Briefing Note

No. 76 – June 2015

European Centre for Development Policy Management
ecdpm

European aid and development policies in a changing world

Some personal reflections

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Key messages

The global economic balance is moving from the members of the OECD towards the East and the South.

The economic crisis in many European countries and the lack of joint European policies to tackle developments in growing economic countries weakens the European position.

By 2030, the South will be responsible for 70% of global consumption and 80% of the global middle class, of which two thirds is expected to live in Asia.

Disparities in income and wealth are expected to grow further in the fast-growing economies and form a serious threat to stability.

1. Introduction

Never before have so many changes taken place at the same time in the world, with regard to politics, the economy, society and the environment. At the same time, we no longer see the old picture of a world divided between a rich North and a developing South.

What consequences do these developments have for European development and aid policies? Which are the new prerequisites? What challenges and new choices do the political decision makers have to take into account? These questions were the backbone to a series of seminars held in Stockholm during 2014 by the Swedish Development Forum. The seminars' objectives were to provide advice on the future of development cooperation. They examined the political, economic, social, and environmental prerequisites for the future and looked at the consequences for Policy Coherence for Development (PCD). Finally, they focussed on the consequences for development cooperation, including the Sustainable Development Goals. All seminars are fully documented (in Swedish) on the following website: www.fuf.se. This Briefing Note is a summary of the results of these seminars, slightly updated with more recent developments.

2. A changed global economy and political power balance shape the role of international development cooperation

The world has changed considerably over the past years and a number of new challenges have developed which have serious consequences for future international development cooperation. Some of these changes are summarised in the following points:[1]

- The global economic balance is moving from the members of the OECD towards the East and the South. The economic growth in the BRICS-countries and a number of other rapidly growing middle-income countries has slightly slowed down from 2013 but is still remarkable in some of the countries.

- The World Order has moved from being unipolar, with the US being the dominating power in the beginning of the 1990s, towards a more multipolar and at the same time more uncertain order. The USA is still the major military power and American companies and research still dominate the global scene. However the shift of power and influence also in those fields is clearly going on. The economically most rapidly growing countries, led by China, are becoming increasingly powerful. New alliances are being developed and the dominance by US and Europe is clearly diminishing.

- Against these overall trends, the economic crisis in many European countries and the lack of joint European policies to tackle these developments weakens the European position and its ability to meet external challenges and internal crises.

- South-South relations are increasing rapidly (trade, investments, loans, aid, and remittances) and many countries in the South demand increased power in international organisations. The recent establishment of the BRICS Bank "New Development Bank" and the "Asian Infrastructure Investment Bank" are cases in point. Obviously, the new actors do not accept the slow process of governance reforms in the existing institutions.

- Simultaneously, common problems that the world is presently meeting, increase and intensify, all of which require joint and coordinated action. Simon Maxwell[2] presented 12 global challenges which all have to be dealt with: climate change, use of natural resources, energy security, financial stability, inclusive globalisation, migration, food security, pandemics, trade regulation, securing the fish stock, conflict resolution and competence building are fundamental global issues that will require big international efforts.

- Johan Rockström[3] focused on six areas which require attention and change in order to meet the demand for sustainable development in the future: global use of energy, food security, sustainable urbanisation, population growth, retaining the biological richness of species, and governance of the private as well as the public sectors. He also underlines that in order to combat poverty, current trends in climate change have to be slowed down and tackled. The two lists do overlap but also support each other, and are good examples of the many challenges that the world must take into consideration and sort out.

- Recent reports by, among others, UNDP, point to the fact that the South by 2030 will be responsible for 70% of global consumption and 80% of the global middle class, of which two thirds is expected to live in Asia.[4]

- Recent decades have experienced a rapid increase in income- and wealth inequality in many countries, particularly in the fast growing middle income countries and the OECD countries. The most spectacular example is a global superrich group (the upper percentile in the global income- and

[1] Most of the bullet points in section 2 are based on the presentations and discussions of the 2014 seminars, referred to in the introduction.

[2] Previous head of Overseas Development Institute chairman of Climate and Development Knowledge Network and previous advisor to the British Commons international Development Select Committee.

[3] Professor in environment science and head of Stockholm Resilience Centre.

