

## Chapter 17

### How can development co-operation address global challenges?

*Age Bakker*

*Vrije Universiteit, Amsterdam<sup>1</sup>*

#### Abstract

Poverty reduction is increasingly dependent on the equal distribution and provision of global public goods such as a stable climate, a solid financial environment, fair trade and freedom from infectious disease. This chapter asks how official development assistance (ODA) can respond to these global challenges. A new concept of international development is proposed, with clear targets for global public goods; targeting of ODA to support the least developed countries and fragile states; and a view of development co-operation as part of a broader and more complex global agenda, involving both the public and the private sector, including civil society. The post-2015 goals offer an important opportunity to better align the policy agendas of developing and developed countries and to signal a refreshed commitment to finding new financing sources to fund shared goals. Achieving them will require greater solidarity among all nations and coherence of both domestic and foreign policies.

*This chapter also includes an opinion piece by Yun Byung-se, Minister of Foreign Affairs, Republic of Korea, on how Korea's use of ODA can guide other countries in their development.*

Since its inception in 1972, the concept of official development assistance (ODA) has been a successful instrument for promoting development co-operation and orienting development policies. Development assistance has helped to stimulate growth and reduce poverty by building human and physical capacity, and has brought about significant improvements in health (Channing et al., 2011).

Over the more than 40 years that ODA has been in existence, however, the global environment has changed dramatically. Two shifts are particularly notable: on the one hand more attention is being focused on global challenges such as climate, security and migration; and on the other, new and innovative forms of development financing have emerged, as this *Development Co-operation Report* makes clear. This chapter asks what these shifts mean for ODA.

## ODA needs to respond to global challenges

Traditional development concepts malfunction in an interconnected world where global solutions are needed to tackle cross-border problems that inhibit development.<sup>2</sup> These solutions include securing “global public goods” such as peace and security (Chapter 19), a stable climate (Chapter 18), health and a sound financial environment.

At the same time, developing countries have become widely differentiated and a one-size-fits-all ODA concept is no longer attractive to them. While ODA remains an important tool for enhancing the development prospects of poor and fragile nations where it is the most important source of finance, new and innovative forms of development financing have emerged, increasing many countries’ options.<sup>3</sup> In the countries that have traditionally provided development co-operation, on the other hand, budgetary pressures make it imperative not only to show results for taxpayer money spent, but also to increase the leverage of scarce public funds.

The global post-2015 goals – presently being defined to succeed the Millennium Development Goals – can provide the building blocks for a new concept of international co-operation. These should include, but not be limited to, development co-operation. The new concept should include means of measuring contributions for achieving the new global goals and provide a benchmark for policies to facilitate progress.

The post-2015 agenda will require that developed and developing countries take shared responsibility for collective action, building on the principles agreed in Accra (2008) and Busan (2011) and reconfirmed in Mexico.<sup>4</sup> Addressing global challenges requires co-ownership and the contribution of all actors.

DAC members have agreed to revise the ODA definition in 2014.<sup>5</sup> Yet we also need a wider concept of international co-operation<sup>6</sup> based on a more holistic approach to development while preserving the useful elements of ODA. This situates development co-operation within a broader and more complex global agenda, incorporating the public and private sector, as well as civil society. The Rio conventions (described in Chapter 18) and the Millennium Development Goals can be seen as precursors of this wider agenda.

We need a wider concept of international co-operation based on a holistic approach to development, while preserving the useful elements of ODA

## **A global public goods approach calls for wide political buy-in**

There is some fear on the part of developing countries that focusing the post-2015 agenda on public goods could divert ODA to goals that do not predominantly benefit developing countries, in particular low-income countries (Kaul, 2013). The vision document on the post-2015 agenda, by the High-Level Panel of Eminent Persons, outlines a results-oriented agenda that can be instrumental in defining realistic, clear-cut and measurable targets for global public goods (HLP, 2013). The better focused this agenda is, the greater the possibility of deriving useful policy implications and mobilising the needed financial resources.

The financing and policy requirements of this new global agenda need political backing for commitments, as well as agreement on a system to measure countries' contributions and results achieved. Putting it in place, therefore, poses a number of challenges:

- 1) It will need to be embraced by all countries as a visible sign of the alignment of developed and developing countries' policies towards achieving global public goods.
- 2) It will require credible commitments from developed and developing countries for substantial additional funding.
- 3) It should not lead to a reduction of funding for developing countries.
- 4) It should not be seen as less binding than the present ODA system.

