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Development Cooperation in a Post-2015 Era: Sustainable Development for All

AIDE MEMOIRE

I. What are the challenges that a renewed global partnership for development will have to address in the post-2015 setting?

The renewed global partnership for development will have to both accelerate implementation of the MDGs and address new challenges, such as inequality, environmental degradation, migration and youth unemployment as well as conflicts and instability and organised crime, which have impeded development progress. Most of these challenges require collective responses.

There is widespread recognition that sustainable development with its three dimensions – economic, social and environmental - will be at the centre of any post-2015 development agenda, yet also a clear sense that the eradication of poverty in all its dimensions must remain its highest priority. Until now, and with some exceptions, the development paradigm that frames international development cooperation has evolved largely in isolation from sustainable development concepts. This is now changing.

This transition towards a development agenda that is unified – bringing together poverty eradication and sustainable development – and universal – applying to all countries – has to be achieved in a significantly changed international context. As parts of the global economy continue to recover from the economic and financial crises, a multi-polar economy is taking shape. With the shift in global economic powers and rapid technological development, the relationship between states, markets, and individuals is changing. This has direct implications for the current political framework for shaping and implementing the development agenda.

The geography of poverty has changed significantly. Some least developed countries, in particular countries affected by conflict, remain in deep poverty; ODA remains their largest inflow. Yet, a larger number of poor people now no longer reside in low-income countries, but in the broader and more heterogeneous group of low and high middle-income countries. Many middle-income countries have been able to better reap the benefits of globalization and reduce their aid dependency; for many others, aid has long been insignificant in terms of quantity. Given their increasing contribution to the world economy, developing countries are ever more critical stakeholders in providing solutions to collective problems. Yet, with inequalities on the rise, there is a real risk – also in middle-income countries - that the most marginalized and vulnerable people will remain trapped in poverty.

To ensure coherence, a unified and universal post-2015 development agenda will need to be underpinned by a coherent sustainable development financing framework, which: (a) takes into consideration the new challenges and changing international context; (b) strikes the right balance between social equity concerns and the financing of global public goods; (c) recognizes that a post-2015 development agenda applies to all countries with universal goals, while taking into account the different responsibilities and capabilities; (d) mobilizes additional domestic and international public and private resources for the larger financing needs of a global development agenda with a broader substantive scope; (e) uses resources in a most effective manner and creates an enabling environment that helps to catalyse other flows; and (f) is backed by an effective monitoring and accountability framework.

1. *How can we bring together the traditional focus on poverty and development with emerging issues in the broader context of sustainable development?*
2. *How can a renewed global partnership for development steer such a transformational development agenda?*
3. *What should be the defining features of development cooperation in a post-2015 setting?*

II. How will development cooperation have to evolve to best help advance a post-2015 development agenda?

The present development cooperation system was created around the notion of a North-South divide, with a large difference in the level of development between developed and developing countries. The shift in the geography of poverty; the rise in inequality; rapid globalization; the increased need for collective approaches to global challenges; and the emergence of new development actors and instruments – all have profound implications for the future of development cooperation.

The landscape of development actors itself has become more complex, with contributions from the South plus the private sector, foundations, civil society and local governments increasing in importance. The significance of each source of development finance will differ between countries at different stages of development. In this changing environment, who should benefit from development cooperation? What type of development cooperation should be provided? Who should provide it and how?

ODA will remain a critical source of revenue for least developed countries. As a group, LDCs are expected to shrink to 31 low-income countries by 2025, a large number of which will be emerging from conflict. To prevent relapse into conflict, they will need assistance not only with meeting basic needs. They will also need assistance with good governance, security, rule of law, institution building and jobs, calling for a recalibration of the MDG approach.