[4] These figures are based on lower incomes than what is today defined as middle income in the OECD countries.

wealth pyramid) and the large multinational companies they control. These disparities in income and wealth are expected to grow further in the fast-growing economies and globally, and form a serious threat to stability. They make it even more difficult to reach the national and international agreements and actions that are necessary to meet the global challenges referred to above.

- A significant number of countries that have been politically stable, often under authoritarian rule, are taken over by conflict, with fights between religious, ethnic or political mobilised groups, in some cases leading to total collapse. Violence is spreading outside these countries, affecting whole regions, with the Islamic States violence in the Middle East presently the most spectacular example.

- The number of low income countries and strongly aid dependent countries is decreasing rapidly. Around 75% of the absolute poor in the world (with an income of less than US$1.25 per day) today live in middle income countries. The major reason for this is that some of the most populous countries are among those with the most rapidly growing economies.

- The share of ODA in total capital flows to the South has drastically declined in spite of a small increase in absolute terms, while direct investments and remittances have increased substantially. An increasing number of countries in the South are today sufficiently trusted by the international capital market to be able to finance some of their expenditures by government bonds. This might lead to these countries becoming more reluctant to accept conditions by the donor community as regards demands for reforms in the areas of political systems, gender equality, environment and human rights. The BRICS-countries and other fast-growing countries have introduced a new model for development cooperation built on a package containing aid, commercial loans and repayment in the form of energy or other raw materials, but without any conditions on how to implement government policies in different areas; so called win-win agreements.

- A number of philanthropic foundations have been established focusing on different specific areas of operation. Some of them are private, others semi- or fully official. The largest and most noticed private actor is the Gates Foundation, mainly concerned with combating HIV Aids, malaria and tuberculosis but also with research and agriculture. Most of these foundations are active in the field of health and are responsible for a major part of the financing in that sector.

- Sovereign wealth funds have become more and more important as financial sources for low and middle income countries. These are mainly created by governments in countries in which capital surpluses are rapidly building up. The largest such funds are presently the sovereign wealth funds that exist in China, United Arab Emirates, Norway, Saudi Arabia and Singapore. Part of their and other similar funds' investments are allocated to countries in the South, mainly emerging economies. The aggregate assets of these funds have more than doubled between 2007 and 2014. This has contributed significantly also to South-South investments (www.swfinstitute.org, 2015).

- Proposals have also been made on how to use global and international tax bases, for example for environmental degradations, climate discharge and certain financial transactions. This will also change the role of traditional development cooperation and requires adaptation by the actors in the field.

- This focus on increasing external financial flows should however be placed in perspective by the observation of developing countries' growing population as well as their government's generally increasing performance in tax collection. This has once again confirmed that developing countries' own domestic resources matter most for development. In middle income countries, where many poverty challenges remain, this also implies that pure financial cooperation may no longer be needed, or effective. What countries require most is effective support for capacity development, which challenges middle income countries to effectively articulate their demand, as well as development partners to refrain from imposing either the objectives of support or the ways in which it is provided.

Within the area of international development a number of processes are presently implemented to create generally accepted international development goals in a number of areas – the so-called post-2015 agenda. This is about agreeing on goals that the UN-system and other actors within the development cooperation community are supposed to work towards, as a follow up and continuation of the Millennium Development Goals (MDG) process of the years before and after 2000. The major difference between

these new goals, the so-called Sustainable Development Goals (SDGs) and the MDGs are that they are universal. This process has led to a report from July 2014 encompassing 17 goals and 169 sub-goals for sustainable and inclusive development which are now under negotiation, aimed to be agreed upon by the General Assembly of the UN in September 2015.

The Financing for Development conference in Addis Ababa will take place in mid-July. Hopefully the result of this conference will be more emphasis on other sources than official development assistance (ODA), including domestic public resources, private investment, non-concessional international public finance, remittances, global taxes and efforts to contain tax evasion and restrict tax havens.

Finally, the High Level Climate Meeting, COP21, will take place in Paris in December with the aim to reach a universal, legally binding agreement to combat climate change effectively and boost the transition towards resilient, low-carbon societies and economies, including limiting global warming to below 2°C. Another key objective is the mobilisation of US$100 billion per year from public and private sources in the developed countries, from 2020. This should enable developing countries to combat climate change. Hopefully the commitments at the Paris conference will not be too vague or diluted.