An integrated approach to meeting these challenges will acknowledge that many actors are involved, providing scope for co-ordination and alignment with the private sector and civil society.

## **Financing the new global agenda will require innovation**

Achieving results for global public goods will require substantial financial resources. While there is no accepted estimate of the total volume of global financing required to achieve the results envisaged, it will certainly largely surpass current ODA levels. For example, to help the world's poorest countries combat and adapt to the impacts of climate change, the United Nations is seeking to raise a proposed USD 100 billion for the Green Climate Fund (Chapter 18).

The new money will have to come from a range of sources – both traditional and new – as outlined in this *Development Co-operation Report*. It will need to draw on public finance, but with a much larger involvement by the private sector and civil society. International institutions can make a solid contribution by doing work to estimate the amounts needed.

Some global public goods objectives, such as control of infectious diseases, food security and financial stability, may be best funded through multilateral channels as this can increase

policy coherence. Yet while multilateral organisations provide the right setting for co-operation among developed and developing countries, alignment of their policies can only occur if developing countries have a stronger voice in the multilateral organisations and international coalitions. More needs to be done to achieve this.

Results-based funding, or cash-on-delivery aid, offers a new approach to development: providers pay for measurable and verifiable progress on specific outcomes, such as USD 100 for every child who completes primary school. Linking payments directly to specific results enables the host country to decide how it wants to achieve the outcome (Birdsall and Savedoff, 2010).

Funding can also be raised through global taxation or a comparable mechanism, such as levies on airline tickets,<sup>7</sup> if this is appropriate in the light of a specific international target. For example, leaders of international organisations have repeatedly asked governments to use fiscal policies such as carbon taxes to combat climate change.<sup>8</sup> International taxes and new sources of finance for cross-border mechanisms in support of global public goods have the advantage of creating a level playing field across countries – addressing unfair competitive edges because of free-rider behaviour – and could help to redirect funds from developed to developing nations.

Various taxes, levies and user fees have been suggested over the years for financing global public goods, but the political obstacles to establishing global institutions with tax and redistributive authority are formidable and as yet support is insufficient. There is a need for new fiscal tools to promote sustainable development by creating the necessary incentives to shift part of taxation from the traditional labour and investment base. The broad post-2015 agenda may pave the way for scaling up some financial incentives that already exist at the national level, such as fiscal facilitation of energy efficiency and fair trade.

There is a need for new fiscal tools to promote sustainable development by creating the necessary incentives

Strengthened co-operation between the public and the private sectors, including civil society, offers great promise for funding the new global agenda. Such partnerships provide a vehicle for combining the specialised knowledge of the corporate sector, civil society organisations and knowledge institutions. The trend towards globally active NGOs fits well with the universal character of global public goods.

Previous chapters in this report have looked at the roles of public-private partnerships for infrastructure and service provision (Chapter 12), of civil society in empowerment of the poor (Chapter 9), of public funding in support of domestic resource mobilisation (Chapter 14), and of innovative financing mechanisms such as guarantees (Chapter 11), as well as many other mechanisms for generating the resources needed.

**International co-operation will need to be governed coherently**

This new, ambitious global agenda implies that the focus will not only be on “foreign” policies but also on better policies at home. The inclusion of development within a wider global agenda implies that it will no longer be the exclusive terrain of the respective national ministry, and that development co-operation will have to leave its comfort zone.

This broader approach will foster consideration of the coherence of global policies, more explicitly linking national policies on issues such as taxation, migration and trade with international goals for global public goods. The “In my view” box below, contributed by Yun Byung-se, Korea’s Minister of Foreign Affairs, shows how a coherent approach to development can be highly successful.<sup>9</sup>

**In my view:  
Korea's use of ODA can guide other countries in their development**

**Yun Byung-se, Minister of Foreign Affairs, Republic of Korea**

Many countries have expressed great interest in Korea's transition out of extreme poverty by using ODA effectively to stimulate national development and sustainable growth. Of course, the global development landscape continues to evolve and each country has its own unique historical, geopolitical and socioeconomic background. Nevertheless, I believe Korea's development experience offers some key insights.

