Strategic Choices for Development Cooperation in a Post-2015 World

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1. Introduction and objectives

The context of aid is changing rapidly. These changes pose a strategic puzzle for all development agencies. The basic questions are familiar from contemporary development policy debates. How should the governance of multilateral agencies adapt to the global re-balancing of economic power? Given that private financial flows outstrip aid volumes (in aggregate) should aid do more to leverage and direct private flows to poor countries? Is it still valid to give aid to middle-income countries (MICs) given their larger GDPs but still large numbers of poor people? – and if so which ones and how much? Should donors focus more of their effort on fragile states given the depth of their poverty, but how is this best achieved? How does aid intersect with the provision of global public goods (GPGs) such as the protection of the global environmental commons and global health? These are just some of the issues that donor countries and agencies are now reflecting upon.

Moreover, aid is just one way in which high-income countries (HICs) have an impact on low-income countries (LICs) and MICs, and just one way in which they can help reduce poverty and promote social inclusion. There are many policy arenas that affect poverty, climate and environment, democracy and human rights, security and the global economy. Aid may be a small player, when compared to other areas of HIC policy and action.[1] Should bilateral development agencies increasingly focus on 'all-of-government' policy issues beyond the delivery of aid (such as trade, migration, security and climate action)?

As they look to their future role, the changing strategic landscape poses a set of different questions for the varied development agencies of the HICs, their ministries of foreign affairs, as well as other government departments. All development agencies want to 'punch above their weight' in terms of influence and visibility. Yet many are under budgetary pressure as HICs work their way through the present austerity. At the same time many of the 'traditional' (OECD-DAC) donors are nervously eyeing the scale and impact of new donors, notably China (evident in the split within the OECD-DAC camp over whether to join the new Chinese-led Asian Infrastructure Investment Bank).

One of the factors that influence the context and scope for choice is the power and positioning of the donor country itself. Power includes economic power – the size of the donor's GDP and GDP per capita – but also the donor country's place in the structures of global and regional governance (membership of the G7, permanent membership of the UN Security Council, membership of the EU etc.). Yet a country's positioning is also a function of its history. Whether it was a colonial power or not, but also its accumulated expertise and influence – reflecting the level of activity by its official and civil society organizations in the post-colonial world of the last 60 years or so. Thus while non-G7 states tend to be small and medium-sized donors (by virtue of economic size), some exhibit a greater preference for development. Sweden, for instance, is not a G7 member. But Sweden's engagement in development is much wider than that of Canada and Italy (both G7 members) and Russia (a UN Security Council member). And some of the non-G7 states are large

[1] The European Think-Tanks Group has assessed all EU policy, of which EU aid is one part, in relation to these five global challenges (ETTG 2014).

players in specific sectors: thus Finland is well above the OECD-DAC average with regard to gender equality and development cooperation (it is the largest donor to UN Women). Norway is highly active in the areas of climate as well as peace building, and its contribution to the Global Alliance for Vaccines and Immunisation (Gavi) is almost as large as that of the United States.

Countries therefore vary in the size and ambition of their aid programme, as well as in their broader involvement with the developing world through business, philanthropy and other means. In this paper we discuss the context and the strategic options open to members of the OECD-DAC as they assess their future role, not only as aid donors, but also in their broader interactions with the developing world.

The structure of the paper is as follows. In section 2 we discuss how the international context for development action is changing, and some of the big challenges post-2015. Section 3 looks at the strategic lens through which donors could address the selected challenges, and the issues that arise. Section 4 addresses some areas of strategic choice and their implications. We conclude the paper, in section 5, with a summary of the characteristics that will help the 'development agency of the future' remain relevant and effective in a changing world.

2. 2015 and the changing international development policy context

This year (2015) sees a series of international policy events that could have a profound impact on global development in the years ahead. The first is the Addis Ababa Financing for Development Conference, which kicks off in July. Then the next session of the UN General Assembly, starting in September, will meet to establish a new framework for global development goals and targets – the Sustainable Development Goals (SDGs) – to succeed the Millennium Development Goals (MDGs). Finally, the international community will meet in Paris and attempt to strike a deal on global climate action at the CoP 21 of the UNFCCC, towards the end of 2015.

These discussions in the UN and elsewhere take place against a backdrop of a global economy in which the HICs remain in recovery from their financial crisis of 2008-09. Many are still focused on their own internal economic problems (especially in the Eurozone). The emerging market economies have also lost considerable growth momentum (India being the exception). Turmoil in the Middle-East and North Africa, notably in Libya, Iraq, Syria, and Yemen, together with the rise of Boko Haram in Nigeria, have knocked back the more optimistic projections of global conflict's decline. These wars have driven up the numbers of Internally Displaced Persons (IDPs), as well as refugees, to historically high levels.

While we should therefore celebrate the achievements of international development (see Box 1), the present crises and challenges are profound with no easy answers. Hubris is to be avoided.

Box 1. Reducing Poverty: Progress up to 2015

Huge progress has been made in the last forty years in reducing poverty and advancing human well-being (UN 2014a). According to official data (which has its limitations) in 1990, almost half of the population in developing regions lived on less than $1.25 a day. This rate dropped to 22 per cent by 2010, reducing the number of people living in extreme poverty by 700 million (UN 2014a). The bulk of this progress has been delivered by rapid economic growth in large Asian economies (World Bank 2015). In East Asia and the Pacific, the poverty headcount fell from about 77 percent of the regional population in 1981 to about 8 percent in 2011. In South Asia, the headcount more than halved, from 61 percent in 1981 to about 24 percent in 2011. Still, of the one billion people in the world below the poverty line in 2011, about 40 percent were in South Asia, and about 30 percent in India. Sub-Saharan Africa's headcount at 46.8 per cent below the $1.25 line is significantly higher than any other region as of 2011 (World Bank, 2015).