The initiative for a global partnership to improve aid effectiveness has, after the high-level meeting in Busan at the end of 2011, taken over the role of the Paris Agenda and had its first high-level meeting in Mexico in April 2014. The international interest for the leading principles of the Paris agenda, such as ownership, harmonisation, alignment, managing for results and mutual accountability, seems however to have been reduced in recent years (Odén and Wohlgemuth 2011; 2015.) This decline in interest comes along with increased tendencies among some donor countries to directly promote trade and other domestic interests in the context of development cooperation relations.

The ongoing discussions on the definition of ODA within OECD/DAC are also important in the present discourse on financing development, with their aim to reform and broaden the concept of development cooperation. First agreements were reached in December 2014, yet the UN Secretary General has called on OECD countries to not make unilateral decisions but instead to modernise the ODA definition through an inclusive process. There has however been limited possibility to discuss this in the run-up towards the UN Conference on Financing for Development in Addis, with the draft outcome document including a paragraph that states a commitment towards inclusive and transparent discussions, but no such concrete actions have been undertaken in the first half of 2015.

3. Some major crossroads for development and aid policies for the future

Taking the trends and changes in the world order discussed above as a reference, a number of different choices present themselves for future European development and aid policies.

(a) Policy coherence for development (PCD)

- How can present PCD be renewed and strengthened to become a more effective instrument for a coordinated external policy and to meet the new global challenges?

  A number of countries in Europe and the EU Commission have engaged in seeking policy coherence for development in the past decade (EU PCD Reports 2007, 2009, 2011 and 2013). Processes have differed widely in the various individual EU member countries. Improving upon these policies with more concrete and clearer objectives is necessary, as well as finding a balance between the work towards coherence between development perspectives and interests in other political areas, and the work to meet global challenges. Capacities have to be improved and in many EU member states the PCD process has to obtain more political clout.

- Coordination of efforts to meet the global challenges

Not every country can be a driving force in each and every area of importance. Strategic choices have to be made on which challenges each country should focus on in the short run. The choices should rest on an assessment as to the fields in which each respective country can make a difference, such as climate, migration, exports of weapons and capital flight from the low income countries.

This corresponds with a need for EU member states to be more explicit in defining their political ambition on PCD: it is good to generally state to be in favour of making sure public policy does not undermine (and where possible supports) developing countries, yet this is insufficient without setting out clear ambitions with regard to the areas in which most progress should be made, in what direction, etc. Without it, there is also no basis for accountability and productive political debate, but instead a risk that the commitment is taken for granted without raising any real expectation.

- What role for ODA funding in PCD activities?

  An important question is what other areas should be financed from the development cooperation budget. Areas discussed at present are the costs for financing migrants over their first year in the new host country, certain security costs, and certain costs for external affairs in general. Another question is whether costs for climate adaptation should be financed from that budget or by separate funds.

  To meet most of the global challenges, action has to be taken within several policy areas simultaneously. Up until now, it has often been regarded as more or less "natural" that activities should be funded from the development cooperation budget. This is however not at all self-evident, as synergistic effects may occur in more than one policy area. Therefore innovative funding solutions, involving budgets from two or several ministries, or a separate budget post for "PCD-initiatives", should be considered.

(b) Policy for development cooperation

- Poor countries or poor people

  A balance has to be found between, on the one hand, how to support establishing the conditions for poor countries to improve the situation for their poor inhabitants and, on the other, directly supporting poor households, including social networks. Should bilateral support go to low-income countries and/or to middle-income countries with a large share of poor people?

- Institutions or individuals

  The building of competent and democracy-promoting institutions is essential to continued pro-poor development. The challenge is to do the lengthy and risky hard work - with not much prospect of immediate measurable results and impact - in order to (re)establish the fundamental institutional conditions for democracy and pro-poor development. Different methods for doing this have been tried out over the years ranging from concentration on building institutions to training individuals. The conclusion is that the main need is for emphasising institutional development, but that there will still be need for both.

