackling our current challenges. To achieve this, we must address two issues: what should replace the traditional North-South divide, and which metric or metrics are appropriate for this new system.

REDEFINING RATHER THAN ABOLISHING A NORTH-SOUTH, DEVELOPED-DEVELOPING DIVIDE

The North-South divide underlying the IDC agenda is based on three main parameters: (1) the metric of ODA as defined by the Development Assistance Committee (DAC) of the OECD; (2) the 0.7 percent ODA/GNI target established by the UN; and (3) the North-South divide, based on the World Bank's classification of countries by GDP per capita. Many argue that we should simply abolish the outdated North-South. This proposal seems appealing as it aligns with the universal aspirations of the SDGs, aiming to eliminate paternalism and to promote equal relations among countries by recognizing that despite difference in wealth all face challenges. On these grounds, we could build a new system of IDC in which all countries give and receive.

Nonetheless, this proposition is both unrealistic and impractical, as it demands a tabula rasa that is not only denialist – since real divisions between nations remain as pronounced as ever – but also, in today's context, politically unfeasible. Seriously embracing this approach, as proposed, for example, by the innovative and in many ways valuable Global Public Investment (GPI) initiative, would require a fundamental overhaul of the narratives and institutions that shape the IDC agenda, calling into question institutions such as the G77, DAC, ODA, SSC, and the World Bank, all of them grounded in a worldview that categorises nations as "rich and poor" or "developed and developing."

We might pretend the North-South divide is irrelevant, while still operating within its framework, as we currently do in many ways. This seemingly pragmatic stance, however, hinders progress toward a viable solution. Rather than dissolving – or pretending to dissolve – the North-South or developed-developing divide, we should adapt it to reflect contemporary realities. Our goal should not be to artificially graduate and exclude emerging Southern powers and other upper-middle-income countries from ODA, but rather to integrate them formally into the provider side of development cooperation. This would involve assigning responsibilities and commitments tailored to their relative wealth, capacities, and needs and aligned with their historical tradition of SSC. In other words, these countries would assume differentiated responsibilities, less stringent than those of the North, preferably following the well-established principle of Common but Differentiated Responsibilities.

The advantages of this approach are twofold: to bring more Southern resources into IDC and to curb the erosion of Northern responsibilities. Historically, some Southern actors have resisted this solution, viewing it as an attempt by Northern donors to shift their own obligations onto the South. Without such an approach, however, Northern donors have retained their hegemony in IDC while diluting their commitments, leaving us with the worst outcome: fewer IDC contributions, in quantity and quality, from both North and South. This scenario aligns with collective action theory, which suggests that when a given regime cannot accommodate new actors, its performance rapidly deteriorates.

In sum, we need a redefinition – not an abolition – of the North-South divide. But how can we move toward this goal? The international community has long agreed on categorizing Southern countries by their needs, recognizing groups such as Least Developed Countries, Small Island Developing States, and Fragile States. What we now need is a similar categorization based on the capacity of certain Southern countries to generate IDC. Although this task has proven more complex, there are signs pointing in the right direction. We already have inclusive, albeit not universal, development institutions such as the Global Partnership for Effective Development Cooperation and the International Forum for TOSSD (Total Official Support for Sustainable Development), which go beyond the North-South binary, incorporating three actors: recipients, donors, and Southern providers or dual provider/recipient nations. More importantly, concrete IDC proposals for emerging Southern countries to participate as providers have been put forward by leaders who can do so with both legitimacy and responsibility. In 2021, former Mexican President López Obrador called on all G20 members (including developing ones) to contribute 0.2 percent of their annual national income to a global fund to address extreme poverty. More recently, Brazilian President Lula proposed a Global Alliance against Hunger and Poverty. Whether or not these initiatives materialise, they move toward the conceptual breakthrough needed to establish the truly effective burden-sharing scheme we need.

THE METRICS WE NEED FOR A NEW IDC SYSTEM

A new burden-sharing scheme involving developed countries from the North and emerging powers or affluent upper-middle-income countries from the South will require a metric to assess IDC contributions. Ideally, this would entail a unified IDC metric designed and administered by the UN. But this would require drastic institutional changes, including replacing ODA with a new metric and its custodian, the DAC, with a new UN agency. Alternatively, Southern providers could report their IDC contributions to the DAC using ODA standards. However, most Southern providers have resisted this approach due to their longstanding SSC framework. They view the ODA as a metric over which they have no influence and that is misaligned with their needs. Encouragingly, ongoing developments in development metrics could support a new burden-sharing scheme within existing frameworks. These include the modernization of ODA; the establishment of a consensual definition of SSC; and the inclusive design of TOSSD, which seeks to unite both Northern and Southern providers under a new IDC metric. Each of these processes will be briefly discussed.

THE MODERNISATION OF ODA[3]

By the end of the first decade of the century, ODA was widely seen as outdated in both concept and implementation. Established by the DAC between 1969 and 1972, ODA faced two opposing critiques. Some argued it had strayed from its core mandate, undermining donor effort and compromising quality. Others viewed it as too rigid and conservative, unable to accommodate new financial tools and to adequately contribute to generate the substantial funding – public and private – required by the 2030 Agenda. While the first critique focused on quality, the second centred on quantity. In response, the DAC made two key decisions at its 2012 High-Level Meeting: (1) to modernise and streamline ODA; and (2) to explore a new metric "beyond aid," leading to the creation of TOSSD. Over a decade later, ODA modernisation is largely complete, and TOSSD's development is well underway. Yet outcomes have been mixed and somewhat disappointing.

Technically, the DAC might have achieved better results by addressing each critique separately. ODA modernisation could have prioritised quality, safeguarding its integrity as a measure of donor effort. Meanwhile, TOSSD could have focused on quantity, adopting a more flexible approach to prioritise development impact and resource mobilisation, as its "beyond aid" vision implied.

Yet, mostly due to the link between the 0.7 percent political commitment and ODA, the DAC chose to address both quality and quantity criticisms without changing ODA's core purpose:

3 For good synthetic guides (with useful bibliographies) on how the ODA concept has evolved over the years and which recent proposals for its reform have been put forward, see Sara Casadevall Bellés and Rachael Calleja, "The Evolution of the ODA Accounting Rules," CGD Note 37 (Center for Global Development, 2024); and Rachel Calleja and Sara Casadevall Bellés, "Proposals for ODA Reform: A Review of Key Approaches" CGD Note 375 (Center for Global Development, 2024).

capturing donors' budgetary effort through concessional finance. The modernisation process began by tackling the quality issue, specifically the outdated fixed concessional formula that allowed some donors to profit from ODA flows amid persistently low interest rates. To restore ODA's legitimacy, the DAC updated the formula and adopted a new counting method.

Regarding the latter, instead of measuring ODA by total cash flows disbursed, the DAC shifted to a grant-equivalent basis, which counts only the concessional portion of loans – the "grant element" – as ODA. This approach better aligns with ODA's goal of representing donor effort, effectively treating concessional loans like grants and making ODA 100 percent concessional in principle. However, this change has a downside: ODA no longer reflects actual monetary flows, complicating communication with the public and making it harder for recipient countries to assess incoming funds. Despite this, as a measure of donor effort, the grant-equivalent approach more accurately aligns with the 0.7 percent target commitment.

Unfortunately, the progress achieved with the new counting method was undermined by flaws in the DAC's updated concessional formula. Instead of adopting formulas that accurately reflected market conditions and adapted as these evolved, the DAC implemented a lenient version, allowing flows with very low or no concessionality to qualify as ODA. Additionally, the modernization effort only partially addressed the contentious issue of counting in-donor refugee costs as ODA, despite many refugees not returning to their home countries. Similarly, there was no progress on the controversial inclusion of imputed student costs as ODA, even though many students remain in donor countries. Consequently, some ODA funds continue to finance brain drain rather than development.

The quality issue worsened as modernisation efforts shifted focus to quantity and the challenge of incentivising donors to increase ODA and attract additional resources. Public flows face budget constraints, and the more concessional a flow, the less returns it generates to replenish itself; thus, a diluted ODA (including less concessional flows) enables higher ODA figures without increasing donor effort. This is the contentious outcome of the new rules applied on debt forgiveness and novel private-sector instruments, designed to align with grant-equivalent accounting, but stretching statistical soundness. These, together with the mentioned flawed concessional formula, have indeed the potential to mobilise higher ODA figures. At the same time, they also allow donors to report more ODA without increasing their actual effort – sacrificing quality for quantity.[4]

In sum, the DAC could not reconcile the dual challenges of ODA's quality and quantity within a single metric. With weakened accountability from the erosion of the North-South paradigm, Southern providers lacked moral standing to critique Northern counterparts, having avoided commitments themselves. Recipients, excluded from DAC discussions, further reduced pressure on donors to establish a coherent, credible ODA framework. Amid current geopolitical challenges, the new ODA has yet to mobilise significant public and private resources. IDC budgets are strained by competing priorities such as military spending, domestic social needs, and climate initiatives, while rising nationalism undermines foreign aid support. Though total ODA volumes appear stable, quality is deteriorating. Funds are being redirected from poverty reduction in Africa toward Ukraine, in-donor refugee costs, and potentially global public goods (GPGs), neglecting crises in Palestine and other Southern regions.

TOWARDS A CONSENSUAL METRIC OF SOUTH-SOUTH COOPERATION

Recent developments in SSC are somewhat more promising. Although this Southern concept also has deep historical

4 In a recent paper, officials from the French Development Agency (AFD) contend that by restricting donors to scoring ODA from their Private Sector Instruments exclusively through the "institutional method," the DAC enhanced the coherence of ODA as an indicator of donor effort. This being true, questions about the concessionality of PSI persist. See Thomas Melonio et al., *Double Standards in Financing for Development*, AFD Policy Paper No. 14 (Agence Française de Développement, 2024), www.afd.fr/en/ressources/double-standards-financing-development. For a thorough critique of the PSI and debt-forgiveness rules see the blogs of Simon Scott posted in www.odareform.org/.

roots dating back to the early postwar era, it has consistently resisted evolving into a clear-cut IDC metric. Without such metric, however, holding Southern providers accountable and establishing a fair burden-sharing framework will be challenging. Thanks to the 2030 agenda, however, a breakthrough on this front has recently emerged.

SDG Goal 17.3 calls for the "mobilization of financial resources for sustainable development from multiple sources," including SSC. In 2020, the Inter-Agency and Expert Group on SDG Indicators (IAEG-SDGs) acknowledged the lack of a clear, consensual definition for SSC, prompting the establishment of a "subgroup" on SSC to address this gap. Composed of officials from Southern countries and supported by the UN Trade and Development (UNCTAD) secretariat – with leadership from Brazil and Mexico and contributions from China and others – this subgroup developed a framework to "quantify SSC," which was subsequently endorsed by the G77. This framework is now being pilot tested in various countries, with UNCTAD expected to assume the role of custodian once it is finalised.[5]

For several reasons (capacities, resources, knowledge, etc.), even if it manages to consolidate itself and to be properly recognised by all major Southern players, the SSC framework will not become as institutionalised as ODA, and its proper implementation will face many more obstacles than those confronted by the Northern donor metric. Nonetheless, it shares enough key characteristics with it that they could both eventually serve as complementary pillars in a post-North-South burden-sharing scheme. Like ODA, the SSC framework focuses on official flows – of money and resources – that contain a concessional element and that aim to support the achievement of the SDGs. Ironically, its institutional weakness might make it more comparable to the diluted ODA that emerged from the modernization process than with the previous one. They would both be grounded on a loose notion of effort.

CONCLUSION: THE TOSSD PROJECT COULD HELP TO UNDERPIN A POST-NORTH-SOUTH BURDEN-SHARING SCHEME FOR IDC

Although TOSSD was not intended to bridge ODA and SSC in creating a new IDC system, I conclude this chapter discussing the TOSSD initiative and arguing that it has the potential to do so.

As previously mentioned, in 2012, the DAC made a dual decision: to explore the creation of a new metric "beyond aid" and to modernise ODA. This decision, however, did not sufficiently clarify the boundaries between these metrics or a definitive purpose for the new metric. Although the TOSSD project began with hesitation, more than a decade later, it is nearing completion.[6] As its name suggests, TOSSD is designed to capture all official external financial flows – both concessional and non-concessional – from bilateral and multilateral sources that help developing countries achieve their SDGs. It also aims to account for official resources dedicated to creating GPGs, though this aspect remains contentious. The statistical framework of the metric is nearly finalised, with four rounds of pilot data collection completed under a provisional definition. TOSSD's reach has now expanded significantly, with 59 countries and 62 multilateral organizations, such as UN agencies and development banks, reporting 2022 data in the 2023 exercise.

While the success of TOSSD is not guaranteed, it has the advantage of being already established and, key to our discussion, it works in an inclusive way. As previously mentioned, it operates through three types of bilateral actors: recipient countries, traditional donors, and dual (Southern) providers, capturing flows from both donors and Southern providers – 18 of whom have already reported. Within its broader coverage, TOSSD includes ODA and SSC flows, many of the latter reported under the framework developed by the IAEG-SDGs' SSC subgroup with which it developed close ties. Unlike ODA,

5 For information on this work, see "Quantifying South-South cooperation to mobilize funds for the Sustainable Development Goals," *UNCTAD*, https://unctad.org/project/quantifying-south-south-cooperation-mobilize-funds-sustainable-development-goals.
6 For more information, see OECD, "TOSSD," https://www.tossd.org/.

which is administered exclusively by DAC donors, TOSSD has an inclusive governance structure. Initially a DAC initiative, TOSSD has since evolved, and now is under the administration of the International Forum on TOSSD (IFT), hosted by the OECD but with its own membership, budget, secretariat, and governance. The IFT is led by two co-chairs and a steering committee with equal representation from all three types of bilateral actors (eight members each), giving the South a formal majority, with additional seats for intergovernmental organizations, and UNCTAD and civil society organisations (CSOs) as observers.

Despite this structure, traditional donors still largely drive the TOSSD agenda, mostly due to Southern countries' limited capacities, resources, and cross-country communication. Nevertheless, the South and CSOs have already influenced critical aspects of the TOSSD framework, such as (1) establishing a "data review mechanism" for recipients to assess the support they receive alongside providers and the secretariat, (2) advocating for stricter accountability of TOSSD flows for GPG, and (3) incorporating criteria beyond GDP per capita for defining the TOSSD list of recipients. This last innovation aligns with the widely accepted view that development assessments must extend beyond GDP measures and addresses a long-standing demand from middle-income countries. At the same time, this approach should not diminish the expectation that certain Southern countries strengthen their roles as providers and assume differentiated responsibilities. On the contrary, the assurance of being treated equitably as recipients – based on objective criteria – can enhance their commitment and legitimacy as providers, allowing them to step up without fearing the loss of the international support they still need.