Reductions in infant mortality, although falling marginally short of the MDG target, are still very substantial. Worldwide, the mortality rate for children under age five dropped almost 50 per cent, from 90 deaths per 1,000 live births in 1990 to 48 in 2012 (UN 2014a). The number of deaths of children under age 5 fell from 12.6 million in 1990 to 6.6 million in 2012 globally. In 1980, only 17 per cent of children in the developing world were immunized against diphtheria-tetanus-pertussis; by 2011, more than 80 per cent of children were regularly immunized. The proportion of underweight children in developing countries declined from 25 per cent to 15 per cent between 1990 and 2012. The number of maternal deaths is estimated to have declined from 523,000 in 1990 to 289,000 in 2013.[2] These are remarkable achievements.

There has been significant progress towards universal primary education. While the *quality* of education across the world is not yet sufficiently high, we do see real progress on enrollment. For sub-Saharan Africa, the region with the lowest primary school enrolment rates, figures have improved from 57 to 78 per cent for boys and from 50 to 74 per cent for girls in just 20 years (1990–2010) (UNU-WIDER 2014a).

What did aid contribute? Arndt et al. (2015) find that an average annual inflow of US$25 aid per capita over the period of 1970-2007 augmented average schooling by 0.4 years, boosted life expectancy by 1.3 years, reduced infant mortality by 7 in every 1,000 births, and reduced poverty by around 6.5 percentage points. This is a significant achievement: not in every country, nor all the time, but broadly over nearly 40 years.

The MDGs focused donors and governments on human development. The social sectors rose to 40.0 per cent of OECD-DAC bilateral commitments by 2011.[3] New global funds in health as well as private philanthropy have massively increased support for health provision (UNU-WIDER 2014a, 16). Maternal and child mortality has almost been cut in half over the last two decades in Sri Lanka, Niger, Ghana and Mexico (to cite just a few countries)—an exceptional success, supported by aid (UNU-WIDER 2014a). Worldwide, some 400,000 polio cases were registered on an annual basis in the 1980s; this has now dropped to less than a thousand. Aid has funded large-scale programmes to contain and reduce the prevalence of HIV/AIDS, which thirty years ago looked

[2] http://www.who.int/mediacentre/factsheets/fs290/en/

[3] OECD-DAC data (http://stats.oecd.org/) (accessed 8 February 2015).

likely to devastate whole societies. There was a 33 per cent reduction in the number of people newly infected with HIV and the malaria incidence rate fell by 29 per cent over 2000-2012.

Global Health

Health features heavily in the MDGs which address: child mortality, maternal health, combatting HIV/AIDS, malaria and other diseases, and eradicating hunger. Box 1 documents the considerable progress that has been. Yet despite all the significant achievements in health, many countries are still struggling to meet, or falling behind, their specific country targets. Children are not yet growing to their full potential even when they survive the first years of their lives, and mothers are dying unnecessarily when giving birth. Diseases such as malaria that we have both the means to prevent and to control are still claiming many lives every year.

The recent Ebola epidemic has focused attention on the importance of health as a global public good. Weak health systems in fragile states not only have devastating effects on local people but can reach well beyond national borders. Modern mobility has made such epidemics a shared global concern, and issues such as international health regulations and health systems in fragile states are not just a local issue, but must concern us all.

In addition to the tragedy of human lives lost, the Ebola epidemic has crippled economies, knocking back recent hard-won progress, including recovery from conflict. The World Bank predicts that the three most affected countries, Guinea, Liberia, and Sierra Leone, will lose US$1.6 billion in economic growth in 2015 alone, corresponding to a gross domestic product (GDP) loss of more than 12 per cent across the three countries (Thomas et al 2015). All this damage results from a disease that is relatively manageable to control in settings with functional health systems (Boozary et al 2014; Siedner et al 2015).

It is therefore vital to strengthen broader health systems. The Global Fund to Fight AIDS Tuberculosis and Malaria (the Global Fund) affirmed its commitment to resilient health systems in the most recent Board meeting. The Global Fund has, for example, been the largest external investor in human resources for health putting in US$1.3 billion in LICs and MICs over 2002-2010. The narrow disease focus of the global funds, and a lack of co-ordination with national governments, have been criticized, and some have questioned their effectiveness in strengthening recipient countries' health systems (Bowser et al 2013). It is clear that we cannot afford to set up an organization and a vertical health system for every epidemic. The Ebola crisis has made it clear that the cost of not investing in sustainable health systems is dire.

Analysis of global health financing has found gaps between donor funding and disease burden in most regions, particularly with respect to non-communicable diseases (NCDs). Funding related to this category expanded from 2010 to 2011, yet while NCDs are a prominent and rising portion of disease burden in the developing world (GBD 2013), they are not a primary focus of development assistance for health.

In summary, there are many challenges, both global and national, in improving the world's health systems, especially for poor people and in poor countries. Since infectious diseases respect no borders, this must be a matter of priority for the international community in the years ahead.

Climate Action and Financing for Development

The draft of the Addis Ababa Accord on Financing for Development places aid flows within the context of a broader financing picture that includes domestic public finance, private investment flows, international trade, debt sustainability and technology transfer. The points to note in the debate leading up to Addis are the following:

- *What is the boundary between climate finance and development finance?* Increasingly there is an acceptance that the two kinds of financial flows should not be seen as in contradiction – and that expecting a clear separation, in terms of accounting and accountability, is not realistic.[4] At the same time there needs to be sensitivity to the difficulties of using ODA to support investment in mitigation in MICs. Kharas et al (2014) argue that grant aid should largely be restricted to supporting adaptation in poorer countries, while the very large and growing demands for investment to support climate change mitigation in MICs should be supplied from loans. There is a risk that developed countries will use ODA to support projects in MICs that count towards their own mitigation commitments. This could create a powerful incentive to divert aid from poorer countries. However, the existing climate finance commitments, such as the commitment in the Copenhagen Accord to mobilise $100 billion in climate finance per annum by 2020, are also recognised, and the debate about the appropriate use of ODA in catalysing this level of investment is still on-going.