- Long-term or short-term cooperation

  This question is linked with the question above. Certain types of assistance are on shorter terms than others, such as humanitarian support and support to different instruments used in conflicts and conflict resolution. Demand for such support is great and increasing rapidly over the past few years, and is important for alleviating suffering of the most vulnerable. The increased focus on control and results, partly motivated by a more critical tone in the debate on development cooperation but also reflecting broader trends in public governance in OECD countries, also tends to strengthen short-term perspectives. The question then is how short-term demands should be balanced against demands for long-term development, as well as achieving a better trade-off between sustainability and priority capacity development in relation to short-term gains.

- The balance between donor and recipient influence (ownership) in development cooperation

  Donors enter negotiations on development cooperation based on their own values and judgments of what is right when it comes to development in a specific country. The views of the recipient on what is most important and prioritised and how to deal with these problems might at times differ from these ideas. To confront these differences, dialogue has to be opened up between the parties. This dialogue must also take into account the need for necessary attitudinal changes to take place, which requires dialogue over a long period of time between partners that respect each other. The question is also linked to the balance between reasonable donor result management/control and the recipients' influence/ownership of the supported activities. Result management must be formed in a way which allows the recipients to remain in control of their own activities, independently of whether they are supported or not. Ownership is a *sine qua non* for aid to contribute towards achieving sustainable results.

- How to maintain the leading principles of the Paris Agenda after its demise?

  50 years of experience of implementing development cooperation led to the conclusions of the major principles agreed upon the Paris Declaration. With the major shifts in focus and context discussed above, the Paris Agenda seems to be gradually marginalised in the international discourse. Focus has now to be redirected on how to save some of the major lessons learned in the past into the new aid architecture. Ownership has to be respected even if it takes new forms, and new dialogue structures have to be developed encompassing also the new actors as well as more of the local actors such as the civil societies and the private sector.

- The new actors and what to learn from them

  As discussed above, a number of new actors have emerged in the past few years. Some of them are concentrating solely on development cooperation, such as the number of funds and foundations concentrating their operations on specific thematic areas. Others are working in a number of areas such as aid, investment, trade and diplomacy at the same time, for example China and India. In the process of constantly reviewing traditional development cooperation (ODA), it is important to see what can be learned from the new actors (and *vice versa*) and how different actors can supplement and complement each other. At the same time, it is also clear that the differences in practice between old and new actors are exaggerated as a means to gain political space, and that new actors face similar challenges in promoting effective cooperation. A case in point is China's realisation that without capacity development its Zimbabwean investments will not succeed, which prompted it to introduce some conditionalities.[5]

- Focus on country or on themes

  Donors have moved away from development cooperation with a focus on countries towards thematic support (Odén and Wohlgemuth, 2013). This trend has been strengthened by efforts to tackle the new challenges discussed above. Many donors also genuinely try to push for important moral values such as human rights, gender equality and democratic development as important underlying principles for development. Also the focus of the results agenda has had similar effects. For some donors, most development cooperation today is concentrated on themes. This might lead to increased shortsightedness in development cooperation and less ownership over the development agenda by the host governments.

- To what degree should development cooperation integrate income distribution related issues in its analysis and in the implementation?

  Economic growth as an important condition for poverty alleviation has always been a centrepiece of the discourse of development. Research has however clearly shown that growth with redistribution gives better effect in reducing poverty. As a result, an analysis of economic and social policies of a

[5] http://mg.co.za/article/2015-01-23-china-puts-screws-on-zim/

recipient country becomes important, which should also include the important role of social safety-nets for the most vulnerable. Another broader question is to what extent development cooperation is able to influence income distribution patterns, and moreover to what extent the analysis of inequality should prioritise its monetary dimension.

- The catalytic role of development cooperation?

  Development cooperation will, at its best, in addition to its direct role in support of development, also have a catalytic role which is reflected by its ability to mobilise economic and technical capacity from the society at large, in particular the private sector (ERD 2015). This concept also includes other dimensions such as the creation of a long-term and deep relation and trust with other donor countries. Such new relations can result in collaboration in other areas than development cooperation and lead to a win-win situation for all involved actors. These new dimensions are becoming more and more important with its declining role as provider of recourses, as new sources for finance become more important.