First, the Korean government channelled ODA to rebuild the war-torn country and establish social infrastructure for economic growth, while making efforts to mobilise other sources of development finance and to achieve fiscal independence. For example, it created an enabling environment for foreign private investment and also established a solid framework for the sustainable mobilisation of domestic resources through a series of tax reforms.

Second, the government introduced policies to promote private investment and also systematically built human capital by establishing private universities and public policy research institutions.

Third, Korea focused on the effective use of development resources. The government's five-year national economic development plans, initiated in the mid-1960s, effectively aligned ODA and other development resources to Korea's national priorities for economic development, enabling the country to overcome abject poverty and build a strong foundation for sustainable development.

Lastly, Korea placed renewed emphasis on its historical and cultural values of learning and education. This ensured the consistent development of human capital, even during the periods of colonisation and the Korean War, thereby facilitating rapid reconstruction and economic take-off in the post-war period. Indeed, this enabled Korea to overcome its development constraints, such as its relatively small size and its lack of natural resources.

Between 1945 and the late 1990s, the total amount of ODA received by Korea reached approximately USD 12.7 billion. Over the same period, Korea recorded an impressive 390-fold increase in its per capita income, from USD 67 in 1953 to USD 26 205 in 2013. In other words, from use of grants for post-war reconstruction in the 1950s to industrialisation founded on social and economic assistance in the 1960s and 1970s, Korea's experience was indeed the embodiment of the vision, "beyond aid, towards development".

The diversification of development resources, placing ODA at the core but with a limited time frame, and the sustainable mobilisation of domestic resources, were key prerequisites for the success of these efforts.

In my view, Korea's experience – taking ownership and successfully mobilising development resources through the catalytic use of ODA – offers useful policy reference points for developing countries' implementation of the post-2015 development agenda. Development should be led by developing countries themselves, taking a practical approach tailored to their own specific situations and needs. Each country needs to strengthen their own capacity to establish effective policies and institutions in support of their strategic vision for development on the ground. As a member of the OECD Development Assistance Committee, Korea will continue to share its experience with the international community when and where it can be useful.

It is also important to reach international agreement on a broader definition and standardisation of contributions to global public goods and take shared responsibility for achieving results. A mechanism that can monitor and compare countries' efforts towards agreed targets will add credibility to commitments and provide added incentives. The ODA system created by the OECD's Development Assistance Committee (DAC) was designed to do just this, and much can be learned from their experience. Currently, providers of development co-operation are assessed against a target of allocating 0.7% of their gross national income (GNI) as official development assistance (Table 17.1). Developing countries consider the target as a guarantee of future financial transfers, despite the fact that many provider countries have still not managed to reach the 0.7% target. In 2013, only five of the 26 DAC members allocated 0.7% or more of their GNI to ODA; the average ODA expenditure among the DAC countries is 0.3% of GNI.

The new global agenda will require international solidarity among all countries. The DAC experience shows that it will be helpful to develop output indicators that can put pressure on countries to fulfill their commitments, and in some cases can address free-rider behavior. These could take the form of financial targets, along the lines of the ODA target, or some other mechanism for measuring achieved results (Table 17.1). For the Netherlands, for example, a target for international co-operation of 2% of GDP has been suggested (Wijffels et al., 2012).

**Table 17.1 From an ODA target to a target for international co-operation**

	<b>Target for development co-operation</b>	<b>Target for international co-operation</b>
<i>Goal</i>	Development and welfare in developing countries	Global public goods and global sustainable development and welfare
<i>Target</i>	0.7% of GDP	Results-based or GDP-based targets, differing for least developed countries and fragile states
<i>Instrument</i>	Financial flows only	Financial flows, guarantees and other leverage mechanisms; knowledge transfers
<i>Cost</i>	Concessional	Concessional and non-concessional if debt sustainability allows
<i>Source</i>	Official (public)	Official and private sources
<i>Recipients</i>	Developing countries	Developing countries and global institutions

Therefore, the new global agenda should include a firm commitment to a concrete target for ODA flows to least developed countries and fragile states. This could be in the form of a nominal target, for example 0.25% of GDP, or of a commitment to provide at least half of national ODA flows to this group of countries (see Chapter 2). At the very least, there needs to be a firm commitment by all provider countries to the UN agreed target of allocating 0.15

Least developed countries and fragile states will continue to rely on fully concessional ODA flows for the foreseeable future

to 0.20% of GNI for the least developed countries. This will help stop the disconcerting downward trend of ODA to these countries and help give assurances that the new agenda will not result in the diversion of concessional funding.