- *Difficulties for countries moving out of low-income status, in mobilising investment flows to compensate for the loss of concessional and grant funding.* This issue has been much discussed and has been picked up in the draft outcome document for the Addis conference on development finance. Possible solutions include adjustments to multilateral concessional loan systems to allow for a smoothing out of graduation from soft loan facilities such as IDA. However, it may also suggest that there is a rationale for some donor agencies dealing with grant funding to remain engaged in Lower Middle-Income countries (LMICs) during their transition out of aid dependence. The sharp fall in commodity prices over the last year has taken the gloss off some of the (over) optimism regarding the speed at which LICs can exit aid dependence as they become LMIC.

- *How to maintain a focus on poorer countries.* The draft Addis outcome document urges all countries to give 0.7 per cent of GNI in ODA to developing countries – of which 0.15-2 per cent of GNI should go to LDCs (Least Developed Countries). This falls far short of the commitment that LDCs have argued for (at least of 50 per cent of all official aid to go to LDCs). The focus on poverty reduction as the meta-goal of all aid is softening. This has two drivers. First, heightened awareness of global public goods (e.g. climate change). Second, the resurgence of motivations amongst donors around national interests related to trade, national security or a desire to forestall migration. Taken together this has the potential to undermine aid flows to the poorest countries. That said, the move by the UK to put the 0.7 per cent target into law is a good signal to other large donors. The example of the non-G7 donors, such as Norway and Sweden, that have achieved (and sometimes exceeded the 0.7 per cent target) has undoubtedly helped maintain the UK's momentum towards the target, and may yet encourage other G7 donors to do so.

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[4] UNU-WIDER (2015b) reviews the relationship between aid and climate change finance.

It must be the ambition of everyone to move developing countries into a position where they can increasingly pick and choose their sources of development finance, tailoring the choice to their own criteria. Certainly in *aggregate* there is more choice on the menu of development finance than when the MDGs were first conceived. Greenhill et al (2013) construct a measure of 'total development assistance' defined as all flows that are cross border, channelled to developing countries, have some level of concessionality, and are provided with a public interest purpose. They divide this into two parts: 'traditional' ODA and 'non-traditional' flows (including philanthropy, social impact investment, climate finance, and diverse flows not claimed as ODA from new actors such as China). They find a considerable increase in both total flows and in the share that is 'non-traditional' by their definitions. According to their more conservative estimates: "In 2000, the 'non-traditional' component of these flows was only $5.3 billion, or 8.1 per cent of the total. By 2009, non-traditional flows had increased tenfold to $53.3 billion, making up 30.7 per cent of total development assistance." Aid recipients certainly welcome the considerable increase in choice available for sources and conditions of development finance.

However, many smaller LICs still have problems accessing a broader range of finance, especially if they have a history of conflict and fragility. Insuring the risks that investors face is an important means by which official actors can leverage in more private finance. Moreover, much of the FDI that LICs receive goes into the natural resource sectors. Technical assistance and other aid to help them diversify their economies, and to ensure that resource revenues are transparently and wisely used (including support to initiatives such as EITI) are also important.

LICs and LMICs remain very much affected by swings in the prices of their main export commodities. Take the case of oil, which has seen a sharp price fall over 2014-15. For net oil importers such as Ethiopia, Kenya and Rwanda, the oil price fall has positive effects, and adds an extra spur to their growth. It also improves the marketability of their sovereign and corporate debt, and there have been some successful (oversubscribed) bond issues, including new infrastructure bonds. On the negative side, however, Ghana – one of the 'stars' of the LIC to MIC transition – now finds itself back in the care of the IMF. Ghana took on too much external debt on the basis of over-optimistic forecasts of oil earnings, and failed to build sufficiently large fiscal buffers to cope with the negative shock to its earnings and budget. Similarly, Tanzania was looking forward to ample revenues from natural gas, but forecasts have now been lowered, along with the gas price.

Similar stories can be told for countries producing metals (Zambia's copper for example), while the iron ore market is suffering from China's slowdown, after years of strong demand. Guinea, Liberia, and Sierra Leone have suffered a double shock over the last year: Ebola combined with a fall in the prices of their metals exports – together these have led to a scaling back of the mining sector with knock on effects on public revenues. The need for grant finance and debt relief from the World Bank together with the African Development Bank (AfDB) and the bilateral donors rose sharply as the humanitarian crisis deepened.

The Sustainable Development Goals

The broad lines of the Sustainable Development Goal framework to be agreed at the UN General Assembly in September 2015 seem unlikely to change greatly from the existing map as of the Secretary-General's synthesis report of July (UN 2014c) and the earlier outline of the SDG framework from the Open Working Group (OWG) (UN 2014b). The framework seems likely to retain the 17 goals of the OWG report, albeit probably grouped in some way as proposed in the Secretary-General's report.

As a number of commentators have pointed out the biggest issue with the current proposals is the very large number, with 169 targets in the proposed set. Norton and Stuart (2014) propose a way of slimming down the number of global targets. They argue that if a distinction were to be made between targets which can be measured consistently for all countries (like the current MDG targets) and targets which ought to be set at the national level (on issues which are highly context dependent such as discrimination) then it should be possible to arrive at a set not much greater in number than the 21 targets that accompany the MDGs.