Effective integration into the world economy is a critical determinant of the ability of middle-income countries to lift people out of poverty. To allow for continued poverty reduction, development cooperation will have to address issues of policy coherence between aid and related policies (trade, debt, 'agricultural subsidies) and issues of economic governance. Nevertheless, with 75 per cent of the world's poorest people estimated to be living in middle-income countries, development cooperation is also playing an important role in assisting countries to meet the needs of the most marginalized and vulnerable people. Technical cooperation and capacity building continue to serve as an important catalyst and can help middle-income countries to mobilize other sources of development finance, even in middle-income countries where ODA has not constituted a significant part of their overall revenue. [i]

As the effects of the economic crisis linger on in many OECD countries, OECD aid budgets have reduced by 10 per cent since 2010. While continued efforts should be made to meet ODA commitments, it is critical to explore the catalytic role and leveraging potential of ODA to mobilize funding from other sources of finance, and to prevent a return to more traditional formulas for managing aid. Earmarked multilateral and bilateral ODA is estimated to account for over 40 per cent of total ODA.[ii] To ensure its maximum development impact, development cooperation should continue to be guided by principles such as country ownership and leadership, managing for results, mutual accountability, alignment and harmonization.

The recently adopted outcome document of the Special Event of the President of the General Assembly on 25 September 2013 recognizes that a single set of global goals should take into account differing national circumstances and respect national policies and priorities. It also reaffirms the principles of the Rio Declaration on Environment and Development. This includes, among others, the principle of common but differentiated responsibilities, implying the need for a tailored approach to countries' diverse development needs and issues of global public concern.

Countries will need clarity on the expectations for their respective roles in a post-2015 financing framework, whether recipients or providers of development assistance or both at the same time. A new global approach to development cooperation would be based on a sensible division of work and responsibilities among various actors, bringing them together within a new international architecture. Such architecture should be rooted in a broader approach to development cooperation around partnerships, enabling each actor to fully leverage its capabilities and comparative advantages. It may need to allow different aspects of development cooperation to be guided by different sets of operational principles, given the broad array of issues that development cooperation is aiming to address.

1. ***How should we define development cooperation in a post-2015 setting? Is it possible to delineate the specific activities that can be classified as development cooperation, and those that cannot?***
2. ***What is the role of development cooperation in the support of the implementation of a universal set of goals applying to all countries?***
3. ***How will the division of labour between the different development actors look like in a post-2015 setting, given their different strengths?***

III. What implications could a post-2015 development agenda have for the allocation of different types of resources, among and within countries and sectors?[iii]

Although estimates of the financing needs for sustainable development are imprecise, studies conclude, without exception, that needs are extremely large. Both private and public sources will be necessary to finance large and growing investment needs associated with sustainable development, with public sources especially necessary where private sources are insufficient. This is particularly the case for investments in preserving the global commons and other global public goods, long-term investments (such as infrastructure), and high-risk long-term investments in both developed and developing countries.

Domestic revenues in developing countries have grown by 14 per cent annually since 2000 to 7 trillion in 2012.[iv] Yet, significant, additional revenue can be raised in many developing countries by strengthening administrations and tax systems, careful design of international tax rules and closer international cooperation to strengthen the domestic tax base, including reviewing preferential treatment granted to specific taxpayers. It will be important to assist countries in developing their capacities to collect taxes as well as to curb illicit financial flows – outward cross-border capital flows of illegal origin – from developing and transitional countries, estimated at US $539 to $778 billion annually. [v]

Even with major progress in domestic resource mobilization, external public sources of financing will remain important. ODA continues to be critical in many countries. ODA reached a historic high in 2010 of US$128.7 billion but has fallen since. At an equivalent of 0.29 percent of donors' combined gross national income, ODA is falling far short of the Monterrey commitment. Least developed countries remain dependent on aid. More than 30 low-income countries receive assistance, amounting to over 12 percent of their GNI per year, with ODA grants representing almost 60 percent of their total net financial flows. ODA represents the biggest financial inflow to fragile states.[vi] In contrast, ODA in middle-income countries, despite growing rapidly between 2003-2009, amounts to less than 1 per cent of GNI.

FDI is the dominant private financing modality in most developing countries. More corporations are pursuing principle-based investment – a promising new trend with respect to Foreign Direct Investment (FDI). Foundations and private philanthropy are developing impact-investing strategies. Over the past decade, many developing countries have demonstrated an increasing ability to access international capital markets. Yet, much of the developing world continues to have limited access to long-term financing through capital markets. Only 20 middle-income countries have ability to access private capital markets at the national level; many still lack the adequate legal or guarantee framework for capital mobilization.