In sum, as an inclusive platform that brings together Northern and Southern countries, with the support of a technically competent secretariat, the IFT is well-positioned to eventually help design, negotiate, and operate a post North-South burden-sharing scheme for a renewed IDC system, including climate finance. However, while TOSSD's inclusive governance structure is the right one, the metric itself may not be ideally suited for this role. To allay fears that the new metric would end up competing with and eventually displacing ODA with its 0.7 percent commitment, TOSSD's original primary objective was to adopt a recipient-country perspective. Its purpose was to provide recipient countries with comprehensive data on the effective bilateral and multilateral official flows they receive – data, which is typically lacking in DAC reports, would become even scarcer due to the ODA modernization decision to shift to grant element accounting. Yet any effective burden sharing framework requires a provider perspective on effort; without this, the concept of "burden" is rendered meaningless.

Having said this, recent developments indicate that TOSSD may indeed become appropriate for the role we envision. Originally conceived as a "new metric," TOSSD has evolved into an umbrella encompassing various "sub-metrics." It began with a pillar for cross-border flows to recipient countries to address the recipient perspective and a second pillar for other flows, which has recently been further divided between sub-pillars A and B to better account for GPGs. Over time, demand grew to also incorporate a "provider perspective" within TOSSD; understandably, as providers contribute TOSSD data and naturally wish to see their contributions recognised. In response, the IFT has recently determined that the risk of TOSSD overshadowing ODA has diminished and has introduced a framework for presenting TOSSD data from the provider perspective as well. Building on this perspective, the TOSSD framework already distinguishes SSC flows and could do the same for ODA. This flexibility would allow TOSSD to identify the relevant concessional flows needed for a post-North-South burden-sharing IDC system, drawing on existing institutions and concepts rather than creating a new system from scratch. Such a plan would clearly need to be triggered by a high-level political initiative taken at the UN or the G20. Should this happen, the IFT and TOSSD have the potential to help.

Whether or not TOSSD ultimately contributes to such a new IDC system, its transition into an umbrella of sub-metrics could help consolidate its role. All these sub-metrics are relevant, and each could benefit from a descriptive subtitle to clarify its content and reinforce its distinct identity and utility. This approach could also facilitate consensus within the IFT, especially on contentious issues regarding which flows to include in TOSSD. Furthermore, it would address criticisms that aggregating all these diverse flows into a single measure makes little sense.

Yet the main obstacle that TOSSD faces to consolidate and legitimise itself as a metric – or set of metrics – is political: Its OECD DAC origins continue to taint it. It is important to note that the UN FFD3 summit in Addis Ababa endorsed the TOSSD initiative, even though at the time it was fully linked to the DAC. Now, TOSSD is under the custody of an independent IFT and has incorporated issues dear to the South (as multidimensional criteria), which gives it greater credibility, though the geopolitical landscape has considerably worsened. Ideally, reason will prevail, and the upcoming FFD4 summit will continue to support TOSSD and its potential to help build an IDC suited for these challenging times.

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6. The DAC to 2030: Evolution, Not Revolution

Susanna Moorehead

With 2030 fast approaching, and little hope of achieving the Sustainable Development Goals (SDGs) by then, the future of development cooperation and finance are fiercely contested. The scope, quantity, quality, reform, and future of official development assistance (ODA) continue to excite divergent views, as they have done since the founding of the Development Assistance Committee (DAC) in 1961. These debates are linked, but they are not the same. This piece focuses on what drives decision making and change in the DAC and tries to clear some of the debris. In contrast to what many critics argue, it is culture and politics – not strategy and statistical skulduggery – that enable this like-minded coalition of willing donors to continue to agree on a set of rules and norms for ODA and to increase its overall amount every year.

The development finance sector continues to expand, and the DAC is but one piece in an increasingly complex jigsaw of financial institutions, vertical funds, and other formal groups that take decisions about financing better development, notably the G20 and G7. The DAC's characteristics are well known – rule maker for its members, arbiter of ODA eligibility, custodian of ODA statistics, and home to a range of technical and policy networks and products. At its best, the DAC champions transparency, accountability, and aid effectiveness and holds its members to high standards through its peer review process. Of course, there is never enough ODA, but DAC members provide the lion's share, accounting for 96 percent of total reported ODA.[1] They have succeeded in increasing the volume of ODA every year, including paying 80 percent of total government funding to the UN development system and 80 percent of humanitarian costs in 2023,[2] as well as 88 percent of the 20th replenishment of the International Development Association.[3] Any attempt to reform or replace the DAC would need to strengthen, not undermine, this generosity.

Criticising the DAC is a popular sport among development watchers – for its exclusivity, its old-world characteristics, and its failure to respond adequately to the exponential increase in demand for ODA for an ever-growing list of priorities and places. What is less well understood is the culture of the DAC and how it is evolving. The DAC and its governance structure reflect the post–Second World War and Cold War geopolitical settlement. The DAC is an exclusive donor group, it no longer represents all the major donors, its membership is overwhelmingly European, and it is based on a set of liberal democratic assumptions about the form and function of aid. Like much of the multilateral system, if we were designing it today, we would not create the DAC in its current form. Nevertheless, if no formal "donor club" existed, donors would

1 Calculations based on OECD 2023 preliminary data from OECD, OECD Data Explorer: DAC1 Table (2024), accessed November 2024, http://data-explorer.oecd.org/s/t. Please note that total official ODA is the sum of ODA by DAC countries, non-DAC countries, and EU institutions.

2 Shares of DAC countries' contribution to the UN system are based on data from "Financial Statistics," United Nations System Chief Executives Board for Coordination, 2024, https://unsceb.org/financial-statistics. Share of DAC members' humanitarian spend is based on OECD 2023 preliminary data from OECD, OECD Data Explorer: Creditor Reporting System (2024), accessed November 2024, https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

3 Calculations based on data from World Bank, *Additions to IDA Resources: Twentieth Replenishment* (World Bank, 2022), 197, https://documents1.worldbank.org/curated/en/163861645554924417/pdf/IDA20-Building-Back-Better-from-the-Crisis-Toward-a-Green-Resilient-and-Inclusive-Future.pdf.

continue to meet informally, and probably in much less transparent ways.

Decision making in the DAC is based on consensus, and hence the like-mindedness of the group is paramount. As membership has grown (e.g., former Eastern Bloc countries, fast-developing countries), dissonance has inevitably increased too. Equally, as development has evolved, and its complexity is better understood, so have the DAC and its policy agendas and priorities. Inevitably, the greater the scope for disagreement, the more the fabric of like-mindedness is stretched.

Despite this, the coalition that is the DAC holds together and raises standards among its members. The coalition includes the world's largest and most generous donors, as well as some of the smallest and newest. It accommodates divergent views and – like any coalition – is built on compromise. Nevertheless, the DAC succeeds in being greater than the sum of its parts and exercises collective strength through its recommendations and policy networks. A good example is the Recommendation on Preventing Sexual Exploitation and Harassment agreed in 2019. Some members were rightly very exercised about the prevalence of abuse in the aid sector, while others were less focused on it or did not see it as a priority. In agreeing the recommendation, the DAC forced all members to pay greater attention to the behaviour of their staff and the systems and safeguards in place to protect innocent people from predatory behaviours. Of course, some DAC members have moved faster than others, and much remains to be done, but the collective has set the bar high and continues to pressure peers to raise their standards.

Critics of the DAC frequently argue that it is losing its focus on "traditional values." These include concentrating efforts on the poorest people and countries; guaranteeing that ODA is used for the exclusive benefit of eligible countries and not global public goods; and – in some quarters – scepticism about private-sector instruments, debt relief, and loans rather than grants. Thankfully, the original ODA goals have evolved since the 1960s and 1970s. The DAC's founding fathers did not see gender equality as an essential prerequisite for development. Prolonged wars, global pandemics, and the climate crisis were not uppermost in the minds of the architects of the Millennium Development Goals (MDGs) in the late 20th century, which put poverty reduction and social sectors at the heart of development objectives. The vast scope of the SDGs agreed in 2015 reflected the complexity of the challenges much more accurately. The SDGs also put more and more demands on ODA. They have enabled all donors to be more selective within the comprehensive framework, to a far greater extent than the MDGs allowed. Yet they have also placed more strain on like-mindedness, which could risk being stretched to the breaking point.

The issue is not the DAC abandoning "traditional values." Rather, the DAC continues to evolve according to domestic and geopolitical priorities, policy choices (often but not always) informed by aid effectiveness concerns and better development, and changes to preferred (often tried and tested) instruments. The compromises in DAC decision making reflect these changes, while also recognising the need to maintain a broad enough coalition of the willing to accommodate all members' views.

Another criticism frequently levelled at the DAC is that any changes it makes should be consultative with partner countries and civil society. The DAC has become much better at consulting civil society, and, in many (certainly not all) cases, members test policy choices with partners through existing partnerships and programmes. It also has structured dialogues with other donors and has gotten much better at digital, accessible outreach. Its policy networks bring together people working across countries and sectors. But the primary drivers of DAC members' negotiating positions are government policies, including support for the SDGs and informed to a greater or lesser degree by partnerships. It has been suggested that the DAC be replaced by an inclusive group of donors and partners, to manage not ODA but Global Public Investment (GPI). This idea has potential, but governance arrangements remain obscure. Would there be any eligibility criteria for membership? How would accountability be upheld? Would another bureaucracy need to be created? Like it or not, national public expenditure in democracies – including ODA or GPI – must be agreed and scrutinised by the institutions that hold governments to account. While not perfect, the DAC system enables members to do this. Its collective decision making, statistical underpinnings, and transparency add credibility to the DAC's usefulness to its members making the case for ODA to their respective representative bodies.

Which brings us to the DAC's most discussed and misrepresented feature: the evolution of criteria for what ODA is eligible. Many argue that this is a Pandora's box, opened at the DAC's peril. But to evolve, the rules need to change to reflect new realities. Pandora's box is always open in the DAC, even though members do not necessarily agree to venture inside. Critics from all sides tend to assume that the driving force behind rule changes is always for members to maximise ODA reporting. Actual decision making is far more complex. Some members underreport their ODA. Some have ceilings; others have targets. Some don't focus on annual levels; others have multiyear rolling budgets. Most don't meet the 0.7 percent target anyway.

The Working Party on Statistics (WP-STAT) is the expert group of statisticians from DAC members, supported by the DAC Secretariat. WP-STAT crunches through the tough statistical conundrums posed by ODA in a changing world and – to the extent possible – makes statistically coherent proposals to tackle them. When the conundrums are too complex for objective statistical solutions, the problems are referred up to the DAC. This is often the case with significant rule changes, frequently the result of hard-fought compromises between DAC members. These compromises in the DAC are political, not statistical, in nature. This does not mean that there is political interference in how data are reported, but rather that the rules for reporting can have a political dimension to which members agree to adhere, and which is clearly explained in the ODA statistics.

All DAC members have democratically elected governments, and this means that priorities and policies change, sometimes quite dramatically. The extent to which partner countries' views are taken account of also changes. Members' positions are far more driven by their current views on geographic priorities (e.g., low- or middle-income countries, near neighbourhood, historic ties), policy priorities (e.g., poverty reduction or growth, public or private investment, countering fragility or investing in success). These are not necessarily mutually exclusive, but it is wrong to assume that all DAC members prioritise the same things or that members' positions don't change. It is often argued that ODA should be reserved for the poorest countries, to reach those parts that other forms of finance cannot, but not all members agree. There is also wide divergence in how members invest in the multilateral system as opposed to spending their ODA bilaterally, including whether ODA should help UN agencies with core costs. And members have very different opinions on which instruments are the most effective. These differences – and others – would multiply and intensify in a more inclusive structure.

Recent examples of some of the more controversial decisions on ODA rules include permitting some counting of in-kind donations of COVID-19 vaccines during the pandemic. Some members chose not to include these donations. For those that did, the amounts and how they were calculated were clearly visible in the ODA statistics. The ODA eligibility of the costs of supporting refugees in member countries has been debated since the 1980s. Few would agree that the recent escalation in these costs is in the spirit of the 1988 statistical reporting directives or their clarification in 2017 in response to the Syrian refugee crisis. But equally, few would have foreseen the extent to which migration has become such a political flashpoint for many DAC members. The war in Ukraine has shifted the attention of members in the immediate neighbourhood away from developing countries. Changing political views on the importance of climate change or women's reproductive rights similarly impact heavily on positions taken regarding rule changes. These examples – and there are many more – are testimony to the fact that domestic realpolitik is one of the determinants of evolution. Critics argue that this compromises the quality of ODA. The DAC's response is that through reaching consensus and maintaining transparency, accountability, and peer review, changes may be contested but at least their impact is clear for all to see and scrutinise.

Where does this leave ODA and the DAC? ODA is, of course, a shrinking part of development finance, but there is room for improvement. Much is in progress, albeit probably at a pace that critics regard as glacial – as is invariably the case in consensus-based institutions. It's important not to hold DAC members responsible for all the shortfalls and failings of the entire financial architecture. Non-DAC donors need to step up, and while many would not want to join the DAC, more coordinated conversations about accountability, transparency, predictability, and effectiveness can only help the much-needed acceleration of the SDGs. The DAC has much to learn from other donors and much to offer. More – and more substantive – debates between the DAC and other donors are needed. All donors need to take far greater account of partners' needs and priorities. DAC peer reviews now routinely include members of civil society in partner countries. The DAC's policy networks are widely regarded as providing high-quality practical advice to policymakers and practitioners. New metrics are already being developed and implemented. The DAC has helped develop the broader envelope of Total Official Support for Sustainable Development (TOSSD), reporting of which is driven by partner countries, not donors. Some mistrust its methodology. Others question its relevance, but it is an attempt by statisticians to respond to the legitimate criticism of ODA statistics that they are a partial reflection of total official flows and that partner countries need a more comprehensive view of the official resources they receive. Now with an independent secretariat, there is scope for TOSSD to evolve into a global metric.

Probably the most important characteristic of ODA is that it is a scarce resource that can reach the parts that other financial flows cannot. ODA is being asked to do more and more in an increasingly challenging fiscal and political environment in many DAC members and other countries that report ODA. Spreading ODA too thinly risks undermining its effectiveness. One of the greatest challenges for the DAC may well be trying to reach consensus on what ODA cannot be spent on, rather than expanding the eligibility criteria.

What is certain is that ODA cannot resolve the overall crisis in development finance. It will continue to be a precious and scarce resource, especially for the poorest countries, but it also needs to be allowed to leverage other sources of finance for a broader range of countries facing development crises. To those who argue that ODA should be reserved for low-income countries, what is the response to small island developing states sinking under the reality of climate change without access to sufficient funds to adapt? Some have proposed a two-tier model, with one tier focused on ODA in low-income countries and the other on global public goods. Unfortunately, this dodges the question of where the additional resources will come from.