The impact of the big events of 2015 on development practice may in the end be more far reaching in crystallizing a set of changes in the fundamental principles and logic than in the details of goals and targets. At that level we can pick out three fundamental currents of change:

- *Sustainability* rather than human development is now the fundamental organising concept for development action. Sustainable development is a complex concept with social, environmental and economic dimensions. At the heart of the global adoption of the term though is the most basic logic of climate action. In order to deal with deprivation in the long-term the world has to put a halt to anthropogenic climate change. The two projects (development action and climate action) have to be brought together.
- *Universality* – this principle means that the SDGs will apply to all countries, rich and poor, in contrast to the MDGs, which were calibrated in ways that made them largely inapplicable outside developing countries. To a degree this reflects the need for action on global public goods (particularly climate change mitigation) to occur on a global scale. But it also reflects the incorporation of issues that cannot be limited to developing countries.
- *Inequality* is incorporated into the SDGs as goal 10. The notion that all countries should work to reduce inequality is a significant change in the conceptualisation of development action. Yet, this leaves the major question of how donor countries can actually help to contain and reduce inequality in LICs and MICs. Many donor countries have themselves struggled to contain inequality. HICs that have lower inequality – of which the Nordics are perhaps the best – could have much to offer in this area. Ways forward could include helping partner countries: construct more progressive fiscal systems; increase the quality of education (which remains too low for the poor); and assist growth strategies that encourage social mobility (and raise income and human development in disadvantaged regions). Gender inequality is a major component of social inequality. Inequality is one reason that donors may stay active in MICs.

Each of these challenges needs the support of much more data: building the capacity of countries to not only collect policy-useful data but to analyse it, and embed it in policy processes. Data provide more clarity in domestic political debates on allocating public spending across competing priorities. We return to the data issue later in this paper.

3. The strategic lens – how to plan for durable impact in a changing world

To be relevant in a post-2015 world, HICs and their development agencies need to clarify their position on the following fundamental questions:

- How much will they focus on climate action, where and how?
- To what extent will they engage in trying to promote human security, preventing conflict or lessening fragility, where and how?
- To what extent do historic commitments to specific peoples, regions and countries and the specific issues involved condition the future path?
- To what extent do they wish to concentrate on the poorest people and the poorest countries? If they seek to help not just the poor in LICs, but also those in MICs, then how do they propose to reach them?

The focus of HIC engagement with MICs and LICs will inevitably change as their governments change. But it makes no sense in terms of effective impact for strategies to fundamentally shift with every new government. HICs need to think longer-term, and build processes and institutions that enable them to do so. Since aid is one instrument of foreign policy, it must be located within an overarching strategy of foreign policy (sometimes called a 'grand strategy') that has some continuity over time. Effective engagement by the policy community in public service, civil society and the research community can help to generate a degree of shared vision across the major political parties (if not formal 'consensus') which will help to keep some stability of direction – and thus enhance long-term effectiveness.

In making their choices G8 and non-G8 countries can ask themselves how they will address three distinct issues:

- Dealing with uncertainty and risk
- Achieving leverage to enhance impact
- Engaging citizens in action

Dealing with uncertainty and risk

There is a wide range of possible ways in which the global and local contexts for foreign policy can change. Some events are sudden, sometimes with large impacts (revolutions, natural disasters etc.). Other changes take place over long time-spans (driven by demography and technology). There is a very poor record in anticipating moments of crisis and rapid change. The financial market volatility of 2008-10 came as surprise to much of business and government, the 'Arab Spring' was famously unanticipated by area specialists, the oil price collapse of 2014-15 was unanticipated by many oil producers, and information technology evolves at a speed that can overwhelm previously strong businesses. Climate change will take place in ways, and with impacts, that we can only glimpse.

Of one thing we can be certain: the world will change in ways that we least expect. This might lead some to the conclusion that building a longer-term foreign policy vision for engagement with the LICs and MICs, and the role for aid within it, is a fruitless task. For us, it leads to the conclusion that any useful strategy must be cognisant of uncertainty and, to the degree that this is feasible, create organizational mechanisms to understand and manage the risks.

For foreign ministries and aid agencies this means helping to create more knowledge on the drivers of change in global development, and mapping possible *scenarios* of change (understanding that scenario-building is *not* forecasting). From a strategic perspective it will make sense generally to seek options for action that will retain a good degree of relevance under all the major scenarios.

Doing this in partnership with LICS and MICs is more effective than if HICs try to fly solo. At the same time, it can be one way in which HICs strengthen the ability of their development partners to build their own resilience in meeting unexpected events. It also means enhancing the ability of all actors – government, business and citizenry – to absorb and act upon knowledge, in addition to contributing to it.

HIC actors vary in their tolerance for risk. There are many opportunities for investment in the developing world – not least in their fast-growing urban areas – that are both profitable for business and socially responsible. Reducing misinformation about risk and creating mechanisms for risk-sharing across public, private and social actors are the ways forward. This applies especially to the risks associated with climate change, and those of societies in conflict.

The high levels of uncertainty that are associated with conflict undermine and distort both public and private action in development. More action on the global public good of peace can, by reducing conflict and its intensity, encourage greater private investment (both foreign and domestic) to the benefit of economic growth in LICs and MICs.

Achieving leverage to enhance impact

All governments must justify the budgets of their development agencies at a time of low-growth and austerity. In short this requires them not just to be effective, but also to be seen to be effective. It may also be advantageous to show solidarity with particular communities where there is a historic link and engagement (Spain with Latin America for example), or to engage on specific issues where the country has a history of engagement (Switzerland and humanitarian action for example).