With astute management, pension funds, insurance companies, mutual funds or sovereign wealth funds in high-income and emerging economies have potential as pools of non-bank capital for urgently needed infrastructure investment in emerging economies. Yet, there are risks to financial deepening as well, particularly when institutional investors are short-term oriented, re-emphasizing the importance of appropriate incentives and adequate institutional frameworks and regulatory regimes. Presently, less than

1 per cent of institutional investors' portfolios are allocated to infrastructure investments, showing a continued need for public finance.

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Public finance can be found in many forms:

- Philanthropy in development has been also been growing fast. The Hudson Institute Center for Global Prosperity has estimated that private aid today amounts to approximately US$60-70 billion per year, equivalent to nearly half the net ODA disbursed in one year by all OECD-DAC members.
- Vertical funds – multi-stakeholder global programmes that provide dedicated funding for a specific purpose – have proven effective in channeling resources towards a specific development challenge. Yet, they also have the potential to create distortion and overburden the limited capacity of developing countries. Their track record in mobilizing additional resources has been mixed. Ninety-five per cent of the pledges of the Global Fund to Fight AIDS, Tuberculosis, and Malaria have come from the public sector, while the Global Environmental Facility has provided US$11.5 billion in grants since its creation in 1991 and leveraged US$57 billion in co-financing.
- A range of new and innovative sources of development financing have gained in importance. So far these have raised or intermediated only a modest amount of resources - US$5.8 billion for health and $2.6 billion for climate and other environmental programmes. Yet, they have the potential to raise significant additional stable and predictable resources.
- South-South cooperation has existed for at least 60 years, but it has become much more prominent in the past decade. The exact contribution of South-South cooperation to development is hard to quantify and only captures a small part of the upward trend of external flows from emerging economies, especially infrastructure financing, that contribute to development.
- At the regional level, financial institutions such as regional development banks have taken on an increasingly important role. Between 1990 and 2011, the combined loan commitments of Latin American and Caribbean Development Banks, the African Development Bank and the Asian Development Bank increased from US$3 billion to US$28 billion.

Sustainable development financing will need to strike the balance between financing resources for social needs and providing sufficient resources for financing the world's transition to a sustainable development path. There is concern that a sustainable development financing framework could divert ODA from social concerns in low-income countries to financing of global challenges in middle-income countries as many donor countries have increased the portion of their ODA dedicated to global public goods. [vii] Having said that, it is generally believed that insufficient action to address global challenges disproportionately impacts the poor.

1. ***What types of resources are needed to pursue a post-2015 development agenda?***
2. ***Based on the MDG experience, what are the likely implications of a unified development agenda for the allocation of different types of domestic and international resources, among sectors and among countries at different stages of development?***
3. ***How can we ensure that resources are distributed equitably and reach the poorest – and that funding for poverty eradication remains central focus of efforts to promote sustainable development?***

IV-a. How can development cooperation be used to mobilize additional public and private sources to finance sustainable development? [viii]

There are large gaps in financing the MDGs, as well as in infrastructure, energy, climate financing and the global commons. Yet, estimated financing needs still represent a relatively small portion of global savings, estimated at around US$17 trillion as of 2012, and of global financial assets, estimated at around US$218 trillion as of 2011. Redirecting a small percentage of this investment toward sustainable development could have an enormous impact.

Despite potentially high socio-economic rates of return, infrastructure projects are often not financially viable. Asymmetric information and lack of investor experience are among the factors that may explain the reluctance of investors. By providing co-financing and addressing capacity and information constraints, public funding can help channel investment into sectors critical for inclusive and sustainable growth. Initiatives such as the G20 sponsored Dialogue Platform on Inclusive Green Investments aim to explore and address some of these challenges in how to use public funds to best leverage private funds for investment in areas such as inclusive green growth, particularly in low-income countries.

Development cooperation can also help support the development of innovative and sustainable financing mechanisms and increase confidence among investors, by helping to put in place an enabling legal, policy and regulatory framework. One option is to collaborate in developing new instruments and emerging technologies that can leverage private investment, such as micro-contributions, Debt Conversion Development Bonds and Diaspora Bonds. Another is to expand financial inclusion via innovative and sustainable financial mechanisms that positively impact banking, payments, mobile money and transfers.