The most important challenge is how to generate more and better development finance from a broader range of sources to make good on the financing of the SDGs. Realism regarding financing for development is required in the face of stiff geopolitical headwinds. The 2015 Addis Ababa Action Agenda failed to unlock anything like the private or public flows anticipated for the SDGs. Blended finance is not the silver bullet that some hoped. Simply reiterating the plea to meet historic commitments won't yield the required response. Burden sharing has not been adequately addressed either within or outside the DAC. The United States provided 25 percent of all ODA in 2023 (and 30 percent of DAC countries' contributions).[4] Only five DAC countries (Denmark, Germany, Luxembourg, Norway, and Sweden) reached the 0.7 percent target.[5] The optimism bias that accompanied the SDGs must be avoided at the Fourth International Conference on Financing for Development in 2025, which needs to come up with fresh, innovative ideas. ODA cannot be expected to do everything. DAC bashing is a well-loved sport in development cooperation, but blaming the DAC for failing to deliver something it is not designed to do achieves very little. Better to support evolutionary change, to work with the DAC as a part of the puzzle which – for all its shortcomings – has continued to deliver rising volumes of ODA in a turbulent world.

4 Based on OECD 2023 preliminary data from OECD, OECD Data Explorer: DAC1 Table (2024), accessed November 2024, http://data-explorer.oecd.org/s/t. Please note that total official ODA is the sum of ODA by DAC providers, non-DAC providers, and EU institutions.
5 See OECD, OECD Data Explorer: DAC1 Table (2024), accessed November 2024, http://data-explorer.oecd.org/s/t, and "April 2024 – Preliminary Figures," OECD, April 2024, https://public.flourish.studio/story/2315218/.

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PART 3

Using ODA for Climate and for Leveraging Private Finance

7. Accounting for ODA and Climate Financing: A Cost-Benefit–Based Approach

Jürgen Karl Zattler

The environment in which development policy operates has changed rapidly. Some of these changes are longer-term trends to which development policy must adapt: the global economy is in turmoil, debt levels are at an all-time high, and economic stress is exacerbating inequality in our partner countries, which in turn is undermining democratic structures. Public budgets are under increasing pressure, and populist forces are challenging the very principles of development policy. At the same time, the world is becoming more multipolar, and developing countries are gaining in self-confidence. Development policy must find structural responses to these challenges.[1]

One of the most important trends is that crises are on the rise. They are in danger of becoming the new normal. This is no accident – our economic and consumption model is increasingly reaching its limits. It produces externalities that erupt in crises such as the global financial crisis, the COVID-19 pandemic, and extreme weather events. This situation is exacerbated by the insidious, existential impacts of biodiversity loss and climate change. In the years ahead, they will have a particularly severe impact on developing countries and will become a major driver of poverty and conflict. Global collective action is needed on an unprecedented scale, with developing countries playing an increasingly important role. Global warming can only be halted if developing countries, in particular middle-income countries, play a greater role. Developed countries also need them as a source of raw materials such as lithium, copper, cobalt, and hydrogen for climate change mitigation, and to reduce projected greenhouse gas surpluses by protecting and developing carbon sinks.

The development agenda – fighting poverty and supporting economic and social development in our partner countries – is closely linked to these global challenges. Integrated development strategies are needed: infrastructure, agriculture, transport, and energy systems must become more efficient and sustainable. The twin challenges of fighting poverty and supporting development cannot be addressed in isolation. However, development budgets are under pressure on several fronts, as spending on both crisis preparedness and crisis response increases. In Germany, for example, spending on humanitarian aid increased more than tenfold between 2012 and 2022.[2]

Against this backdrop, there is currently a debate on how to measure and account for official development assistance (ODA) compared to other financial contributions to

1 Jürgen Karl Zattler, "Where to Now for Development Policy? Between Niche and Mainstream, Between Charity and Self-Interest," IDOS Policy Brief 17/2024 (German Institute of Development and Sustainability, 2024), www.idos-research.de/fileadmin/migratedNewsAssets/Files/PB_17.2024.pdf.

2 See "Höhe der humanitären Hilfe des Auswärtigen Amtes von 2012 bis 2021," Statista, 2022, https://de.statista.com/statistik/daten/studie/1406029/umfrage/humanitaere-hilfe-von-deutschland/; "Ausblick auf 2023: 339 Millionen Menschen brauchen humanitäre Hilfe," Auswärtiges Amt, December 1, 2022, www.auswaertiges-amt.de/de/aussenpolitik/humanitaere-hilfe/humanitaere-hilfe-2023/2566500#:~:text=2022%20hat%20das%20Auswa%CC%88rtige%20Amt,humanita%CC%88re%20Hilfe%20zur%20Verfu%CC%88gung%20%20gestellt.

international development, in particular climate action. There are two main arguments as to why the current accounting system is flawed. First, a large and growing share of ODA is spent on climate and other global public good investments, undermining the very concept of ODA. Second, ODA measures the "financial effort" of donor countries, neglecting other contributions, especially from private actors, and the impact of these financial contributions.

There are several proposals to address these shortcomings. Some argue for pushing for a combined climate and development finance target, while trying to maximise the total amount.[3] Others suggest disentangling climate and development accounting by creating additional variables/commitments.[4] The problem with the latter approach is that it is neither possible nor desirable to separate "development" from "climate."

While there is no easy solution to the latter problem, there are ways to address it. One promising approach is to apply the well-established concept of co-benefits. Co-benefits are associated with an activity that not only addresses important development challenges in a country (such as access to energy) but also generates positive externalities for the global community and thus contributes to tackling global challenges (such as climate change). The use of a cost-benefit approach can help disentangle national and global benefits and allocate the associated costs to development and climate finance.

Implementing such an approach requires data on the national and global benefits of different development projects and programmes. Such data are not likely to be readily available at present. However, the situation is changing rapidly, as multilateral development banks (MDBs) are being asked to systematically measure externalities through comprehensive cost-benefit analysis. This is part of the MDBs' ongoing reform process to integrate global public goods into their operational and financial policies. The next step would be to establish metrics for different types of projects or programmes, which could then be used by other donors. Based on these metrics, and with the help of the OECD Development Assistance Committee, it would be possible to allocate financial contributions to ODA versus climate finance.

This can be illustrated using the example of a solar investment project. Suppose this project has an investment cost of €1 million and generates the same national benefits (€1 million) plus global benefits of €250,000. The ratio of national benefits to additional global benefits is therefore 4 to 1. On this basis, we can calculate the respective amounts to be counted as ODA and climate finance: we take the above ratio (4:1) and allocate the investment cost of €1 million accordingly. As a result, four-fifths of the investment cost of €1 million (€800,000) would count as ODA and one-fifth (€200,000) as climate finance.

This approach is in line with Koch and Aleksandrova's idea of greater differentiation in the Rio markers.[5] The same applies to the proposal by Melonio, Naudet, and Rioux to introduce separate reporting for development and climate finance.[6] This approach would solve the problem that projects or programmes usually have both development and climate impacts and cannot and should not be put in one basket or the other. In addition, this cost-benefit approach has the advantage of measuring not only the financial effort of the donors concerned, but also to some extent the benefits of an intervention.

3 Ian Mitchel and Edward Wickstead, "$100 Billion of Climate Finance Provided: Fact or Fiction?" CGD blog, May 23, 2024, www.cgdev.org/blog/100-billion-climate-finance-provided-fact-or-fiction.

4 Thomas Melonio et al., *Official Development Assistance at the Age of Consequences,* AFD Policy Paper No. 11 (Agence Française de Développement, 2022), www.afd.fr/en/ressources/official-development-assistance-age-consequences; Svea Koch and Mariya Aleksandrova, "The Future of Climate and Development Finance: Balancing Separate Accounting with Integrated Development Responses," IDOS Policy Brief 19/2023 (German Institute of Development and Sustainability, 2023), https://doi.org/10.23661/ipb19.2023.v2.0.

5 Koch and Aleksandrova, "The Future of Climate and Development Finance."

6 Melonio et al., *Official Development Assistance at the Age of Consequences.*

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8. The Unique Role of ODA in the Broader Development Finance Context

Susanna Gable and Kalpana Kochhar

A CHANGING GLOBAL CONTEXT

Development challenges that require strong global cooperation have expanded drastically. The world today faces numerous challenges that threaten both human lives and the sustainability of our planet. These issues are complex and interconnected, making it essential that they be addressed as a global collective. However, this expansion of interlinked challenges has not been matched by a corresponding increase in financing, leading to overwhelming demands on official development assistance (ODA) and leaving significant funding gaps; inefficiencies; and tensions between countries, actors, financing modalities, and the goals themselves. By leaning primarily on ODA as the traditional financing model to address these broader sets of goals, the ODA concept has become increasingly diluted and the modality increasingly inefficient.[1]

We do not have space for wasteful spending when financing is limited, and challenges are urgent. Policymakers need a framework for decision making that reflects the interconnectedness of the global challenges we face today and the need for better allocation of financing to avoid overburdening ODA. This note highlights the principles for such a framework. It stresses the unique role of ODA and argues for its protection to support core development goals. It does this by situating ODA within a broader range of sources of financing that can be deployed towards common global goals; by taking explicit account of the fact that both the level and nature of development finance differ significantly for countries as they transition towards inclusive, resilient, and sustainable economies; and by recognising that we will have the greatest success by matching different pools of finance to country and sectoral investments based on the risk and return profiles of these investments. While continued efforts to increase ODA and other sources of development financing are essential, this will be a tall order given the current financial situation in both donor and partner countries, and the size and urgency of the global challenges. No matter the level, we have to spend what we have strategically. A new development finance approach is needed to align resources more effectively with the global goals.

The challenges we face today are not confined to any single region – they are global in scope – but the available financing modalities do not fully reflect this reality. Historically, development cooperation was largely seen as a transfer of resources from wealthier countries to poorer countries. However, the Sustainable Development Goals (SDGs) encompass a much broader range of issues, to which all countries must contribute. Indeed, in some cases, such as climate change mitigation, the highest-impact efforts need to be made in wealthier countries, where the potential to make significant reductions in

1 Ranil Dissanayake and Bernat Camps Adrogue, "Progressive, Optimistic, and Misinformed: What Donor Officials Believe About ODA Allocations," CGD Note (Center for Global Development, 2021), www.cgdev.org/publication/progressive-optimistic-and-misinformed-what-donor-officials-believe-about-oda-allocations.

greenhouse gas emissions is the greatest. ODA, the dominant source of development finance, was created to transfer development financing from richer countries to less well-off countries – for their development and poverty reduction.[2] If ODA is used as the primary financing mechanism for all SDGs, it will spread resources too thinly and inefficiently. Unfortunately, this is already happening, leaving less ODA for development and poverty reduction in the poorest countries.[3]

The increasingly constrained funding environment makes it urgent to do three things: First, make the strongest possible effort to increase available financing (a topic beyond the scope of this note). Second, agree on a set of principles to guide resource allocation across the development and climate finance ecosystem – a so-called "fit for purpose" financing framework based on a shared set of principles. Third, recognise that even with more and better-matched financing, there is an urgent need to drive down the costs of the technology needed to hasten the transition to healthier, more productive, inclusive, and lower-carbon economies.

AN INCLUSIVE AND FIT-FOR-PURPOSE FINANCING FRAMEWORK

The Bill & Melinda Gates Foundation recently published the paper *Principles for Allocating Financing for Development and Climate Goals*, based on the transition finance framework presented in *Climate and Development Finance: A Transition Framework for All*.[4]

Policymakers in all countries face three critical but interlinked imperatives: first, reducing poverty and accelerating economic growth and human development; second, adapting to climate change; and third, preventing further climate change by reducing global greenhouse gas emissions and getting onto lower carbon development trajectories. However, different countries experience each of these challenges to different degrees and have different potential to contribute to each of these imperatives, depending on their starting point. Therefore, the urgency of prioritising different goals will differ among countries, as will the path of each country's transition.

The paper recognises the need to develop a more joined-up framing of development problems and their solutions, and the need for a framework for decision making that allows all countries to see themselves as part of the global system. It is a framework where all countries contribute to their best ability and comparative advantage, depending on where they are on their development journeys.

Prioritise

The Gates Foundation paper presents examples of high-impact investments to reach global and country-level goals for development, adaptation, and mitigation, respectively. With limited resources, there is a need to prioritise investments in each country that have the greatest potential to move us closer to the global goals. Choosing an investment that addresses a country's own largest investment need is often consistent with making the most meaningful contribution to global goals.[5]

For example, there is a stark contrast between development and climate mitigation investment needs – as defined by the potential to contribute to the global goal – in low-income countries (LICs). As a group, 40 percent of LICs' populations (on average) live in poverty. At the same time, these countries contribute negligibly to global carbon emissions: only 2 percent of the global total at present, expected to rise to only 3.2 percent by 2050 under the world's current emissions trajectory. Thus,

2 The OECD's Development Assistance Committee defines ODA as government aid designed to promote the economic development and welfare of developing countries. See "Official Development Assistance (ODA)," OECD, accessed November 2024, www.oecd.org/en/topics/official-development-assistance-oda.html.

3 Duncan Knox and Paul Wozniak, "Aid in 2022: Key Facts About Official Development Assistance," *Development Initiatives*, January 15, 2024, https://devinit.org/resources/aid-2022-key-facts-official-development-assistance-oda-aid/.

4 Bill & Melinda Gates Foundation, *Climate and Development Finance: A Transition Framework for All* (Bill & Melinda Gates Foundation, 2023), www.gatesfoundation.org/ideas/articles/melinda-foreword-climate-and-development-finance-framework; Bill & Melinda Gates Foundation, *Principles for Allocating Finance for Development and Climate Goals* (Bill & Melinda Gates Foundation, 2024), https://docs.gatesfoundation.org/documents/gates_foundation_principles_finance_for_development_and_climate_goals.pdf.

5 In cases where the priorities chosen by countries are not those that would help make the most rapid progress against the global goals, the gap will need to be bridged through dialogue, cooperation, and incentives.

in terms of both the countries' own priorities and their ability to contribute to a global goal, resources are typically much more efficiently used by prioritising poverty reduction in this income group. This certainly doesn't mean that these countries should avoid any investments that contribute to lower emissions; it just means that their first priority needs to be improving the human condition, reducing poverty, and laying the foundation for decent jobs and livelihoods.

Meanwhile, in upper-middle-income countries (UMICs) and high-income countries (HICs) – where the vast majority of emissions take place today, both in total and per capita – reducing emissions needs to be the highest priority both for these countries' own continued development and for reaching global climate goals.

Match

Different types of investments need to be matched with different parts of the capital stack, including ODA. Actions to address climate and development cover the full spectrum of risk and return expectations – from pure "public goods" to attractive investments for private capital.