In short, most donors will want a strategy that offers the likelihood of recognition for having made a distinctive contribution, with a particular slant towards issues and constituencies which matter to their publics. For the non-G7 OECD donors, the desire for recognition has a specific element to it. The publics of countries such as France, Germany, the US, Japan and the UK take it for granted that their countries are globally engaged and are more likely to recognise the benefits of influence in global institutions, regional politics and the multilateral institutions. Development agencies of non-G7 countries need to work harder to maintain public support (although there are exceptions: the support for aid is greater in Sweden than in either Italy or Canada).

While some of the aid budgets of non-G7 OECD countries may be high relative to their GDP – so that they perceive themselves 'pulling their full weight' in the international donor community – their size offers them a more limited menu of options than the bigger G7 countries. This may lead smaller donors to spread themselves too thinly. Finding ways to leverage their impact beyond their size is therefore of special concern.

Engaging citizens in action

New forms of citizen action and solidarity are evolving, now quite rapidly. Peer-to-peer giving through new technological platforms might in the long-run undermine the willingness of publics to support paying taxes for official development assistance of a government-to-government type (see Kharas and Rogerson, 2012). This fits into a broader set of arguments concerning the ways in which new digital platforms for commerce and communication will cause long-established intermediaries in economic markets (estate agents, travel agents etc.) to melt away. Public development agencies can however do things that peer-to-peer giving cannot, such as supporting technical assistance to strengthen institutions that deliver services and collect revenue.

Moreover, the provision of large-scale infrastructure finance is not a task that charitable giving or volunteering can support. Private action can help a community create new livelihoods, but if that community is vulnerable to the flooding caused by climate change, large-scale infrastructure investment will be needed to protect both lives and livelihoods.

And private alternatives to public aid have existed for decades, and attracted great support and loyalty without necessarily undermining the case for official development assistance. In fact a reverse tendency can be argued – that the opportunity to engage in development action may make people more likely to support the use of tax money for development assistance, rather than less.

In a world where there are increasingly diverse ways of engaging in solidary action with poor people in other countries, official aid agencies need to clearly demonstrate that their contribution is distinctive and valuable. Publics can become confused about the purpose of development assistance unless programmes are well argued and transparently implemented. Moreover, opinion surveys often reveal that the public vastly over-estimates the amount of official development aid that their country provides. Paradoxically, economic success in the developing world often goes unrecognized by the public – leading to a narrative in which aid is seen as being of no help – and when economic success is recognized it can lead to a view that there is now no need for aid. In the last few years many developing countries have posted healthy growth rates (notably India) at a time of economic stagnation and austerity in the HICs. There is some evidence from the Netherlands that times of economic crisis undermine some of the public support for official aid as governments lose the trust of their citizens (Spitz et al, 2013).

The implications of this for strategy are clear. Development agencies need a strategy that offers the likelihood of recognition for having made a distinctive contribution – and that recognition will need to be for things that will 'play well' to domestic constituencies.

4. Four areas of strategic choice

So, how will this 'strategic lens' play out in the major decisions that a donor country will make in orienting its assistance strategy? There are four main axes of strategic choice:

- the menu of thematic specialisation
- the balance between multilateral and bilateral
- the range and type of bilateral country engagement
- how far to go 'beyond aid' in promoting development

The thematic menu

Over time, aid agencies have a tendency to spread themselves across a very wide range of thematic challenges. One reason is that the notion of what constitutes development has changed radically in the 70 or so years of development cooperation. From being entirely about economic growth, the subject now embraces a multiplicity of objectives (evident in the present debate around the SDGs). Another reason is that aid policy shifts over time, often with changes in donor governments. One result of this spread is a highly fragmented aid system, with many small projects, and with recipient countries forced to deal with a multiplicity of donors – despite repeated attempts to achieve more coherence (through the Paris, Accra, and Busan etc. initiatives) (Addison and Tarp, 2015).

It will usually make sense to continue to build impact and value in areas where the agencies concerned have established experience, partnership and credibility. For a small agency a degree of stability in thematic engagement is more important than for a behemoth. Becoming known for technical expertise in a certain area (often with a connection to the domestic economy, e.g. Norad's focus on forestry or the Swiss agency SECO's focus on trade) and building expertise helps to magnify profile and impact in ways that are particularly valuable for actors not benefitting from operating at a larger scale.

As the development agenda changes to meet new issues and agendas, however agencies may wish to adapt in order to remain relevant and effective. Adding new areas of focus (in recent years climate change, private sector partnerships, infrastructure and conflict prevention have all become higher profile) will raise challenges if the menu is not to become too broad. Retiring areas of specialist focus may be necessary. The challenges raised are often predominantly internal, as changing profiles of staff expertise is one of the hardest things for organisations to do.

The thematic focus has to emerge from a process of reflection within the donor-country government, and via a dialogue with those in the business, civil society, and research communities who can be drawn upon for advice and implementation. There are many themes, but aside from climate (discussed earlier) at least three stand out: gender equality; economic transformation; and the fiscal system. We highlight each briefly in turn:

Gender equality: donors need to match rhetoric with substance. Gender equality is essential from a rights perspective, and for social inclusion and the reduction of inequality. The OECD-DAC has monitored member countries' commitments to gender equality and female empowerment since 1991. In 2011, about 80 per cent of commitments were screened for this gender 'marker'. Of the screened aid, about 15 per cent can be attributed to the promotion of gender equality/female empowerment; up from 8 per cent in 2003, although less than the peak of 18 per cent in 2009 (UNU-WIDER, 2014c: 14). While there is no agreed target, 15 per cent is inadequate given the importance of gender equality and female empowerment (UNU-WIDER, 2014c: 15). Insufficient funds are allocated to gender equality, and promising interventions stall for lack of finance. The shift from women-specific projects to gender mainstreaming seems to have exacerbated, rather than reduced, this problem (Grown et al. 2008; UNU-WIDER, 2014c: 15).