- The role of civil society in development cooperation

  The civil society actors of Europe as well as from the partner countries and internationally have become increasingly important in the development discourse over time. From being mainly involved in "service delivery", they have become more and more involved in setting norms, as sources of information and opinion leaders, as well as increasing their involvement in international negotiations. On the international level, civil society organisations (CSOs) are watching whether other actors, such as governments and private companies, are following established rules and norms for human rights, democratic development, gender equality, environment and climate. The balance between all these different roles for the CSOs has made them increasingly vulnerable to criticism and pressure from the governments in the countries where they operate and is an important question for both the provider of resources for these activities and the CSOs themselves. An important question is also the autonomy of the CSOs, as they are becoming increasingly dependent on finance from the donors.

- How to implement the new post-2015 agreements on sustainable development goals?

  The ongoing post-2015 processes will, if all goes well, come to agreement and become operative in late 2015. The new goals will for the first time not only relate to developing countries but require attention and action by all. The real test will be how countries individually and also jointly will be able to meet the new challenges and reach the many goals agreed upon. This will require major efforts both as regards policies for PCD and for development cooperation. New priorities have to be made and new venues have to be chosen.

- What should be accepted as ODA?

  Recently expanding armed conflicts, large environmental catastrophes and economic crises have further enhanced the migration flows and the number of refugees in the world. The OECD/DAC rules accept that some of the costs for asylum seekers in the OECD countries may be charged to the aid budget and registered as ODA in the DAC statistics. It is not compulsory to do so and a number of DAC countries have chosen not to do so. The countries using this possibility to improve their ODA statistics use different methods to calculate. Apart from reducing the amount available for ODA activities in poor countries, the migration costs also create uncertainty as to the planning space for ODA. When a new conflict or major environment crisis occurs, planned ODA-financed activities have to be cancelled at short notice. This reduces the effectiveness of the development cooperation. The present system should therefore be reformed.

- EUs coordinating role?

  The question is how to improve the EU coordinating role for a joint European policy on PCD and development cooperation. A lot is already being done by the EU to coordinate PCD efforts. The EU PCD reports are a testimony to that. Ever since the adoption of the Maastricht Treaty in 1992 it has been a stated objective for the EU Commission to coordinate the policies of the member states both as regards PCD and development cooperation. After a very slow start, efforts have been forthcoming

to do so, but much more needs to be done. With the launch of its External Action Services, as well as with the Development Commissioner now mandated in the area of 'international cooperation', the EU today is better equipped to improve its performance in this area. Further, the recent efforts by the EU to structure the Commission in task groups suggest that the recognition of the importance of policy coherence has grown.

It is clear that the development context is changing and that developing country governments face many new challenges. They have difficult choices to make about both Policy Coherence for Development and Policy for Sustainable Development. Among the many overriding problem areas to tackle we would particularly emphasise three (IDC, 2015; UN 2014a, 2014b):

- To build a system that remains relevant in a world where extreme poverty is increasingly located in fragile states with all their complexities on the one hand, and in populous lower middle income countries on the other. Fragile and conflict ridden countries are a particular challenge, as humanitarian and development aid have to be coordinated and constructed in such a way that they supplement each other.
- To develop competences and capacities to help to finance and broker the global deals that are necessary to provide global public goods. Here closer coordination of development, defense, trade, environment and foreign policy will have to work together with development cooperation policies to meet joint objectives. This raises questions about organisational structure, cross-government working, and accountability in the different European countries. It also requires careful thought about the competences possessed by the relevant government department responsible for the implementation of the PCD and the accountability of the agencies responsible for development work.
- To use a more integrated development approach, combining all three pillars of sustainable development – the economic, the social and the environmental -- recognising the universal nature of the SDG agenda and that European Governments will also need to look at how they meet them internally in their own countries. Among other things, this implies strengthening the coherence between policy areas at all levels. It also implies a renaissance for the concepts of ownership, harmonisation and mutual accountability.

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ECDPM Briefing Notes

ECDPM Briefing Notes present policy findings and advice, prepared and disseminated by Centre staff in response to specific requests by its partners. The aim is to stimulate broader reflection and debate on key policy questions relating to EU external action, with a focus on relations with countries in the South.

This publication benefits from structural support by ECDPM's following partners: The Netherlands, Belgium, Finland, Ireland, Luxemburg, Portugal, Sweden, Switzerland, Austria and the United Kingdom.

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