It is important to recognize potential risks and limitations of greater reliance on the private sector to assist in the implementation of a post-2015 development agenda. While the private sector has increasingly focused on the social impact of its investment, profit consideration will remain the driving force behind investment decisions. Where public funds are used to leverage private money, there should be rigorous assessment of both the development impact and whether the private investment would have taken place without public support.

Private and public sources, both domestic and international, should be seen as complements, rather than substitutes. Each type of financing has unique investment objectives, fiduciary responsibilities and associated incentives. An effective post-2015 financing framework and a related accountability framework will need to take these differences into account, in order to design policies and instruments that can effectively leverage private financing with public resources for development impact.

1. ***How can development cooperation help leverage the additional domestic and international resources needed to achieve poverty eradication and sustainable development for all?***
2. ***Which public financing instruments or mechanisms have proven particularly successful in terms of both leveraging private investments and facilitating domestic resources mobilization, while at the same time contributing to development objectives?***
3. ***What have been the limitations of these instruments and mechanisms and which steps can be taken at the national and international level to overcome these constraints?***
4. ***Which lessons can be learned from efforts to ensure short- and long- term food security for future efforts to mobilize additional public and private sources of finance? [See case study.]***

Case study: Food security as an example of the successful mobilization of additional resources and for ensuring coherence across different actors and sources of funding [ix]

When it comes to how development cooperation will have to evolve to support a post-2015 agenda, important lessons can be learned from the efforts to ensure short- and long-term food security. The *ad hoc* reaction to the food crisis has created an interesting new template for dealing with crises around the provision of global public goods. It provides an example of how a diverse set of actors has come together around a set of jointly agreed principles to respond to a specific development challenges.

After the 2007-2008 food price crisis, it was recognized that the food system was no longer sufficient for the interlinked modern economic and institutional environment where production failures in the food chain can threaten national and the global economies. Food security is now increasingly seen as a global public good (GPG), which can arguably be better governed at a global or international level than at the national or sub-regional. Measures that would improve food security fit the GPG model: nutrition education, greater health safety in agricultural systems, transparent food commodity markets, investment in agricultural research, provision of adequately priced food to urban customers, support to smallholders to maintain their livelihoods, and widespread knowledge of disaster prevention and mitigation strategies.

In April 2008, the UN created a High-Level Task Force on the Global Food Security Crisis, bringing together UN agencies, the IMF, World Bank, OECD and WTO, under the leadership of the Secretary-General, for a comprehensive and unified response to the food security challenge. The BRIC countries also laid the groundwork for an agricultural cooperation action program at their first Agriculture and

Agrarian Ministers' meeting in 2010, with a focus on African food security, and endorsed the UN's coordinating role. Private sector groupings like the UN Global Compact, International Agri-Food Network and World Economic Forum are also working on food security. NGOs have played an important role as advocates of a human rights-based approach to food security and as operational actors.

Collective efforts resulted in the Aquila Food Security Initiative (AFSI) based around five principles: investment in country-led plans and processes; a comprehensive approach to food security that includes support for humanitarian assistance, sustainable agriculture development and nutrition; strategic coordination of assistance; strong role for multilateral institutions; and sustained commitment of financial resources. The principles provided a shared framework for the different actors to rally around. Efforts were supported by a Global Agricultural and Food Security Program (GAFSP) Trust Fund and the Framework for Scaling-Up Nutrition (SUN).

With this new approach, the evolving global governance of food security is relying on a multi-stakeholder system without clearly identified leadership, despite the UN's acknowledged role around the five collectively agreed principles. A reformed Committee on World Food Security, with an enhanced mandate and broadened outreach working with NGOs as well as governments, is now considered the most appropriate multi-stakeholder forum to deal with food security-related issues from a global perspective. The UN system plays two key roles: the Secretary-General serves as a neutral and impartial convener, while UN specialized agencies can provide more specific assistance to monitoring, development, and protection of the vulnerable.

IV-b. How to ensure coherence in approaches to different types of financing and improve accessibility of funding?