Across the sectors, attention to gender is highest in education, where gender focused education accounts for more than 30 per cent of total aid to the sector (UNU-WIDER, 2014c: 16). This reflects increased attention to girls' schooling in recent years. In health the picture is mixed. Maternal health has become a priority for some large bilateral donors, including DFID and USAID, philanthropists (notably the Gates Foundation), as well as the GFATM and the World Bank (Greco et al. 2008). At the same time, aid for family planning is too low (Asiedu et al. 2013). Aid for gender equality in the productive sectors languishes; in agriculture gender-focused aid has fallen to 15 per cent, close to its 2000 level (UNU-WIDER, 2014c: 19). This is a highly unsatisfactory state of affairs given that so many women make their livelihood in agriculture and related activity.

Economic transformation: a driver of inclusive growth. Developing countries in aggregate have achieved sustained economic growth over the last decade. Africa in particular is no longer the growth disaster that it was in the 1980s. A coherent body of evidence is now available, pointing to a positive and statistically significant impact of aid on growth (UNU-WIDER, 2014d). An inflow of aid in the order of 10 per cent of GDP spurs the per capita annual growth rate by more than one percentage point in the long run (Arndt et al. 2011b, 23). Using time series data for 36 SSA countries, from the mid-1960s to 2007, Juselius et al. (2014) find that in 27 cases aid has a positive long-term impact.[5] Aid does provide a respectable internal rate of return: 7.3 percent is one estimate (Arndt et al. 2014).[6]

However, while growth is helping to reduce poverty, economies need to be much more broad-based and diversified to maximize the participation of the poor in growth. Growth in LICs often rests on a narrow base of natural resource extraction (oil, mining etc.). Growth that creates good jobs with high levels of skill (and therefore a good income) are required at scale: aid donors have not thought through job-creation sufficiently, and this is a big area of concern for developing-country governments who otherwise face the prospect of large numbers of frustrated young-job seekers, a potentially destabilizing social force (UNU-WIDER, 2014d).

Economies boom as commodity prices spike, but slump when prices fall. Growth is also too often associated with environmental damage, and is vulnerable to climate change. Large investments need to be made in infrastructure (especially in renewable energy) both to deliver more inclusive growth (better transport networks for remote regions, for example), to adapt societies to climate change, and to protect and sustain the natural capital upon which growth ultimately depends. All of this requires a leveraging in of private capital as neither domestic revenue nor aid can meet the task alone.

[5] A particular study has also been made of two countries (Ghana and Tanzania) that required further analysis and explanation (see Juselius et al. 2013). For further time-series evidence see Lof et al. (2013).

[6] Meta analysis of existing studies also shows that aid has had a positive and statistically significant impact on economic growth (Mekasha and Tarp 2013).

Ideally, donors would back national strategies that have a realistic prospect of moving LICs decisively into today's global economy, one that is characterized by advanced manufacturing processes and high-value services, all connected by information technology. This is a global economy in which countries compete on quality, not just on price – often characterized by the sale of intermediate goods from one firm to another – and one which builds national capabilities by the interaction of domestic capital with foreign capital and knowledge, often via foreign direct investment (FDI). Aid-financed infrastructure investments in energy, transport and communications can help attract this FDI (Page, 2012; UNU-WIDER, 2015d). This will in turn help the creation of good quality employment at scale – a foundation of inclusive growth.

Agriculture is of special source of concern, as it still constitutes the main livelihood of many of the world's poor. Yet, the volume and share of agriculture in total aid fell from its peak in the mid-1980s – when it constituted 23 per cent of all aid – to a low of 6 per cent in the late 1990s and then recovered (modestly) to today's 9 per cent (OECD, 2012: 117). The still limited attention to agriculture sits uneasily with donors' avowed commitment to poverty reduction, given how many poor people still make their living in agriculture or related off-farm activity. The evidence of agriculture's importance to the poor is robust. For the developing world on average, and looking at a wide range of studies, a 1 per cent (annual) increase in agricultural growth yields up to 2 to 3 per cent of income growth for the poor (de Janvry and Sadoulet 2009).

The fiscal system can be highly cost-effective as a focus for assistance. No country has a fully satisfactory system of public spending, taxation, or debt management. This includes the HICs themselves. The fiscal system is central to the competence of the state itself, and indeed a malfunctioning fiscal system can be a source of state fragility and conflict when grievances build up around unfair systems of taxing and spending (Addison, 2012). When economic growth rests on a narrow base of natural resources (oil, minerals etc.) the prospects for inclusive growth depend in large part on building an effective fiscal system: to transmit the resource revenue into spending that is of most benefit to sustainable development. The fiscal system is also one means to get traction on high social inequality, and high gender inequality, via more public spending on basic health care, education etc. In this way it is a good means to operationalize 'rights-based' approaches to development. Analysis of the fiscal system and its impact is therefore an important candidate for knowledge networking and technical assistance.

Whichever theme or set of themes is chosen, there is an underlying need for donors to help countries collect the data and information that is required to successfully meet the specific challenge. It is remarkable that despite all the discussion around poverty reduction, many countries still do not have good-quality data collected in a consistent manner over time to track the progress (or not) of poor people. Data disaggregated spatially (so that we understand the nature of poor people's lives in remote and underdeveloped regions) and by gender (so that we know whether or not the goals for gender-equality are being met) are especially important. So too is building the analytical capacity to use data in policy analysis: this requires sustained support to both research within countries and to their international partners so that best practice is achieved. Good quality, accessible, and timely data is important to helping fragile countries such as Myanmar and others improve their governance, and to helping them craft development strategies that deliver on sustainable and inclusive development.