The principles governing the matching of financing modalities to investments include the following:

- Varying the degree of concessionality by country grouping. Highly concessional resources are the most limited globally and are most efficiently used where they have the greatest development impact and where there are few alternatives. Grants and highly concessional finance should be focused on funding the priorities of LICs and lower-middle-income countries (LMICs).
- Varying the degree of concessionality by sector. Sectors that have strong public-good characteristics should receive more favourable terms, while those that offer scope for private returns could be priced at less concessional terms. Grant funding and highly concessional lending are best suited for human capital development, adaptation and resilience-building efforts in some sectors, and loss and damage after climate shocks. In contrast, energy or infrastructure sectors can more often attract private investment or less concessional public loans.
- Using blended financing where appropriate. Blended financing, or the use of catalytic capital from public or philanthropic sources to increase private sector investment, is mostly being used for development and climate investments in HICs and UMICs, where the investment risk levels are low enough. While less effective in LICs and LMICs, blended financing may also be appropriate in LMICs with reasonable investment risk environments, not least in the energy sectors of countries with high rates of emissions that are in urgent need of both energy expansion and green transitions. In these cases, small amounts of targeted ODA can be effective when used alongside guarantees and innovative instruments to catalyse significant private capital flows, address a market failure, and accelerate high-impact investments and the achievement of a global public good.
- Drawing on philanthropic, private venture, and public capital early on. Different sources of financing can be used to fund innovation for new climate-resilient solutions and to bring down green premiums before commercial viability of the solutions can be established and private investment capital becomes realistic.
- Mobilising domestic revenue. Domestic revenue mobilisation remains a critical medium-term priority for LMICs, to enable them to raise sustainable financing for social spending and narrowing fiscal deficits and borrowing needs. Domestic revenues and strong public financial management are important prerequisites for countries to graduate to middle-income status. Further, as the OECD notes, "Tax is not the sole determinant of rapid development, but it is one pillar of an effective state and may also provide the basis for accountable and responsive democratic systems."[6] In parallel with strong economic growth, LIC and LMIC governments – with the support of donors – should invest more in improved tax administration so that revenue is collected in a

6 OECD, *Governance, Taxation and Accountability: Issues and Practices* (OECD Publishing, 2008),17, https://one.oecd.org/document/DCD/DAC/GOVNET(2007)3/FINAL/en/pdf.

transparent, accountable, and equitable manner, including through greater use of digital tools.

As countries progress and transition, the relative importance of financing generally shifts from external to domestic and from public to private sources.[7] Typically, domestic public revenues are the most significant financial flow, even in LICs, and increase in importance over time, together with private capital flows. In contrast, ODA's relative importance decreases, with the ultimate goal of enabling partner countries to become self-reliant and finance their development independently.

This broader transition financing framework suggests development finance institutions should ring-fence concessional finance, the scarcest form of capital, to support the most acute development and climate adaptation needs of LICs. This will require careful consideration and limited use of concessional financing to leverage private financing only when (1) institutional, regulatory, and policy arrangements are conducive to private investment and (2) the potential contribution by the country to closing global gaps is significant.

Innovate

Even when prioritising investments, better matching financing to different investment needs, and increasing development finance overall, there is no realistic path to sufficient financing to meet the global goals without much stronger efforts to drive down costs and drive-up productivity. The global community needs to make more concerted efforts to accelerate technological innovation to lower the costs of interventions and thus reduce the overall funding needed. Promoting innovation and higher productivity to ensure that every dollar of development financing goes further, in both high-income and developing countries, with a focus on solutions that can be scaled up and transferred across contexts, is a necessary condition to achieve the global goals.

CONCLUSION

The goals of development cooperation have broadened to the degree that the traditional financing approach centred on ODA no longer fits. There are ongoing changes to ODA responding to the broader set of development goals as well as pressure from political dynamics in donor countries. However, the solution is not to twist and stretch ODA into the new reality, but to create a new development financing framework that fits the new reality.

Only by identifying alternative policy and financing solutions to the broader global goals, and highlighting the effective and efficient use of ODA in contrast to these other solutions, can we safeguard ODA for the countries and causes it can uniquely support. Only then will it be possible to preserve ODA's original purpose, which is still sorely needed to ensure no one is left behind and countries are set on a productive development path.

While a holistic and systemic approach to development financing is complex and does not as easily lend itself to exact measurements, we are in a phase of history when the principles of development cooperation are being rewritten. Rather than being left to ad hoc decisions and political winds, it is worth taking a moment to ensure we achieve all global goals – within the laudably ambitious timeframes that the global community has set for itself – and waste as few resources as possible along the way.

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9. From Billions to . . . What? The Elusive Quest for Leverage

Thomas Melonio, Jean-David Naudet, and Jérémie Daussin-Charpantier

The division between "developed" and "developing" countries has gradually lost the relevance it held when development aid policies were established over 60 years ago. In a previous article, we suggested a clearer distinction in international actions: one supporting low-income and vulnerable countries, and the other focused on emerging economies.[1]

This clarification would lead to a refocused public development aid policy, concentrating the most concessional financing on least developed countries and other highly vulnerable nations, given their enduring homogeneity as a group sharing specific challenges. Meanwhile, in middle-income and emerging economies, less or even non-concessional financing would be mobilised to support global public goods and achieve the Sustainable Development Goals (SDGs).

In a subsequent article,[2] we argue for clarifying the metrics describing these two policies, as ODA now appears far removed from both the budgetary costs of international financing and the actual financial flows invested in developing countries.[3]

The 2015 document *From Billions to Trillions: Transforming Development Finance*,[4] published by the World Bank, IMF, and several Multilateral Development Banks (namely AfDB, AsDB, EIB, EBRD, IDB)[5], underscored the need for a significant scale shift. Subsequently, the wide gap between the annual ODA level (US$224 billion in 2023) and the financing needs for achieving all SDGs (US$2.5 to US$4 trillion in 2023, per the *Financing for Sustainable Development Report 2024*)[6] was highlighted.

The *From Billions to Trillions* report aptly highlighted that a country's development relies significantly on financing sources such as national tax revenue, local financial systems mobilizing domestic savings, foreign direct investments, remittances, and trade.

This need for a spectacular increase in development financing goes well beyond the budgetary efforts devoted to international solidarity, which are often at the centre of debates and measures. It questions more particularly the concept – used

1 Thomas Melonio et al., *Official Development Assistance at the Age of Consequences*, AFD Policy Paper No. 11 (Agence Française de Développement, 2022), 1–43, www.afd.fr/en/ressources/official-development-assistance-age-consequences.
2 Thomas Melonio et al., *Double Standards in Financing for Development*, AFD Policy Paper No. 14 (Agence Française de Développement, 2024), www.afd.fr/en/ressources/double-standards-financing-development.
3 Part of this gap stems from the accumulation of ODA-eligible expenditures that do not reach developing countries in a 'programmable' way. The OECD's definition of Country Programmable Aid (CPA) partially addresses this by proposing a measure of ODA that excludes expenditures occurring within OECD countries. However, the CPA measure is not an estimate of funds effectively reaching developing countries; the flows recorded are in gross terms, grant-equivalent, without accounting for the leverage effect achieved or the mobilization of private financing."
4 African Development Bank et al., *From Billions to Trillions: Transforming Development Finance*, Submitted to the Development Committee (World Bank, 2015), https://thedocs.worldbank.org/en/doc/622841485963735448-0270022017/original/DC20150002EFinancingforDevelopment.pdf.
5 AfDB: African Development Bank; AsDB: Asian Development Bank; EIB: European Investment Bank; EBRD: European Bank for Reconstruction and Development; IDB: Islamic Development Bank
6 United Nations, Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2024: Financing for Development at a Crossroads*, (United Nations, 2024), https://developmentfinance.un.org/fsdr2024.

in different ways – of leverage, which we will define here as the ratio between the total flows generated by a public policy and its cost for the community concerned. This leverage could be broken down into two separate effects: an efficiency effect characterised as the ratio between budgetary costs included and public flows transferred to developing countries, and a mobilisation effect defined by the multiplier effect of private funds mobilised by public funds.

While it is the latter that we often focus on to move from billions to trillions, the former is often overlooked, despite being a more effective multiplier to date. The equation "from billions to trillions" then comes down to determining how, starting from reasonably ambitious efforts (billions), we can meet development financing needs (trillions) in the right place and under the right conditions.

While the 2015 Addis Ababa Financing for Development Forum emphasised the importance of mobilizing financing beyond public aid effort, explaining where leverage should be applied from, it did not clearly address the target of that leverage. As development agencies and banks, as well as philanthropic organizations, can act as funding catalysts, it seems useful to clarify the leverage effect expected of them by their states, shareholders, or donors.

Figure 9.1 outlines leverage effects that can guide the actions of international development actors, taking into account the clarification of missions in line with our previous articles.

Scales of different sizes between the second and third columns of the figure correspond respectively to the overall leverage effect (on public and private financing) for poverty and vulnerability reduction, global public goods protection, and the overall financing of the SDGs in a broad sense. These leverage effects can be substantial. The French Development Agency (AFD), for instance, generates approximately five times more climate finance than the associated budgetary cost for France, helping it make significant contributions to climate finance (US$7.6 billion in 2022, and US$8.8 billion including private funds mobilised).[7]

FIGURE 9.1 Leverages in development finance

Main target sectors and groups of countries related	International solidarity effort (budgetary cost)	International sustainable development investment / flows aligned at destination	Level of concessionality	**Efficiency leverage** (flows at destination/ budgetary cost	**Mobilisation leverage** (aimed at private mobilisation)	**Checking alignment with long-term national strategies**
Fight against poverty and vulnerability: LICs and vulnerable countries	Core ODA budget	Concessional flows mobilised for LICs + vulnerable countries	+++	+	+	
GPGs: notably MICs, UMICs and emerging countries	Fiscal cost of international climate and more broadly SDG- finance	SDG financing (incl. private flows direcly mobilised)	+	+++	+++	
All SDGs	Total taxpayer's cost at source	I-SDI = TOSSD pillar 1+ private funds mobilised	++	++	++	**Checking alignment with SDGs**

= Overall leverage effect (public and private funds)

Source: Authors

Note: ODA = official development assistance; SDGs = Sustainable Development Goals; LICs = low-income countries; MICs = middle-income countries; UMICs = upper-middle-income countries; TOSSD: = Total Official Support for Sustainable Development; SDI = Sustainable Development Investing.

7 "La France Dépasse Largement Ses Engagements en Matière de Financements pour le Climat dans les Pays en Développement en 2022," *France Diplomatie*, September 20, 2023), www.diplomatie.gouv.fr/fr/politique-etrangere-de-la-france/climat-et-environnement/actualites-et-evenements/2023/article/la-france-depasse-largement-ses-engagements-en-matiere-de-financements-pour-le.

Regarding "classic" public development aid, particularly in its mission to combat poverty and vulnerability, development banks have a distinct capacity compared to pure cooperation agencies to "produce" more ODA, and thus more solidarity investment, than their fiscal cost.

Depending on interest rates, AFD, for example, has been able to generate an amount of ODA two to five times greater than its parliamentary-approved budgetary cost. Development banks can achieve this through lending and guarantees, with risk-taking being somewhat rewarded in ODA accounting.[8] This variability in the leverage effect between required budget and produced ODA is partly regrettable and mainly due to the fixed base rates used by the OECD to calculate the grant element of loans, a point where we have recommended change to adopt a base rate that would vary with the special drawing rights (SDR) rate, for instance. In the 2000s, performance contracts between the French government and AFD prioritised leverage, setting a target of three: AFD was expected to produce three times the ODA cost to French taxpayers. Yet AFD also produces more than twice as much development finance as it does ODA. Similarly, in an October 2024 interview with *Jeune Afrique*, the World Bank Group President noted that the International Development Association (IDA) enables US$4 in lending for every dollar contributed by member states, illustrating a leverage effect of four between direct budgetary cost and funding delivered. Such examples demonstrate how development banks' models effectively expand concessional financing at relatively low costs for taxpayers from these institutions' home countries.

In 2015, following the Addis Ababa summit and more so with the Paris Agreement, it became clear that the goal of development finance actors was not only to "produce ODA," but to broadly mobilise more financing, in addition to generating climate finance to meet the US$100 billion annually pledged in Paris.

Of course, the budgetary cost of these policies remains a key parameter, essential for democratic transparency as reflected in the left column of Figure 9.1. Likewise, understanding the cost to taxpayers for global public goods protection is necessary for policy acceptability.

However, the financial flows reaching developing countries are volumetrically more significant. The measurement of climate finance has thus introduced the possibility of accounting for private flows directly mobilised by public flows, another sought-after leverage effect.

The OECD's Total Official Support for Sustainable Development (TOSSD) database, through its Pillar 1 (international public flows) and Pillar 3 of mobilised private finance, also allows for the measurement of this "aggregate" public and private leverage effect. TOSSD includes all flows contributing to the SDGs, allowing a country's total financing amount to be divided by its budgetary cost to obtain the leverage effect as a steering indicator. This also enables the setting of differentiated leverage targets for private finance mobilisation, whether within a framework to combat vulnerabilities in poor countries (where a high level of concessionality from public sources is essential and private finance mobilisation is limited) or for global public goods financing in emerging countries (where less concessionality and high private capital attraction are needed).[9] This is represented in the right columns of the figure. Within TOSSD, international climate finance can be identified, corresponding to public and private flows mobilised directly from developed to developing countries for this purpose.

The TOSSD framework and the dynamic of sustainable finance more broadly also prompt reflection on funding coherence and compatibility with SDGs, ensuring that financing does

8 For a description of the rules of ODA and for a short history on ODA accounting see "The Modernisation of Official Development Assistance (ODA)," *OECD*, accessed November 2024, https://web-archive.oecd.org/temp/2023-11-13/395130-modernisation-dac-statistical-system.htm; and Sara Casadevall Bellés and Rachael Calleja, "The Evolution of the ODA Accounting Rules," CGD Note No. 376 (Center for Global Development, 2024), www.cgdev.org/sites/default/files/evolution-oda-accounting-rules.pdf.

9 This also appears consistent with the breakdown of the SDG and climate financing gap, which indicates that, in LICs, additional external financing needs are largely public and concessional, while in MICs and UMICs, the focus is more on attracting private funds and, to a lesser extent, non-concessional public funds. See The G20 Independent Experts Group, "The Triple Agenda: A Roadmap for Better, Bolder and Bigger MDBs", CGD Note, Volume 2 (Center for Global Development, 2023)

not favour one SDG while undermining others. This qualitative element seems essential to us, as does the proper alignment of these investment flows with the priorities of recipient or borrowing countries, as Just Energy Transition Partnerships have made possible. Ultimately, this new vision of leverage calls for a dual alignment guarantee, with the SDGs on the one hand and with national orientations on the other. We attempted to represent this dual qualitative qualification of financing flows on the right side of the figure.

A debate may also be warranted on the scope of "directly mobilised" flows. As the From Billions to Trillions report emphasised, catalytic effects derived from traditional development aid are crucial. Should direct mobilisation focus only on international private flows, often in foreign currency for emerging economies? The mobilisation of national or regional funds, whether public or private, also seems worth considering. Local capital pool mobilisation, which has received insufficient attention, deserves more focus in the coming years. Similarly, a complementary approach to blending finance in directing private finance towards virtuous investments may be to encourage public development banks worldwide to adopt green and sustainable bond issuance frameworks, as many multilateral and bilateral development banks already do. This would provide ultimately a comprehensive leverage vision, albeit requiring additional methodological developments.

CONCLUSION

This article advocates for a more complete and accurate measure of leverage effects. This requires specifying the leverage source, the two stages of leverage, and the leverage target. International SDG financing and climate finance are natural applications for this approach that we envision, given the mismatch between budgetary means and ends, as well as the need to monitor the quality (i.e., SDG alignment) of public and private investment flows. Beyond the few pathways sketched here, the Financing for Development Forum planned for Seville in July 2025 should clarify the collective understanding of leverage: From what? To what? For what purpose? Without this, the title of our article may remain relevant for years to come.