As objectives associated with poverty eradication and sustainable development are brought together, two broad trends emerge. While providing assistance for basic social needs to the poorest – wherever they live – will remain important, there is likely to be a greater need for flexible short-term funds that can be disbursed quickly, for instance to prevent relapse in countries emerging from conflict or to respond to natural disaster. Yet there will also need to be greater focus on long-term predictability of funding. Many infrastructure investments will require a longer time horizon to be financially viable. Project-based aid may be poorly suited to these kinds of challenges. The funding of GPGs will require pooled funding mechanisms that take into consideration the responsibilities and capabilities of the different actors.

Importantly, both the needed short-term assistance and long-term aid are associated with higher risk. Underinvestment takes place partially due to perceived political risks from which bilateral donors in particular have often shied. Development cooperation can promote the development of instruments that help mitigate and manage risks, which in turn can help to increase resources available by crowding in additional resources.

There is also a need to ensure coherence between two different pots of money. Development cooperation focused on social needs has tried to move away from a project-based to a programme-based approach and through the Paris process has aimed to strengthen the effectiveness of development cooperation and to promote country ownership. Financing of the environmental dimension is dominated by a discussion on Means of Implementation inspired by Rio and Johannesburg.

Over the last 20 years, many new tools have emerged in the area of financing national sustainability concerns as well as global challenges. Countries have developed national sustainable development strategies (NSDS), often an add-on to the country's national strategy, while the international community has focused on a targeted response to individual environmental challenges through multilateral environmental agreements (e.g. United Nations Framework Convention on Climate Change), Montreal Protocol on Substances that Deplete the Ozone Layer, United Nations Convention on Biological Diversity). A new approach will have to bring together the best of both approaches. In addition, the emergence of ever more actors with small development projects implies high transaction costs and it will be important to work together to reduce the burden.

1. ***What are the characteristics of the different sources and financing mechanisms that are available to finance the post-2015 development agenda, their strengths and weaknesses?***
2. ***How to ensure that the different sources and financing mechanisms are managed as coherently as possible in order to (a) support national priorities and (b) support collective action to address global challenges?***
3. ***What steps can be taken to improve the accessibility of funding by different actors?***

V. How would global monitoring of and accountability for development cooperation have to evolve in the post-2015 setting?

The MDGs aimed to help monitor the development progress of countries without being prescriptive on how a country should reach these goals. MDG7, ensuring environmental sustainability, has, as one of its targets, the integration of principles of sustainable development into country policies and programmes. MDG8 was designed to serve primarily as a monitoring framework for development cooperation.

In a different setting and with a primary focus on sustainable development, Chapter 8 of Agenda 21, asked countries to adopt national strategies for sustainable development (NSDS) with the goal to harmonize the various national economic, social and environmental policies and plans. About 120 member States are currently implementing an NSDS. Some countries have integrated NSDS into their broader national development strategy; others have not. Both national poverty reduction strategies and NSDS have common features: (a) they follow a similar structure; (b) they require nationally developed strategies based on a set of goals and principles; (c) they monitor implementation at the local level via a set targets and indicators; and (d) they report on progress at the global level to help hold countries accountable for delivery on their commitments.

Robust reporting and accountability at the global, regional and national levels will be critical for the implementation of a post-2015 development agenda. The United Nations and the World Bank currently publish, respectively, the Millennium Development Goals Report and the Global Monitoring Report. To conduct a focused, integrated and detailed monitoring of MDG8, the Secretary-General created the MDG Gap Task Force. The Task Force has introduced the coverage of non-traditional donors and innovative sources of financing, as well as the monitoring of new forms of trade protectionism; going beyond the HIPC initiative; and coverage of new technologies beyond ICTs, such as for addressing climate change or disaster risk reduction.

In follow-up to the 2010 MDG Summit, the Secretary-General also put in place an Integrated Implementation Framework, a web-based tool designed to identify and monitor progress in commitments towards the MDGs and associated delivery gaps.

At the intergovernmental level, Member States have started to put in place the elements of a strengthened global accountability framework. To review MDG progress, they established ECOSOC Annual Ministerial Review (AMR) and the biennial High-level Development Cooperation Forum (DCF). In follow-up to the Rio+20 conference, they recently established the High-level Political Forum.