Better data is especially important for health. WHO estimates that 65 per cent of all deaths worldwide – some 35 million each year – go unrecorded. The data on maternal mortality is generally of very poor quality. Tracking the births and deaths of citizens is fundamental to poverty reduction, improved education and health, and yet very little has been done by the international community. Bloomberg Philanthropies recently launched a US$100 million Data for Health Initiative, that uses new communications technology to advance public health data collection and monitoring. Much more needs to be done.

Bilateral vs. multilateral action

The balance between *multilateral* and *bilateral* development engagement partly depends on how far a country's development agency can show a distinctive (even unique) influence on the actions of global actors through their multilateral engagement. For example the Swiss agency SECO has a long-standing engagement with the IMF to support the strengthening of developing-country tax capability. As this issue has moved up the international policy agenda the fact of having been an early mover may become a reputational asset for the agency. Smaller and medium-sized donors may well need international engagement in order to profile themselves as influential global actors.

The risks of majoring too strongly on the multilateral side, however, are that the public may feel less ownership of their engagement, and that the multilateral agencies may be perceived as bureaucratic and ineffective. A case in point is the World Bank, which is now over 2 years into a major restructuring of its organization.

For countries in the European Union the issue of balance has an extra dimension. International development is a 'shared competence' within the framework of EU policy unlike trade which is an EU-only issue and defence which is a country-level competence. This means that countries that have an established tradition of international development engagement prior to joining the EU (like the UK or Denmark) need to join the EU's development programmes. And conversely it means that new entrants joining the EU, and which have no tradition of international development action, need to create a small domestic aid programme to comply with the framework of rules, as well as making a budget contribution to the EU development programme. There is a range of other implications. The EU has a more political mandate that the global multilateral agencies, handling on behalf of member states a range of critical global platforms such as the World Trade Organisation, and determining positions vis-à-vis the UNFCCC[7]. In short, the EU has distinct advantages in relation to some of the 'beyond aid' agenda issues as well as being a relevant multilateral programme for aid delivery.

There are of course a wide range of 'beyond aid' multilateral structures, which pertain to different global challenges from the UN Security Council to the UNFCCC and NATO. The EU is unusual to the extent that it covers both development finance and the broader development agenda, and to the extent to which it substitutes in some arenas (e.g. trade) for its member nation states.

For non-G7 donors multilateral engagement offers the opportunity of influence on a global scale, but at a risk of diluting the distinctiveness of the aid programme and its appeal to domestic

[7] For example the EU has been leading on the process of determining member states' offers in terms of climate change mitigation (INDCs) in advance of the CoP 21 of the UNFCCC to be held in Paris in December 2015.

publics. For agencies with a relatively small number of bilateral partner countries, an on-going set of multilateral partnerships can also act to absorb funds in years when a major country programme goes unexpectedly into crisis or abeyance. Most government departments need to achieve predictable spending patterns and having a balanced strategy between multilateral and bilateral engagement can be helpful.

A factor worth considering for donors operating at modest financial scales is the extent to which a knowledge-based engagement can produce a positive impact on both growth and distribution. Effective redistribution through the fiscal system can be a critical factor in promoting increasing equity and poverty reduction. This requires effective action on both revenue and expenditure policy. Support to think-tanks and independent research capacity can have a beneficial impact in this important area without requiring major financial flows.

Which countries?

Despite the policy emphasis on providing grants and concessional loans to poor countries, very large amounts of aid still go to MICs. The proportion of OECD/DAC aid going to Least Developed Countries (LDCs) in 2012 according to DAC data was 33 per cent. Total ODA to Upper Middle Income Countries has been falling but was still at over 15 per cent in 2013 according to the DAC.[8] Both Europe and the US still count very large amounts of money which go to relatively wealthy countries as ODA[9]. Many other countries still provide relatively large amounts of grant assistance to relatively wealthy MICs, whether for reasons of poverty reduction (there are still large numbers of poor people in MICs), national interest, or historic engagement.[10]

Mostly, aid is easier to justify to HIC northern publics if it is targeted to poorer countries, and/or to poorer people. This is particularly true in an era in which most developing countries are performing better than most developed ones in terms of aggregate growth. But this orientation carries its own challenges. Much of the 'poverty problem' in poorer countries is related to issues of fragility and conflict that are complex, contextual and not amenable to quick fixes. Taking on the task of generating recognisable contributions to development progress in these environments is challenging (Addison and Brück, 2009).

Increasingly, however, arguments are strengthening that ODA should be concentrated on poorer countries. Both Steele (2015) and Kharas and McArthur (2015) come to the conclusion that there are risks of diverting aid flows from developmental purposes if rich countries seek to meet their climate change mitigation commitments by funding extra-territorial projects to reduce GHG emissions in MICs from the aid budget. Steele recommends that assistance to MICs for climate change mitigation should be counted under the emerging DAC category of 'Total Official Support to Development' rather than as ODA. In order to protect public support for development action and associated budgets this recommendation makes sense. Given the observation by Kharas and McArthur (2015) that many Lower Middle Income Countries face a problematic transition when aid flows (particularly concessional lending) are withdrawn, we see a clear case to increase the

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[8] Excel charts on 'Distribution of ODA by income group' and 'Aid from DAC countries to Least Development Countries' from DAC website 'Statistics on resource flows to developing countries' (http://www.oecd.org/dac/stats/statisticsonresourceflowstodevelopingcountries.htm)
[9] Turkey for example receives 17 per cent of the EU's development assistance.
[10] On poverty in the MICs see Sumner (2010).

focus aid flows on LICs/LDCs and LMICs – and to exclude aid to MICs for climate change mitigation from ODA.

Another challenge which many strategy processes have to confront is the task of narrowing the range of country engagement. Aid programmes that become spread too thin risk becoming inefficient in terms of the fixed costs needed to maintain a range of country infrastructure, and less effective because the strength of engagement and volume of money at the country level is too small (Bigsten and Tengstam, 2015).