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PART 4

New Proposals for Reinventing ODA

10. Towards Purpose-Driven Official Development Assistance

Homi Kharas[1]

Since 1969, ODA (official development assistance) has been defined as "government aid that is intended to promote the economic development and welfare of developing countries."[2] For most of this time, ODA has been a useful concept. Collectively, rich country members of the Development Assistance Committee (DAC) of the OECD provided US$190.2 billion in aid in 2022, compared with US$36.5 billion in 1970 – a 3.2 percent real growth over this 52-year period.[3] Thanks to mutually agreed definitions, ODA has provided DAC members with a measure of their contributions to a shared goal of advancing economic development in the poorest countries. The DAC forum has also served to promote best practices for aid effectiveness and to encourage new members to show solidarity with poorer developing countries by also establishing their own aid agencies.

However, in recent years, ODA seems to have lost its way. Consider the following:

- Despite undeniable success in raising aid volumes, there is no longer much attention paid to the long-standing target set in 1970 that rich countries should give 0.7 percent of gross national income (GNI) in the form of ODA. Very few countries have achieved this target. Most have not, and some do not even recognise it as a commitment. On average, ODA now languishes at half the politically agreed level. For the last decade, the target has only been sporadically used. It was referenced in 2005 by European Union countries, endorsed at the UN World Summit in 2005, and highlighted at the G8 Gleneagles Summit. The UK did set out a duty to meet the target in its International Development (Official Development Assistance Target) Act 2015,[4] but the only remedy for falling short is an official explanation to Parliament. After meeting the target in each year between 2013 and 2020, the UK fell below it and established a new target to provide 0.5 percent of GNI in ODA until domestic economic conditions improved.[5] The 0.7 percent target has become an ever-weaker force in influencing the domestic politics of aid in rich countries (the sub-target of 0.15 percent to least-developed countries is even less recognizable in public discourse), and it appears destined to remain as an objective for the long term, but one without any teeth in medium-term budget frames.
- There are few clear narratives of how ODA has systematically solved, or accelerated progress on, a priority global development problem (perhaps with the exception of

1 The author thanks Charlotte Rivard for preparing the graphs and empirical material.
2 "Official Development Assistance (ODA)," OECD, accessed October 2024, www.oecd.org/en/topics/official-development-assistance-oda.html#:~:text=Official%20development%20assistance%20(ODA)%20is,and%20complete%20statistics%20on%20ODA.
3 OECD Data Explorer, "DAC2A: Aid (ODA) Disbursements to Countries and Regions," accessed October 2024, https://data-explorer.oecd.org/vis?lc=en&df[ds]=DisseminateFinalDMZ&df[id]=DSD_DAC2%40DF_DAC2A&df[ag]=OECD.DCD.FSD&av=true&pd=2019%2C2022&dq=DAC_EC%2B4EU001%2BDAC.UKR%2BDPGC.206.USD.Q&to[TIME_PERIOD]=false&vw=tb.
4 International Development (Official Development Assistance Target) Act 2015, c. 12 (United Kingdom), www.legislation.gov.uk/ukpga/2015/12/contents/enacted.
5 This text reflects a correction to the version of this report originally posted.

targeted health interventions), either on its own or in combination with others. For example, despite ODA, low-income countries have fallen further behind others during the COVID-19-induced global recession, and their governments have emerged with higher debt and reduced fiscal space to jump-start growth. As another example, the number of stunted children in Africa is higher today than in 2000. There are, to be sure, many ODA contributions on individual projects, but it is difficult to find a tangible positive story about ODA's role in resolving a global-scaled problem of poverty, governance, hunger, education, or jobs, let alone the global challenges of climate, pandemic surveillance, or biodiversity preservation.

- Trust in government programs as the engine for economic development has fallen, yet the potential for ODA to help leverage private development solutions has gone unfilled. Development advocates in rich and poor countries alike remain sceptical that "blended finance" – ODA mixed with other forms of development finance – can avoid becoming a corporate subsidy.
- ODA is being increasingly used as a tool of foreign policy by rich countries,[6] rather than as a vehicle for global economic development, following the populist "roar" and national interest first movements that brought about Brexit and the election of Donald Trump in 2016.[7] Bilateral aid, the main channel for ODA, has long been volatile – a tap to be turned on and off depending on a range of non-development related issues, from votes in the UN, to trade reform, to support for wars or for bilateral trade and investment agreements – but quid-pro-quo deals have become more overt in a world with stronger geopolitical rivalries.

The remainder of this chapter outlines why reform of ODA is needed; what reform is needed, with an emphasis on allocation mechanisms across competing priorities, upgrading instruments, and strengthening accountability; and ends with an example of a "big bet" – a global fund to eradicate extreme poverty – that could garner political support by allocating significant amounts of money to extreme poverty eradication, deploying the resources through a new institutional mechanism, and holding the administrators of this mechanism accountable for impact.

WHY ODA REFORM IS NEEDED

ODA is the single most important economic expression of global solidarity among nations. For all its defects, ODA plays a central role in international relationships and in the economic survival of many of the world's poorest countries.

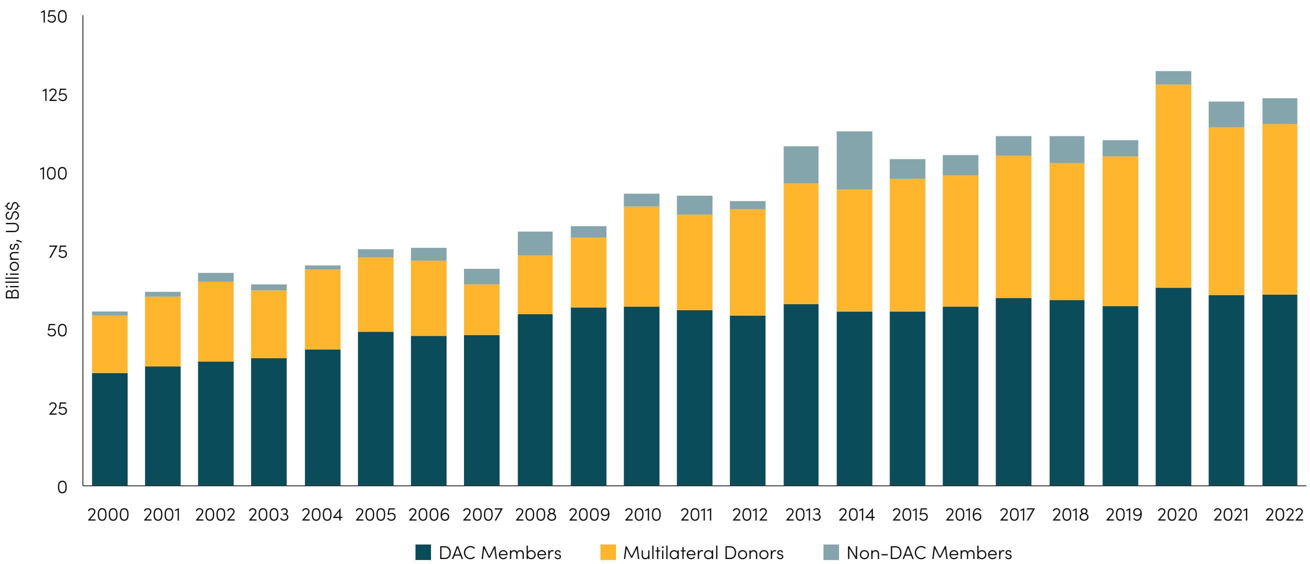
An expectations gap

The problem is that the expectations gap between what ODA can and should do and what recipients and donors hope it will do has grown to enormous proportions as the range of issues that ODA is used for has expanded. Because of this gap, the public discourse on ODA is contentious. Rather than building solidarity across countries, ODA debates have ended up pitting one group of countries against another.

For example, after strong growth between 2000 and 2010 in the amount of ODA available to finance economic development in recipient countries (so-called country programmable aid, or CPA), CPA volumes from bilateral DAC members have stalled over the last decade (Figure 10.1). From the donors' perspective, ODA has risen to record levels in 2023, driven by large increases of humanitarian aid to Ukraine and Gaza. But most low-income and African countries see their ODA

6 Clair Apodaca, "Foreign Aid as Foreign Policy Tool," *Oxford Research Encyclopedia of Politics*, April 26, 2017, https://oxfordre.com/politics/view/10.1093/acrefore/9780190228637.001.0001/acrefore-9780190228637-e-332.
7 Homi Kharas and Andrew Rogerson, "Global Development Trends and Challenges: Horizon 2025 Revisited," ODI Report (Overseas Development Institute, 2017), https://odi.org/en/publications/global-development-trends-and-challenges-horizon-2025-revisited/.

FIGURE 10.1 Country programmable aid over time, in US$ billions



Source: Author. Data is from OECD Data Explorer.
Note: Excludes high-income countries and Ukraine. Values in US$ billions of constant 2022 prices.

receipts shrinking. Their expectations for expanded ODA to help resolve growing crises are not being met.[8]

Even when the outliers of Ukraine, Gaza, and other crises are excluded, donors are not responding to the changing pattern of development needs. The share of bilateral DAC donor country programmable aid that is oriented towards Africa – the region most at risk of being left behind and where structural poverty is most entrenched – has held steady, averaging 37 percent in 2000 and 41 percent in 2022.

The same issue of an expectations gap between donors and recipients has emerged in climate finance. Developing countries have called for more attention to adaptation rather than mitigation, and for more aid to build resilience and reduce the impact of loss and damage, while donors have emphasised mitigation. But a focus on mitigation means more aid for middle-income countries, causing low-income countries to resist the integration of climate and development finance. The spirit of solidarity that was at the heart of ODA in its early stages has given way to a competition among developing countries for ODA.

An ownership gap

Bilateral ODA often circumvents recipient country budgets, potentially undermining national processes. One long-standing principle for aid effectiveness – that recipient country governments should be in the driver's seat in setting priorities and implementing aid programs – has not been adhered to in practice. When ODA is channelled through intermediaries outside recipient governments, these authorities have less ability to promote their own priorities.

Empirical practice on this varies considerably across donors. Figure 10.2 shows that some donors, such as the World Bank's International Development Association (IDA) and Japan, channel the bulk of their funds through recipient governments, but this is not the case for most other donors: the United States uses private contractors, Germany implements projects

8 OECD Data Explorer, "DAC2A: Aid (ODA) Disbursements to Countries and Regions," accessed October 2024, https://data-explorer.oecd.org/vis?lc=en&df[ds]=DisseminateFinalDMZ&df[id]=DSD_DAC2%40DF_DAC2A&df[ag]=OECD.DCD.FSD&av=true&pd=2019%2C2022&dq=DAC_EC%2B4EU001%2BDAC.UKR%2BDPGC.206.USD.Q&to[TIME_PERIOD]=false&vw=tb; OECD Data Explorer, "Country Programmable Aid (CPA v1)," accessed October 2024, https://data-explorer.oecd.org/vis?lc=en&fs[0]=Topic%2C1%7CDevelopment%23DEV%23%7COfficial%20Development%20Assistance%20%28ODA%29%23DEV_ODA%23&pg=0&fc=Topic&bp=true&snb=19&df[ds]=dsDisseminateFinalDMZ&df[id]=DSD_CRS%40DF_CRS_CPA&df[ag]=OECD.DCD.FSD&df[vs]=1.0.

FIGURE 10.2 Channels used by selected donors for CPA disbursements, 2022

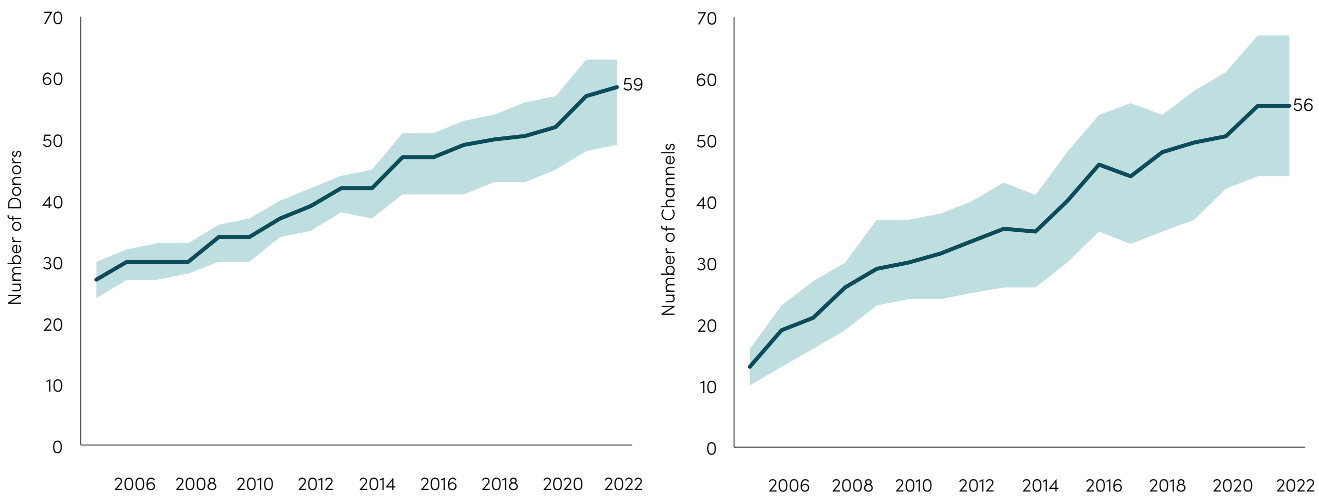
Source: Author. Data from OECD Creditor Reporting System.

through its own governmental organizations, and France and the UK use multiple channels.

A coordination gap

Over time, as more donors provide ODA through more channels, the challenges of coordination have grown. As Figure 10.3 shows, a typical low- or middle-income country dealt with 59 donors providing support through 56 different channels in 2022. Both the median number of donors and the median number of channels have risen steeply in the last 15 years, despite promises to streamline aid delivery made in the Paris Declaration on Aid Effectiveness in 2005. With stagnating total ODA volumes, this proliferation of channels also means small average project size – for bilateral country programmable aid, each project only disbursed an average of US$1.6 million over time.

FIGURE 10.3 Median number of donors/channels per low or lower middle-income country



Source: Author. Data from Creditor Reporting System.
Note: For both graphs upper line is quartile 3, lower line is quartile 1.

A trust gap

ODA's limitations are perhaps best illustrated by the sharp criticism levelled at its efforts to support climate action. An Oxfam report in 2022 concluded:

> *Never again should an international climate finance "commitment"' be made on such a slapdash basis, with no clarity on what counts and who is committing what, or even a plan to agree such matters. The fallout has been a free-for-all in which developed countries alone have been left to count the money, and most have used that free hand liberally to exaggerate their own generosity.*[9]

The frustration in aid circles is that the DAC has shifted its definition of ODA to reflect recipient country capital market conditions rather than donor country capital market conditions: "A concessional loan is extended to a borrower on more preferential terms than those available on the market."[10] With this definition in hand, the DAC has moved to a new measure of "grant equivalent" ODA to reflect the fact that grants are more valuable to recipients than loans. It is a subtle conceptual shift from using ODA to estimate the cost to the donor budget to recalibrating it to reflect the benefit to donors.