In order to make progress in implementing commitments and actions agreed at the High Level Forum on Aid Effectiveness held 2011 in Busan, the Global Monitoring Framework[x] is reviewing related accountability efforts of participating developing countries at international level. The indicators are based on the indicators of the Paris Declaration on Aid Effectiveness (2005), but extended by relevant issues discussed in Busan.

Under a unified and universal post-2015 development agenda, encompassing all three pillars of sustainable development applying to all countries, all countries would contribute to the achievement of the agenda through advancing their own sustainable development objectives domestically and contributing to development cooperation and the provision of global public goods. Key concepts defining a possible monitoring and accountability framework have thus to be broadened to meaningfully reflect the broader scope of the post-2015 development agenda. This calls for an implementation-driven, inclusive, effective framework, backed by strong national ownership and leadership. A global framework to review a renewed global partnership for development must be independent and have a strong authority, while providing guidance to country-level actors and also non-executive stakeholders engaged in reviewing implementation on the ground.

Strengthened statistical and related technological capacity is crucial to support effective monitoring at national level. In this context, some, like the Secretary-General's High-level Panel, have called for a "data revolution". Data should be publicly available, timely and relevant; more, it should be coherent and co-created by the various stakeholders. By making increased use of new technology, crowd sourcing and improved global connectivity, citizens, especially youth, are empowered to contribute to the monitoring process and to holding both their governments and themselves accountable for their actions. Efforts to strengthen the statistical capacities of countries, a number of which still struggle with the collection of basic official data, will need to be significantly stepped up, also in light of the agenda's broader scope.

Building on the lessons learned from the MDG experience, a post-2015 monitoring and mutual accountability framework for a unified and universal agenda will need a limited number of universal goals applicable to both developing and developed countries. The goals will need to be monitored through a set of targets and indicators to assess both short-term and long-term development results. A combination of qualitative and quantitative measures can help provide a holistic assessment of the progress made.

Partnerships and collaboration within the UN system and with other stakeholders is critical to promote effectiveness and transparency. Some such partnerships engage citizens directly in the monitoring of commitments or publishing data in publicly accessible databases. Effective accountability will require different stakeholders to be clear about their own roles and responsibilities within the various forms of partnerships, including public-private partnerships, especially for innovative data collection and creating open platforms. An example for this is found in the accountability frameworks of the Secretary-General's initiative on "Every Woman Every Child", bringing together development partners, governments, civil society organizations, foundations and the private sector to enhance transparency and effectiveness.

1. ***What are the implications of moving to a unified and universal agenda for global accountability mechanisms?***
2. ***How can a global monitoring framework for development cooperation better track and report the economic, social and environmental sustainability of development results?***
3. ***What lessons can be learned from past efforts to integrate sustainable development in development cooperation monitoring frameworks and accountability mechanisms?***
4. ***How do we support a "data revolution" for strengthening capacities at all levels to monitor progress***

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[i] Glennie, Jonathan, The role of aid to middle income countries: a contribution to evolving EU development policy, ODI Working paper

[ii] World Bank, The Demand for IDA17 Resources and the Strategy for their Effective Use, IDA 17 Paper, June 2013

[iii] This section draws on a forthcoming paper by the UN System Task Team for the Expert Committee on Sustainable Development Financing.

[iv] Summary of Financing for Development, Bali Meeting of the Secretary-General's High-level Panel meeting, March 2013

[v] Baker, Raymond, Capitalisms; Achilles Heel: Dirty Money and How to Renew the Free Market System, Holboken, NJ, John Wiley and Sons, 2005

[vi] OECD, Fragile states: Resources, Flows and Trends, 2013

[vii] Financing for Development Post-2015, World Bank Group paper as input to UN lead consultation on the post-2015 development agenda

[viii] This section draws on a forthcoming paper by the UN System Task Team for the Expert Committee on Sustainable Development Financing.

[ix] This section draws on the paper on "Global Governance and Food Security as Global Public Goods" by Hans Page

[x] Guide to the Global Monitoring Framework, OECD/UNDP, http://effectivecooperation.org/files/20130701%20Busan%20Global%20Monitoring%20Guidance_ENG_FINAL.pdf