Arguably there may also be development effectiveness benefits from countries needing to deal with smaller numbers of donors for the same volume of assistance. As a result of this DAC peer reviews of member countries' international development assistance very frequently recommend reducing the number of countries of engagement.[11] Proposals to narrow the range of country engagement generally meet resistance from both external and internal interests.

For small and medium-sized donors there are issues of scale entailed in narrowing their range of country engagement. Specific bilateral programmes can always be brought to a rapid halt by a range of events – from a sudden loss of confidence in the management procedures of the partner government, to a major conflict or a serious human rights infraction by the government. To a degree, therefore, working in a broader range of countries mitigates operational risk and this is particularly true for donors operating at the lower end of the spectrum in terms of financial scale. An aid programme operating in only three countries might be rendered largely inoperable by an unfortunate combination of events. As noted above this risk can be mitigated to a degree by balancing bilateral and multilateral engagement. But only to a degree – publics like to see some direct bilateral engagement and a clear account of the results achieved.

Beyond aid?

The notion that to be a genuinely effective international development actor requires a given bilateral aid agency to engage across the full range of government actors is frequently raised as a challenge. It is not a new debate. This ambition was a major theme of the 1997 UK Government White Paper on International Development, which contained a range of commitments in terms of cross-governmental action to promote global poverty reduction (UK Government, 1997). The Swedish development law of 2003 took this logic a step up the policy chain by giving statutory form to the notion that the over-riding objectives of Sweden's foreign engagement were poverty reduction and the promotion of human rights[12].

In practice these ambitions are easier to state than to realise. The notion that other foreign policy objectives of sovereign nations (e.g. national security or promoting economic interests) can be made secondary to goals of poverty reduction is extremely ambitious (though more action on the global public good of security would help to realize this ambition). The imperatives of climate action arguably have the potential to change the calculus in fundamental ways, as they raise a

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[11] See for example Sweden (OECD 2013a) and Switzerland (OECD 2013b) which both contain a recommendation to reduce the range of country engagement.

[12] Since the passing of the law 'Shared Responsibility: Sweden's Policy for Global Development' in 2003, all Swedish policy areas are bound to contribute to global poverty reduction and the realization of the Millennium Development Goals (MDGs), in the spirit of policy coherence.

powerful shared interest in protecting conditions of life on the planet. As publics become more aware of the massive damage that climate change can cause on a global scale will they develop a greater willingness to support a truly global approach to development action? The principle of 'universality' in the draft SDGs (UN 2014b) already implies this direction of travel.

5. Conclusions: the future of development partnership

We have considered a broad range of factors that have a bearing on how official development assistance might evolve. What makes for an effective development partnership in the future?

There are certain issues that are general and apply to all official development actors, irrespective of the size of their ODA. These include the thematic agenda of emerging global issues – an ability to address issues of inequality, conflict and fragility, and global public goods (including not only climate change but also infectious diseases). There is also no need to draw a particular distinction on the basis of size and scale in the case for engaging across government (and supra-national bodies such as the EU) on a range of policy coherence issues which are central to achieving poverty reduction and promoting global public goods – such as trade, security, environmental policy and migration. Barder (2014) draws a comparison with the 'challenge function' of a Ministry of Finance in relation to line ministry policies and prudent public finance. An effective development agency should be able to scrutinise line ministry policies from the perspective of a long-term interest in a safe and prosperous world (rather than short term interests of a commercial or political nature). And development agencies both large and small will need the capacity to adapt to rapid change in an uncertain world, think strategically about uncertainty, and engage at multiple levels with a range of new actors, public and private.

OECD countries without the advantages (nor the burdens) that go with the geo-political profile of the larger G7 nations have much to offer. Ways forward can include:

Small and medium-sized players can develop technical and area specialisms that greatly enhance their impact. For this to happen there needs to be a good fit between the skills that underpin the country's own path of economic and social development – as found in business, civil society, and government – and the strategy of the official bodies responsible for aid programmes and other engagement with LICs and MICs. This implies strengthening technical and knowledge capabilities over an extended period (a decade or more), with associated institutional investments (in higher education for example). A responsible national development community encompassing civil society advocates, researchers, and officials can help to encourage this sense of shared direction. This may help major political parties move towards a common understanding of how development cooperation in all its forms fits with the country's overarching foreign policy goals.

Position the development agency as global leader in analysis and practice on a limited number of development themes. For the development agency itself it makes sense to select for existing and potential national capacity and to aspire to a level of practice, underpinned by knowledge generation, which enables it to play in the first division of global development. This means taking a hard view of what the agency (and the country) is first class in.

Engage in helping partner countries use knowledge networks to achieve progressive economic and social transformation. Agencies without large budgets should look to strengthening relationships and expertise to engage with both LICs and MICs through knowledge based actors such as research institutions, think tanks and innovative practitioners in business and civil society. One rationale for remaining engaged in MICs is that the remaining LICs need the knowledge that successful development brings. This is today found as much in the MICs as the HICs. Moreover, this is not a one way street: many of the MICs seeking to achieve more inclusive societies can profit from knowledge of best practice in LICs (of BRAC in Bangladesh, for example). Official aid agencies as well as other actors (civil society, business, higher education etc.) should aim to build bridges to help knowledge move between MICs and LICs. To do this, HIC actors need to step back from some of the strong ideological positions that often dominate development discourse. Non-G7 countries may be better able to do this than the G7 who dominate the multilateral institutions.

There are many ways in which the rich world can contribute to the further development of the poorer world. As we move beyond the MDGs and into the new era of the SDGs, knowledge about what works and does not work for development can guide us in setting new priorities and in forming new partnerships in global development cooperation. There is much still to do.

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