However, the measure depends on arbitrary choices of discount rates for different types of developing countries. Analysts have found that some donors actually make a profit on their ODA. Others have commented on double-counting that is implicit in using high discount rates to assess ODA present value, which builds in a probability of default, but then counting debt relief as additional ODA if a default actually happens.[11]

Against this backdrop, trust has eroded that estimates of ODA are constructed with a clear definition and measurement. ODA reform must restore this trust by clarification and disaggregation of what ODA is actually doing.

A mandate creep

ODA's mandate has spread across humanitarian assistance, support to refugees, promoting economic development, providing global public goods, building resilience to more frequent and larger shocks, addressing fragility and conflict, and indirectly compensating for loss and damage. In each area, there are multiple worthy recipients. With limited expansion in the total volume of ODA, the mandate creep implies trade-offs between countries and across priorities, which require accurate measurement to assess. Further, by spreading itself so thin, ODA has also become less efficient in delivering impact.

Three big advocacy groups had come together to support ODA in recent years: those pushing for peace and strengthened governance and institutions in developing countries, those pushing for environmental sustainability, and those pushing economic development and inclusion. All supported the Sustainable Development Goals (SDGs), agreed in 2015, and encouraged the alignment of donors and recipients to these goals. But with rising demand for ODA in all areas far outstripping the supply of ODA, the SDGs are lagging badly, and each advocacy group is now pushing to increase its share of the ODA pie to accelerate progress in its particular domain.

ODA is not having much success in either of its two central purposes: to leave no country and no people behind in the world economy. Economic growth in low-income countries is lagging, in what the World Bank has termed the Great Reversal.[12] And the number of people living in extreme poverty in Africa is higher than it was in 2015 (numbers on multidimensional poverty including access to health, education,

9 Tracy Carty and Jan Kowalzig, "Climate Finance Short-Changed: The Real Value of the $100 Billion Commitment in 2019–20 (Oxfam International, 2022), https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621426/bn-climate-finance-short-changed-191022-en.pdf.

10 Stephen Cutts, "The US$100 Billion Climate Finance Goal and Official Development Assistance: Lessons for Future Funding Commitments," ODA Reform, 2024, www.odareform.org/post/climate-finance-what-needs-to-be-done.

11 Cutts, "The US$100 Billion Climate Finance Goal and Official Development Assistance"; Simon Scott, "Your Pocket Guide to Measurements of 'Climate Finance,'" *ODA Reform*, 2024, www.odareform.org/post/climate-finance-what-needs-to-be-done.

12 Tommy Chrimes, Bram Gootjes, M. Ayhan Kose, and Collette Wheeler, *The Great Reversal: Prospects, Risks, and Policies in International Development Association (IDA) Countries* (World Bank, 2024), www.worldbank.org/en/research/publication/prospects-risks-and-policies-in-IDA-countries.

water, nutrition, and other basic needs have also stagnated or reversed in some cases).[13] The inability to clearly describe success on these and other core metrics has diluted political support for ODA as a whole in major donor countries.

WHAT REFORM IS NEEDED

ODA needs a strategy – a general plan to inform what it should do and what it should not do. While the DAC continues to count ODA, it is silent on how ODA should be allocated, either across themes, sectors, or countries (although loans to low-income countries with high default risk are counted as higher levels of ODA compared to loans to more creditworthy countries). It has little to say on the choice of instruments – grants versus concessional loans, bilateral versus multilateral channels, on-budget versus off-budget support. And it has no overall impact assessment or real-time learning to improve effectiveness.

Allocation mechanisms

An ODA strategy should start with an identification of what can be accomplished by providing ODA.

It would be useful to distinguish distinct purposes, although there will inevitably be overlaps in the boundaries between these. Broadly, the purposes of ODA could be subdivided into

- support to vulnerable people for humanitarian assistance.
- support to selected countries for achieving the SDGs (with multi-dimensional poverty reduction in low- and lower middle-income countries as a central core).
- support to all countries (or global and regional institutions) for provision of global goods, with climate mitigation, nature conservation, and pandemic surveillance as prominent examples; and
- support to fragile and conflict-affected states to enable peace to take hold.

The DAC as a whole, and individual member countries of the DAC, should make non-binding indicative pledges for a five-year period for each of these activities. In this way, aid recipients can scale plans to be consistent with available resources. This does not remove the trade-offs but would make them more transparent.

There is a precedent. In 2011, the DAC recommended its members adopt principles for Good Pledging Practice.[14] The intent was to drive clarity and consistency to make it possible to aggregate commitments and disbursements across donors. The mechanisms put in place have been used to derive how much concessional aid DAC donors provide each year, as part of the climate action pledge that donors made at the Paris Agreement. Although that agreement did not have a target for concessional aid per se (a more nebulous pledge of US$100 billion per year in total financing was made), it marked the first time that donors agreed on an aggregate purpose for ODA and other sources of financial support.

This approach could now be extended to all global public goods, to an SDG stimulus plan, to humanitarian assistance, and to support for fragile states. If explicit quantitative indicative targets were set for each sub-group, it would deter the current practice of simply reallocating ODA across these groups – for example, there is little justification for practices that take ODA away from SDG programs in Africa in order to fund humanitarian assistance in Ukraine and Gaza, yet this is what is currently happening.

In making indicative pledges, DAC members should consider independent assessments of needs and clarify their own judgments in each area. However, it is probable that gaps will emerge in each area between amounts pledged and overall needs. The ODA strategy should then identify how these gaps

13 Poverty in sub-Saharan Africa has risen from 385 million in 2015 to 425 million estimated in 2024. Estimates derived by multiplying poverty incidence and population figures from the World Bank. See R. Andres Castaneda Aguilar et al., "September 2024 Global Poverty Update from the World Bank: Revised Estimates up to 2024," *World Bank Blogs*, September 20, 2024, https://blogs.worldbank.org/en/opendata/september-2024-global-poverty-update-from-the-world-bank--revise.

14 OECD, *DAC Recommendation on Good Pledging Practice*, OECD/LEGAL/5018 (Paris: OECD, 2024), https://legalinstruments.oecd.org/public/doc/269/269.en.pdf.

might be narrowed (for example, through mobilizing non-ODA sources of finance) or else how to narrow the scope of ODA activities to achieve explicit outcomes within each topic area.

Instruments

Current accounting practices at the DAC have inadvertently introduced a bias on the instruments and channels used by donors.

The first issue is that most ODA is channelled through bilateral programs rather than multilateral programs. Multilateral programs are believed to be more effective. The average size of each activity in a multilateral program is six times larger than the size of a bilateral activity, so fragmentation and coordination costs are reduced in multilateral programs. But less than half of ODA is channelled through multilaterals. Bilateral programs, which can more easily reflect national foreign policy interests, account for the majority of aid. This is in strict contrast to non-concessional official lending, which is dominated by multilateral development banks and institutions.

The second issue is that ODA is now being used to encourage private sector activity. The accounting of instruments such as loans and equity subscriptions to the private sector, guarantees, and mezzanine finance has been contentious, and an agreement on methods was only reached in October 2023 after seven and a half years of discussion. The new measures will only be available in two years' time.

Impact and accountability

ODA is implicitly the financing instrument of choice for implementation of many global agreements – the SDGs, the Paris agreement, and the Kunming Montreal global biodiversity framework to name a few. None of these agreements, however, have explicit pledges of ODA within them, so ODA's role and impact is left unaddressed.

The best ODA-giving institutions have evaluations and assessments of the impact of their projects. These inform what has been achieved thanks to ODA. However, no institution bears any accountability for impact. As one commentator famously remarked, shouldn't someone be fired as a result of the dismal progress on the SDGs at their half-way mark?[15] The call for an accountability revolution rests on the ability of institutions to correct course when data shows that progress is off-track.

ODA needs an institutional mechanism to identify what its collective responsibilities are and how it will respond to evidence on progress in each of the four areas described above. There is an opportunity to do this in the area of the SDGs at the time of the Finance for Development Summit in June 2025. Similarly, the DAC could make an indicative pledge for ODA for climate action in the context of the new collective quantified goal for climate finance that is being negotiated next year. It should do the same for other public goods, and for its commitments to fragile and conflict-affected countries.

In each of the four areas, the DAC should issue an annual assessment of progress, gaps and opportunities.

A "BIG BET" EXAMPLE TO RECAST ODA AS ACCOUNTABLE AND IMPACTFUL

ODA needs a story of success on a global scale to regain its attractiveness and support from taxpayers in rich countries. It has an opportunity. The UN has agreed on a Pact for the Future in September 2024. The Pact reaffirms many of the global commitments countries have made to promote sustainable development, peace and security, and human rights. It recognises the slow progress on many of the essential components of such a vision and proposes 58 actions moving forward. Although ODA could have a valuable role in almost all these actions, at its current scale it cannot fund everything. It must choose.

Action 2 of the Pact reads: "Place the eradication of poverty at the center of our efforts to achieve the 2030 Agenda."[16] ODA can make a material contribution to eradicating poverty.

15 Dhananjayan Sriskandarajah, "Should Not Meeting the Sustainable Development Goals Get You Fired?" *The Brookings Institution*, July 17, 2018, www.brookings.edu/articles/should-not-meeting-the-sustainable-development-goals-get-you-fired/.
16 UN, *Pact for the Future*, July 17, 2024. www.un.org/sites/un2.un.org/files/pact_for_the_future_-_rev.2_-_17_july.pdf.

The core idea of how ODA could be best used for poverty reduction was spelled out by a Working Group (Room 1) convened in the context of the Brookings-Rockefeller Foundation 17 Rooms exercise in 2023.[17] The group set out principles for establishment of a new global fund to eradicate extreme poverty through cash transfers, recognizing that most poverty today is concentrated in countries with very low economic growth and with few medium-term prospects for rapid growth acceleration. There is now a significant body of evidence that cash transfers are effective in eradicating poverty, and that a single lump-sum transfer of US$550 per adult can help most households to permanently lift themselves out of poverty by providing them with opportunities to buy productive assets.[18]

The policy paper notes that all the ingredients for a successful fund are now present. There is rigorous evidence that cash transfers work, a widely applicable technology for delivery based on digital infrastructure and beneficiary data,[19] and sufficient fiscal space to tackle the job. During the COVID-19 crisis, an estimated 1.36 billion people received cash transfers through 1,023 measures in 203 countries, causing the World Bank to speculate that these experiences could become a game changer for the use of unconditional cash transfers for social assistance.[20] Technical implementation hurdles were quickly overcome, as in the Togo Novissi example, and, perhaps more significantly, long-held beliefs about cash transfers – such as disincentives to work or waste of funds on sin goods like alcohol – were revealed to be myths.

Is ODA large enough to have a significant impact on such a big global problem? To provide an estimate of the needed fiscal resources for a major global poverty-reduction effort, consider that just under 600 million people are likely to still live in households experiencing extreme poverty in 2030.[21] Slightly less than half, perhaps 250–300 million people will be adults. The NGO GiveDirectly has demonstrated through a randomised control trial that a lump-sum payment of US$550 per adult in a poor household is generally enough to allow families to escape extreme poverty forever by investing in income-generating assets and businesses.[22] Some households may require a second round of assistance, but this should be rare. A total of US$150–200 billion is therefore required to eradicate extreme poverty. If phased over 10 years, this implies US$15–20 billion per year, a significant amount but small compared with global GDP that exceeds US$100 trillion or even compared with total net annual ODA of US$200 billion. By asking for matching funds from recipient governments, leveraging from foundations and high net-worth individuals, and other charitable sources, the fiscal impact on ODA could be reduced even further.

This example illustrates the elements of a new political economy of ODA reform. There should be a “big bet” in terms of easy-to-understand and measured impact, with a transparent process for sound quantitative metrics put in place. Innovative technology should be used to quieten sceptics who may ask why it should be different now. The resource envelope should be commensurate with the size of the problem to be tackled, although some phasing overtime is to be expected. And the funds should be channelled through an institution whose management can be held accountable for results.

The old idea that ODA should be used to do some good as an expression of solidarity between a rich country and a

17 Cina Lawson and Rory Steward, “A Purpose-Driven Global Fund for Scaling Digital Cash Transfers to Accelerate Progress on Ending Extreme Poverty by 2030: Room 1 Concept Note” in *17 Rooms Global Flagship* (The Brookings Institution, 2023), www.brookings.edu/wp-content/uploads/2023/12/2023-Room-1-Concept-Note.pdf.

18 Abhijit Banerjee et al., “Universal Basic Income: Short-Term Results from a Long-Term Experiment in Kenya,” *National Bureau of Economic Research* (NBER), September 15, 2023, https://conference.nber.org/conf_papers/f192616.pdf.

19 A verifiable ID and/or a social registry is required to identify and target beneficiaries, high rates of mobile phone ownership and coverage are needed to deliver payments, and an interoperable payment system or widespread mobile wallet and cooperative Mobile Network Operators are needed for seamless implementation.

20 Ugo Gentilini, *Cash Transfers in Pandemic Times: Evidence, Practices, and Implications from the Largest Scale Up in History*, (World Bank, 2022). http://hdl.handle.net/10986/37700.

21 Arief Anshory Yusuf et al., “Will economic growth be sufficient to end global poverty? New Projections of the UN Sustainable Development Goals,” *WIDER Working Paper* 2023/123 (UNU-WIDER, 2023), https://doi.org/10.35188/UNU-WIDER/2023/431-1.

22 GiveDirectly has moved from small, randomized control trials to trials of large-scale programs in Malawi and Rwanda. See: “Help accelerate the end of poverty for families in Malawi with cash transfers,” *GiveDirectly*, November 2024, www.givedirectly.org/malawi/#:~:text=Large%20transfer,Basic%20Income.

developing country is no longer useful. The answer to almost any problem in the world today is to try to attract more ODA. But the numbers do not add up. ODA cannot do everything. It needs a strategy; it needs new instruments for effective implementation, and it needs to be accountable for pre-determined results on global priorities.

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11. Make ODA Great Again (MOGA) or Make ODA Functional Again (MOFA)? This Is the Question[1]

Jean-Michel Severino

There is a growing consensus that official development assistance (ODA), as a category of public policy, is at a crossroads.

Since 1969, ODA has been a universal, effective, and even unique public policy framework which has served all its stakeholders well. This framework is based on a definition (the volume and value of transfers from OECD countries to a stable and recognised list of beneficiary countries), common objectives (the best known being the famous 1 percent and 0.7 percent of the GDP of the contributing countries to be transferred to the developing countries), methodologies (in particular on the rules defining the nature of the transfers), evaluations (including the OECD peer review process), collective and shared learning processes, and, finally, governance (exemplified by the Development Assistance Committee (DAC)).

It's remarkable.