Since the new post-2015 goals will be developed and adopted in the United Nations General Assembly, it would be logical that a framework for the registration of all contributions to international co-operation is also set out in the UN context. Other organisations may provide the necessary input, including the OECD-DAC.

Much debate will be needed to reach international consensus on all of these issues. Yet at the same time, the process of creating and maintaining the right global environment for sustainable development will help garner support as the interests of developing and developed countries become more aligned.

## Key recommendations

- Estimate the price tag for supporting global goals.
- Reach international agreement on a broader definition and standardisation of contributions to global public goods and take shared responsibility for achieving results.
- Agree on a target for international co-operation, such as 2% of GDP, as well as a concrete target for ODA to least developed countries and fragile states (e.g. 0.25% of GDP).
- Find new methods for funding global goals, including global taxation.
- Ensure developing countries' voice in multilateral organisations and international coalitions.
- Promote stronger co-operation between the public and private sectors.
- Establish a framework for registering all contributions to international co-operation within the UN context with input from other relevant organisations, including the OECD-DAC.

## References

Birdsall, N. and W. Savedoff (2010), *Cash on Delivery: A new approach to foreign aid*, Center for Global Development, Washington, DC.

Channing, A., S. Jones, and F. Tarp (2011), "Aid effectiveness: Opening the black box", *WIDER Working paper* 2011/44, World Institute for Development Economics Research, Helsinki.

HLP (2013), *A New Global Partnership: Eradicate poverty and transform economies through sustainable development*, United Nations Post-2015 High-Level Panel of Eminent Persons, United Nations, New York.



Kaul, I. (2013), “Accelerating poverty reduction through global public goods”, in *Development Cooperation Report 2013: Ending poverty*, OECD Publishing, <http://dx.doi.org/10.1787/dcr-2013-en>.

Interministerial Policy Review (2013), *Towards a New Definition of Development Cooperation: Considerations on ODA*, Government of the Netherlands, The Hague.

IOB (2014), “Autonomy, partnership and beyond: An analysis of policy coherence for Ghana”, *IOB Study Newsletter* 14-04, IOB, Ministry of Foreign Affairs of the Netherlands, The Hague.

Reisen, H., M. Soto and T. Weithöner (2004), “Financing global and regional public goods through ODA: analysis and evidence from the OECD creditor reporting system”, *OECD Development Centre Working Paper* No. 232, OECD, Paris.

Severino, J-M. and O. Ray (2009), “The end of ODA: death and rebirth of a global public policy”, *Center for Global Development Working Paper* 167, Center for Global Development, Washington DC.

Wijffels, H. et al. (2012), *Towards a New Definition of International Cooperation* (in Dutch), NCDO (National Commission for International Co-operation and Sustainable Development), Amsterdam.

## Notes

---

<sup>1</sup> Also Chairman of the Netherlands’ Working Group on the Future of ODA.

<sup>2</sup> Former UN Secretary-General Kofi Annan labelled the great global challenges that transcend the capabilities and resources of any one nation as “problems without passports”.

<sup>3</sup> See Chapters 1, 2 and 20, among others.

<sup>4</sup> These represent some key moments and declarations in the development community’s push for more effective development co-operation: the Accra Agenda for Action endorsed in 2008 at the Third High Level Forum on Aid Effectiveness in Accra, Ghana; the Busan Partnership document endorsed at the Fourth High-Level Forum on Aid Effectiveness in Busan, Korea in 2011; and the High-level Meeting of the Global Partnership for Effective Development Co-operation took place in Mexico City in April 2014. For more, see [www.oecd.org/dac/effectiveness](http://www.oecd.org/dac/effectiveness).

<sup>5</sup> See Chapter 1.

---

<sup>6</sup> The concept of international co-operation is one policy option put forward in a report of the Interministerial Policy Review (2013), *Towards a New Definition of Development Cooperation*, established by the government of the Netherlands. Severino and Ray (2009) have developed a similar concept of global policy finance, which combines financing of global public goods and the traditional ODA targets of economic development and welfare.

<sup>7</sup> Discussed in Chapter 15.

<sup>8</sup> The Secretary General of the United Nations, the Managing Director of the IMF, the President of the World Bank and the Secretary-General of the OECD have all on various occasions called for fiscal policies to combat climate change (various press reports April 2014).

2014).