Obviously, this construction has given rise to many criticisms relating to the objectives, the methodologies, and the non-inclusion of the beneficiaries in governance, but also the formalistic, cumbersome, and procedural nature of the whole. This framework has also proved incapable of fully integrating new contributors, such as China, despite real attempts to open; the identity of the supporting institution, the OECD, which has been a long-term asset, has reached its limits here.

The system has finally entered a form of crisis. It is due to the considerable expansion of international financial and capacity transfers. Historical ODA was aimed at discretionary transfers from rich to poor countries, motivated by the desire to provide compensation to the losers of economic history, to reduce extreme poverty, to maintain a relationship of solidarity or domination with former colonies, or to support certain parties in the context of the Cold War or geopolitical power relations. The foundations of these transfers have been considerably broadened: without renouncing old motivations, they have expanded to include the desire to support the pursuit of public policy objectives common to the planet, such as in environmental or health matters. The crisis has been redoubled by the transformation of the structure of global wealth. ODA was conceived and developed in a world where the OECD accounted for 79 percent of the world's GDP. It now accounts for around 60 percent.[2] BRICS account for around 23 percent.

The consequences for ODA are numerous. The OECD's club of historical contributors is no longer representative of actual or potential contributors. This has deep consequences, on the

1 The MOGA concept was taken from conversations held during the Center for Global Development and Agence Française de Développement Experts Workshop on the Future of ODA held in Chantilly, France, in May 2024.
2 "GDP (Current US$)," *World Bank*, accessed November 2024, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD.

one hand, in terms of legitimacy to ensure the direction of the system, but also, on the other hand, for the simple ability to finance global policy. Beneficiaries are demanding participation in the management of the system, which the current framework does not provide for. The accounting reference framework is outdated: although it does measure flows, it no longer allows, due to the diversification of intentions and the objectives that govern them, to understand what is in fact financed and why.

In addition, there is a form of overstepping from the bottom and from the top in the management of the metric itself. The metric was initially designed to understand the budgetary costs of public policy and to manage the problems of unfair trade competition between OECD member countries, despite its many adaptations over the decades. But now, ODA is proving to be in a difficult position in two ways: there is the challenge from below, to effectively measure the cash contribution to the governments of recipient countries, and, from the top, to understand the totality of flows (and public policy contributions) to poor countries. This has led to the emergence of the concept of Total Official Support for Sustainable Development (TOSSD), but also to new initiatives, both outside and within the framework of the OECD. We can cite, for example, the attempts to understand the contradictions between the conservative global regulation of banks and markets and the desire to provide better and more financing to developing countries. Even more generally, indexes appeared in the early 2000s to measure rich countries' real contribution to development, by integrating all the impacts of their domestic public policies, for example, in terms of migration, defence, agriculture, or the environment.

The paths of evolution are gradually appearing.

The first is MOGA: "Let's make ODA great again." This is the ambitious option. It suggests that historical ODA should be transformed into a new global framework to understand financial transfers underpinning public policies. This would require the following steps:

- Defining a new measurement framework to know what the declared flows are intended for (financing global public goods, and which ones; ensuring the planetary social safety net, to which all humanitarian and emergency aid already contributes; rebuilding the original mission of the International Bank for Reconstruction and Development; accelerating the sustainable growth of poor countries to allow economic convergence, etc.).[3] This measurement framework should also address the technical problems affecting the current ODA. It implies finding solutions to the downwards and upwards challenges that have just been mentioned.
- Creating a global governance structure for these transfers that is naturally not found in the OECD, the Bretton Woods institutions, or the United Nations, for different reasons.
- Preserving, expanding, and strengthening the mechanisms for evaluation, sharing, and dialogue that the OECD has enabled.
- And, if possible, defining a common framework of objectives, which should borrow from, but cannot be limited to, the Sustainable Development Goals. It must integrate the content of the various international treaties that are beginning to mark the international community and are managed by their conferences of the parties (COPs). A multiplication multiplicity of those arrangements can be identified in the areas of environment (climate, biodiversity, plastics, etc.) or health, for instance.

The second is MOFA: "Let's make ODA functional again." This is the realistic option. It consists of solving the current problems with the existing tool, which are within the system's reach. They are already significant. This would mean taking the following steps:

3 See "Chair in International Architecture of Development Finance: For a Better International Financing of Vulnerable Countries," Fondation pour les études et recherches sur le développement international, accessed November 2024, https://ferdi.fr/en/chaires/chair-in-international-architecture-of-development-finance; Sylviane Guillaumont-Jeanneney and Jean-Michel Severino, "Financing Global Policies: But Why?" FERDI Working Paper No. P317 (Fondation pour les études et recherches sur le développement international, 2023), www.econstor.eu/bitstream/10419/269596/1/ferdi-wp317en.pdf.

- Better integrating the beneficiaries of assistance and the emerging countries into the dialogue on aid, without necessarily bringing them into either the DAC or the OECD.
- Resolving the current technical problems of measuring aid, by ensuring the coherence, legibility, and continuity of a three-tiered metric:(1) universalising the consideration of flows, with TOSSD; (2) precise on the measurement of the budgetary costs of assistance to poor countries; and (3) with ODA in the narrow sense, politically understandable through the correct understanding of effective territorialised transfers to recipient countries, including bridges with their balances of payments.
- Ensuring that there is continued mobilisation around the fight against poverty and the pursuit of income convergence between poor and rich countries, which risks being diluted in the magma of global public goods.

It would be too easy to scoff at the limited ambitions of the MOFA programme. MOGA is a fine ideal, but it may be unattainable in the world as it is today. It can also divert the historical ambitions of ODA that remain legitimate and should not disappear.

Perhaps, under these conditions, we have no choice but to proclaim: MOFA, or MOGA, let's not choose! Let's then call it MOGFA!

MOGFA would then consist of three essential points: to go as far as possible in upgrading the metric that is part of the MOFA programme; to advance a new vision of global flows by introducing a considerable but essential reform, that of the incorporation of purposes in metrics, which is part of the MOGA programme; and to prioritise the strengthening of evaluation and dialogue between system actors, including beneficiaries and new contributors, in pragmatic formats. And to see if all this can lead to a new governance model that reflects a more common and shared vision of global policies that our planet cannot do without.

Several of the points on this agenda are already part of many works in the international community and within the OECD. But the one concerning the purposes of international financial transfers is in practice blank. It should be the subject of a new mobilisation. It is complex but allows for a debate on the very meaning of current global collective action and therefore of justice. Let's distinguish the following:

1. What is part of the regulation of a global market: the costs related to the management of international trade decisions (commercial upgrading of poor and fragile countries, for example) or financial decisions, and the minimum social safety net for the poorest, who are permanently far from being able to participate in global prosperity
2. What is part of humanitarian action: the financing of assistance for refugees, the cost of major political and natural crises, and food and emergency aid, but also the reconstruction of countries, as we have seen for Iraq, Afghanistan, and Ukraine...
3. What is part of compensation for historical wrongs: political but also climatic, with all the financing of adaptation to climate change, the management of climate refugees...
4. What is part of addressing common structural planetary issues: carbon emissions, biodiversity loss, communicable diseases and epidemics...
5. What is part of common security, particularly in terms of defence...
6. The discretionary desire to accelerate economic and financial convergence between poor, middle-income, and rich countries

It is very important to note that no simple and unique rule for how to collect and how to allocate each of these flows can be identified. Some can only be discretionary. Others can be derived by specific rules of justice that vary depending on the nature of the problem: financing to support countries' adaptation to climate change, for instance, should be based on the volumes of cumulated carbon emissions, which have limited relations with biodiversity loss or communicable diseases.

Unfortunately, those diverse rationales for international transfers are too many for communication and clarity purposes.

It would be already great progress to distinguish three categories of flows: international transfers related to the deep solidarity policies that our small planet needs (items 1 and 2 of the previous list), financing for the management of global common challenges (items 3, 4, and 5 of the same previous list), and discretionary financing for sustainable growth and convergence (item 6). Desegregating each of those broad categories will nevertheless remain necessary, if only for the different collection and allocation rules which will be necessary. Climate change is a good example: international financing for the reduction of emissions will rely mostly on transfers from OECD countries to middle-income countries to help their conversion to sustainable energy, on top of their own domestic effort, which has to come first. Financing the adaptation of developing countries to climate change will require the combined efforts of and transfers from OECD and BRICS countries – large, cumulated emitters of carbon, and representing a fifth of the world's GDP – to the poorest countries. And, of course, the public polices countries have to implement for the reduction of emissions and adaptation are very different.

It is known that attention is focused on what we measure. If we want this effort to be complete, then it must be articulated with an inventory of domestic public policy mechanisms, in rich countries as well as in the BRICS, which have positive and negative effects for development and public goods, as has already been pointed out, and do this by comparing it with the same categories above.

This is not a simple undertaking. Beyond its conceptual and methodological difficulties, it is also rich in contradictions and political debates. They should not be avoided. We will only be able to make progress in the effective financing of global common projects if the international community has a sufficiently consensual and shared metric to understand what it is doing, for the benefit of whom, at whose costs, and why. The accounting and prosaic dimension of certain aspects of this project may be discouraging, but it shouldn't be.

It is thanks to architects and good masons that kings (okay, let's say presidents and heads of government) and assemblies live in safe palaces where they can make happy decisions and good laws. All these people are currently working exposed to the elements. Let us devote time to building the good walls and solid roofs that the people and the political masters need.

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12. Reimagining Aid

Shantayanan Devarajan

INTRODUCTION

Between now and 2030, mitigating climate change, managing pandemics, and controlling the spread of violent conflict will cost developing countries about US$2.4 trillion a year.[1] The sheer magnitude of this number, not to mention the severity of the problems, has led to calls for increased ODA (official development assistance) to help finance these global public goods. In responding to these calls, it is worth asking: How has aid fared in delivering national public goods, such as reducing poverty, educating children, and improving the health of the population?

For despite its seemingly benevolent nature and the spectacular success of development, aid has been, and continues to be, controversial.[2] While the world has seen the greatest improvement in human well-being in history[3]—since 1960, extreme poverty rates fell from 60 percent to 8 percent; child mortality rates fell from 30 per 1,000 to 4; nearly everyone has been to primary school—poverty remains stubbornly high in Africa and is rising in fragile and conflict-affected states;[4] the quality of public health services is appallingly low;[5] and half the children finishing primary school (and 90 percent in Africa) cannot read a paragraph in their own language.[6]

Furthermore, efforts to link the volume of aid to development results have yielded mixed results.[7] This may be because aid is given for reasons other than development, such as foreign policy or promoting domestic businesses.[8] Also, aid is effective in countries with good policies and institutions,[9] but the allocation of aid may not be to those countries. Finally, using aid to fill financing gaps may undermine incentives to strengthen policies and institutions, leading to "aid dependence".[10]

Besides the controversies with national public goods, using aid for global public goods such as mitigating climate change adds further complications.[11] Aid in this case should go to the countries that can deliver the most climate mitigation, which may not be poor countries: the two largest emitters of carbon dioxide are China and the United States. Also, poor countries

1 World Bank, *Financing the Future: IDA's Role in the Evolving Global Architecture* (World Bank, 2024). https://thedocs.worldbank.org/en/doc/4d9f3d42dedc0bb5eb452fbf887ec0c5-0410012024/original/IDA-Financing-the-Future-V1-04-15-24.pdf.
2 Raj Desai, Shantayanan Devarajan, and Jennifer L. Tobin, "Introduction to the Handbook of Aid and Development," in *Handbook of Aid and Development*, ed. Raj Desai et al. (Edward Elgar Publishing, 2024). https://ideas.repec.org/h/elg/eechap/20736_1.html.
3 Lant Pritchett, "Development Happened. Did Aid Help?" in *Handbook of Aid and Development*, ed. Raj Desai et al. (Edward Elgar Publishing, 2024). https://ideas.repec.org/h/elg/eechap/20736_2.html.
4 Paul Corral et al., *Fragility and Conflict: On the Frontlines of the Fight Against Poverty* (World Bank, 2020). https://openknowledge.worldbank.org/bitstream/handle/10986/33324/9781464815409.pdf.
5 Roberta Gatti et al., *The Quality of Health and Education Systems Across Africa: Evidence from a Decade of Service Delivery Indicators Surveys* (World Bank, 2021). http://documents.worldbank.org/curated/en/380481637326015488/The-Quality-of-Health-and-Education-Systems-Across-Africa-Evidence-from-a-Decade-of-Service-Delivery-Indicators-Surveys.
6 Max Roser, "Millions of Children Learn Only Very Little. How Can the World Provide a Better Education to the Next Generation?" Published online at OurWorldinData.org, 2022. https://ourworldindata.org/better-learning.
7 Axel Dreher, Valentin Lang, and Bernhard Reinsberg, "Aid Effectiveness and Donor Motives," *World Development* 176 (2024). www.sciencedirect.com/science/article/pii/S0305750X23003194.
8 Steven Radelet, "Why Is Aid Given?" in *Handbook of Aid and Development*, ed. Raj Desai et al. (Edward Elgar Publishing, 2024). https://ideas.repec.org/h/elg/eechap/20736_3.html.
9 Craig Burnside and David Dollar, "Aid, Policies, and Growth," *American Economic Review* 90, no. 4 (2000): 847–868. www.aeaweb.org/articles?id=10.1257/aer.90.4.847.
10 Céléstin Monga and Bouba Housseini, "Hysteresis, Aid and Governance: Theories and Empirics from Africa," in *Handbook of Aid and Development*, ed. Raj Desai et al. (Edward Elgar Publishing, 2024). https://ideas.repec.org/h/elg/eechap/20736_6.html.
11 Shantayanan Devarajan, "Multilateralism for International Public Goods," *Global Perspectives* 3, no. 1 (2022): 57732. https://doi.org/10.1525/gp.2022.57732.

may object to this aid being used for global public goods – which benefits the planet – at the expense of national public goods, such as poverty reduction, health, education, and infrastructure.[12]

In this chapter, I show that these two sets of problems – aid being controversial in delivering national public goods and the complications with global public goods – arise from the same source: The underlying constraint in both cases is the lack of a political consensus for reform of policies and institutions. Aid qua transfer of resources cannot relax this constraint. We need to reimagine aid as the transfer of knowledge, not in the traditional sense of technical assistance, but as knowledge that will help build a domestic political consensus for change. A financial transfer may in some instances be desirable, but it should be used only when it can help – and not hurt – in building that political consensus. Importantly, aid should not be measured and monitored by the amount of financial resources transferred but by the results achieved.

POLITICS IS THE CONSTRAINT

To see that the lack of a political consensus for reform is the constraint, consider the shockingly poor learning outcomes of children who have been going to primary school for five years.[13] That only half of them can read is not surprising when we observe that in India and several African countries, the teacher is absent from the school about 25 percent of the time, and from the classroom 50 percent of the time.[14] The reason is not that teachers are underpaid.[15] A policy in Indonesia doubled teachers' salaries and found no change in learning outcomes.[16] Rather, it is because teachers are not accountable to the students or their parents.[17] But how have teachers remained unaccountable for so long? In many of these countries, teachers run the political campaigns of local politicians.[18] If elected, the politician gives the teacher a job from which they can be absent. This political equilibrium is difficult to dislodge.

A further problem is that, when present, many primary school teachers are unqualified to teach. A survey of six African countries found that only 60 percent of the fourth-grade teachers had the knowledge of a fourth grader.[19] Clearly, teachers are not being appointed on merit. There is considerable evidence that teaching jobs are a form of political patronage. In Zambia, for example, the realization every few years that there is a teacher shortage leads to large-scale recruitment of teachers, with lax enforcement of hiring rules.[20]

Politics is the constraint in other sectors as well. In health, powerful medical unions enable doctors to be absent from public health clinics; when present, they provide poor service so patients will visit their private practice in the evening.[21] As one patient in Egypt put it, "You can go to the private clinic and lose your money or to the public clinic and lose your life." In

12 Kerri Elgar et al., "Development Co-operation and the Provision of Global Public Goods," *OECD Development Co-operation Working Papers* No. 111 (OECD Publishing, 2023). www.oecd.org/en/publications/development-co-operation-and-the-provision-of-global-public-goods_aff8cba9-en.html.

13 World Bank, *World Development Report 2018: Learning to Realize Education's Promise* (World Bank, 2018), https://doi.org/10.1596/978-1-4648-1096-1.

14 Nazmul Chaudhury et al., "Missing in Action: Teacher and Health Worker Absence in Developing Countries," *Journal of Economic Perspectives* 20, no. 1 (2006): 91–116; Gatti et al., The Quality of Health and Education Systems Across Africa. www.aeaweb.org/articles?id=10.1257/089533006776526058.

15 In public schools in Punjab, Pakistan, teachers' salaries increased with the degree of absenteeism. See Tahir Andrabi et al., *Learning and Educational Achievements in Punjab Schools (LEAPS): Insights to Inform the Education Policy Debate* (World Bank, 2007), https://khwaja.scholar.harvard.edu/files/asimkhwaja/files/leaps_report_final.pdf.

16 Joppe De Ree et al., "Double for Nothing? Experimental Evidence on an Unconditional Teacher Salary Increase in Indonesia," *The Quarterly Journal of Economics* 133, no. 2 (2018): 993–1039. https://academic.oup.com/qje/article-abstract/133/2/993/4622956.

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19 Tessa Bold et al., "Enrollment Without Learning: Teacher Effort, Knowledge, and Skill in Primary Schools in Africa," *Journal of Economic Perspectives* 31, no. 4 (2017): 185–204. www.aeaweb.org/articles?id=10.1257/jep.31.4.185.

20 Chita Kasonde and Ferdinand M. Chipindi, "Teacher Selection in the Public Sector: Challenges, Pitfalls and Opportunities," *International Journal of Research and Scientific Innovation* 7, no. 11 (2020). https://ideas.repec.org/a/bjc/journl/v7y2020i11p239-245.html.

21 Jishnu Das and Jeffrey Hammer, "Money for Nothing: The Dire Straits of Medical Practice in Delhi, India," *Journal of Development Economics* 83, no. 1 (2007): 1–36. www.sciencedirect.com/science/article/abs/pii/S0304387806000770.

the water sector, political resistance to raising prices has led to over-depletion of water resources and, in places like the Middle East and North Africa, a water crisis.[22]

Finally, the problem of climate mitigation is also one of politics. The United States – the world's second-largest emitter of carbon – has yet to impose a carbon tax (the most efficient instrument for mitigation) because there is no domestic political consensus for it. China continues to burn coal even though the health externalities, which are local, exceed the global climate-change externalities.[23]

RESOURCE TRANSFERS CANNOT RELAX THE POLITICAL CONSTRAINT

For at least three reasons, aid as resource transfer has not been effective in promoting development when the constraint is politics. First, building political coalitions for change involves multiple actors (civil society, service providers, citizens, and governments) and takes a long time. Traditional aid, where financial resources are transferred to governments within a pre-determined project cycle, is unlikely to help achieve the required change. Take the example of World Bank finance and learning outcomes. The Bank had an education strategy labelled "Learning of All" in 2011; produced a World Development Report entitled "Learning to Realize the Promise of Education" in 2018; and has since 2018 transferred US$4 billion a year for education. Yet Bedasso and Sandefur find that those projects that had an explicit learning objective fared worse than the average.[24] In fact, the composition of the Bank's lending has recently shifted away from learning projects. The principle applies to other sectors as well. Getting consensus for change in the health sector has proved elusive in many countries.[25] In the water sector, billions of dollars of aid have flown despite chronic under-pricing of water and inefficient management of utilities.[26] The same problem will arise if we use financial transfers to induce the United States to introduce a carbon tax or China to abandon coal-fired power plants.

Second, using resources as an incentive for governments to undertake policy reforms – sometimes called conditionality – is also problematic when the underlying constraint is political.

Financial assistance is insufficient for a government to sacrifice its political future. As the head of one government put it, "If you had a choice between US$200 million from the World Bank and winning the next election, which would you choose?" In a study of 10 African countries, Devarajan and colleagues found that aid was associated with sustained policy reforms only in cases where there was a domestic political consensus for the reforms.[27] But allocating aid only to those countries leads to what Deaton and Easterly call the "aid paradox": the countries where aid is effective are the ones that do not need it;[28] and the ones where it is badly needed, such as fragile states, are where the political consensus, and indeed institutions, are weakest.

Third, when aid is measured and monitored as a financial transfer, there is pressure on the donor to disburse the aid even when the reforms have not been undertaken. The World Bank gave three structural adjustments loans in a row to

22 Dominick de Waal et al., *The Economics of Water Scarcity in the Middle East and North Africa: Institutional Solutions* (World Bank, 2023). https://openknowledge.worldbank.org/entities/publication/ab35b03a-23fa-4457-aebd-0f4a89848be1.

23 Ian Parry, Chandara Veung, and Dirk Heine, "How Much Carbon Pricing Is in Countries' Own Interests? The Critical Role of Co-Benefits," Working Paper No. WP/14/174 (International Monetary Fund, 2014). www.imf.org/external/pubs/ft/wp/2014/wp14174.pdf.

24 Biniam Bedasso and Justin Sandefur, "The Evolution of World Bank Lending for Education: 1998–2022," CGD Working Paper No. 685 (Center for Global Development, 2024). www.cgdev.org/sites/default/files/evolution-world-bank-lending-education-1998-2022.pdf.

25 See, for example, Pascaline Dupas and Jishnu Das, "What Will It Take to Achieve Universal Health?" *Future of Development Seminar Series*, Center for Global Development, 2021. www.cgdev.org/event/future-development-health.

26 Erik Berglof and Shantayanan Devarajan, "Water for Development: Fulfilling the Promise," in *Water for Development: Charting a Water-Wise Path*, edited by A. Jägerskog, T. J. Clausen, T. Holmgren, and K. Lexén, SIWI Report No. 35 (2012), 23–26. https://siwi.org/wp-content/uploads/2015/08/2015-World-Water-Week-Report_-Water-for-Development.pdf.

27 Shantayanan Devarajan, David R. Dollar, and Torgny E. *Holmgren, Aid and Reform in Africa* (World Bank, 2001).

28 Angus Deaton, *The Great Escape: Health, Wealth, and the Origins of Inequality* (Princeton University Press, 2016), https://press.princeton.edu/books/paperback/9780691258805/the-great-escape; William Easterly, "The Paradox of Aid and Donor Self-Interest," in *Handbook of Aid and Development*, ed. Raj Desai et al. (Edward Elgar Publishing, 2024). https://ideas.repec.org/h/elg/eechap/20736_9.html. In a World Bank budget support operation in Tamil Nadu, India, the team worked with think tanks from different political parties to develop the policy reforms matrix. For unrelated reasons, the loan was cancelled at the last minute. The government of Tamil Nadu continued with the reforms.

Kenya for the same maize price reform.[29] Not only does this render the aid ineffective, but it weakens incentives in the recipient government of implementing politically sensitive reforms. A graphic and recent case was the dilemma in providing COVID-related aid to corrupt governments.[30] Addressing corruption takes time, but the aid was needed immediately. The international community erred on the side of transferring resources quickly, some of which leaked and undermined the effort to reach the victims of the pandemic.

AID AS KNOWLEDGE TRANSFER TO SUPPORT CHANGE

To make aid deliver on national and global public goods, we need to start with the problem – be it poverty, illiteracy, ill-health, or climate change – and identify the underlying constraint to a solution. If, as suggested above, that constraint is the lack of political consensus for change, the question is: How can external partners help relax that constraint? Devarajan and Khemani identify two possible actions.[31] The first is the creation of knowledge to underpin reforms. For example, information about teacher and doctor performance can be (and has been) useful in helping to build coalitions for making teachers and doctors accountable.[32] Much of this knowledge is a global public good and will therefore be under-supplied if each government is expected to finance it. That the information is politically sensitive may also be a disincentive. But that is precisely why this knowledge is valuable: It informs the public about the costs and benefits of policy change, so they can be enlightened voters.

This leads to the second role for external actors: to disseminate the knowledge so that the general public, and not just a small group of elites, receive it. There is considerable evidence that information in the hands of the public can bring about pro-poor policy reform.[33] A landmark study in Uganda found that, publishing the share of education grants arriving at primary schools (the average was 13 percent) created a movement, where people started asking how much money was coming to their district and eventually to the local school. In four years, the share rose to 90 percent.[34]

The dissemination of knowledge is a role for external actors because, as pointed out above, the incumbent government may not want the public to be informed, lest it jeopardize their chances at the next election. Yet this is precisely the reason why the public should be informed – so they can vote based on knowledge and evidence. When aid is thought of as financial transfer, the aid donor is in a relationship with the government, which receives the money and implements the project. But when aid is knowledge, the donor's relationship is with the general public, who are the intended beneficiaries of aid. The government is an intermediary; when it becomes an obstacle, the donor should work directly with the public.

This knowledge function is different from traditional technical assistance or previous efforts to create a "Knowledge Bank."[35] Technical assistance is knowledge generated in response to a request from the government to solve a particular, technical problem; that is not the same knowledge that helps build political consensus. The Knowledge Bank of former World Bank President Wolfensohn was conceived as knowledge

29 F. Stephen O'Brien and Terry Ryan, "Kenya Case Study," in Aid and Reform in Africa, ed. Shantayanan Devarajan et al. (World Bank, 2001). https://openknowledge.worldbank.org/entities/publication/f4c55c19-9e28-58f9-a98a-574209e715c2.

30 Elizabeth Dávid-Barret and Riccardo D'Emidio, "Curbing Corruption in Aid," in *Handbook of Aid and Development*, ed. Raj Desai et al. (Edward Elgar Publishing, 2024). www.elgaronline.com/edcollchap/book/9781800886810/book-part-9781800886810-14.xml.

31 Shantayanan Devarajan and Stuti Khemani, "If Politics Is the Problem, How Can External Actors Be Part of the Solution?" in I*nstitutions, Governance and the Control of Corruption*, ed. Kaushik Basu and Tito Cordella, 95–122, (Palgrave Macmillan, 2018), https://ideas.repec.org/p/wbk/wbrwps/7761.html.

32 Martina Björkman and Jakob Svensson, "Power to the People: Evidence from a Randomized Field Experiment on Community-Based Monitoring in Uganda," *The Quarterly Journal of Economics* 124, no. 2 (2009): 735–769, https://ideas.repec.org/a/oup/qjecon/v124y2009i2p735-769..html; Priyanka Pandey, "Does Information Improve Service Delivery? A Randomized Trial in Education in India" *PLOS ONE* 18, no. 3 (2023), https://pubmed.ncbi.nlm.nih.gov/36920958/.

33 Stuti Khemani et al., *Making Politics Work for Development: Harnessing Transparency and Citizen Engagement*, Policy Research Reports (World Bank Group, 2016), https://documents.worldbank.org/pt/publication/documents-reports/documentdetail/268021467831470443/making-politics-work-for-development-harnessing-transparency-and-citizen-engagement.

34 Ritva Reinikka and Jakob Svensson, "Local Capture: Evidence from a Central Government Transfer Program in Uganda," *The Quarterly Journal of Economics* 119, no. 2 (2004): 679–705. https://academic.oup.com/qje/article-abstract/119/2/679/1894528.

35 Stephen Denning, "How Jim Wolfensohn Created the Knowledge Bank," *Forbes*, November 26, 2020. www.forbes.com/sites/stevedenning/2020/11/26/how-jim-wolfensohn-created-the-knowledge-bank/.

that will support the World Bank's lending operations. The knowledge-as-aid proposed here is knowledge that should be generated whether the government wants it or not. The research on crony capitalism in Tunisia was undertaken and published after President Ben Ali had left.[36] Many people in Tunisia regretted that this analysis was not available during the regime, when it would have provided valuable information about the functioning of the government. The fact is that there was some analysis done during the regime, but it was suppressed because the former president threatened to break off relations with the World Bank if it was published.

Aid as knowledge assistance is equally important for global public goods. A carbon tax among the highest carbon-emitting countries can make a huge difference to the planet. A global campaign, based on evidence, that is disseminated to the public in these countries is one of the most powerful ways of realizing this reform. The successful global campaign to restrict the use of chlorofluorocarbons is a precedent.[37] As mentioned above, the health costs of coal exceed the climate costs. An evidence-based campaign to inform the public in the largest coal-emitting countries – China, India, and South Africa – could go a long way to improving the health of their people while benefiting the planet.

This is not to say that aid institutions should be transformed into knowledge institutions. Countries need money. However, to make the financial transfer effective, it should be used to promote the coalition-building possibilities of the knowledge transfer. In particular, financing can be conditional on governments permitting the dissemination of knowledge to the public. For instance, the World Bank's International Development Association requires countries that receive budget support to publish their budget on the Internet. While this may appear to be a "light" condition – it has been likened to giving the government a blank check – it is instructive that compliance of this condition has not been easy.[38]

CONCLUSION

External actors can have a huge impact on both national and global public goods. Their track record on promoting poverty reduction and human development has been mixed, while their role in global public goods has raised many questions. In this chapter, I suggest that the reason for both is that we have thought of aid as the transfer of money, when the underlying problem was the lack of political consensus for reform. By reimagining aid as knowledge assistance aimed at building political consensus for reform, we can help relax the political constraints to national and global public goods. In this way, aid will be directly addressing the problems it was intended to solve.

36 Bob Rijkers, Caroline Freund, and Antonio Nucifora, "All in the Family: State Capture in Tunisia," *Journal of Development Economics* 124 (2017): 41–59. www.sciencedirect.com/science/article/abs/pii/S0304387816300608.

37 UNFCCC, "What the Ozone Layer Teaches Us About Climate Action," Blog post, September 15, 2022, https://unfccc.int/news/what-the-ozone-layer-teaches-us-about-climate-action.

38 In one case, after a two-year delay, a government finally posted its budget on the government website in order to receive a budget support credit. The next day, the website was down.

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2055 L Street NW
Floor 5
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20036

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Great College Street
London
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