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Research Report

"Beyond Aid" and the future of development cooperation

Briefing Paper, No. 6/2014

Provided in Cooperation with:

German Institute of Development and Sustainability (IDOS), Bonn

Suggested Citation: Janus, Heiner; Klingebiel, Stephan; Paulo, Sebastian (2014) : "Beyond Aid" and the future of development cooperation, Briefing Paper, No. 6/2014, Deutsches Institut für Entwicklungspolitik (DIE), Bonn

This Version is available at:

<https://hdl.handle.net/10419/199730>

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“Beyond Aid” and the Future of Development Cooperation

Summary

Development cooperation is under pressure to change. The traditional aid model – a resource transfer from North to South – is outdated. There are only 36 low-income countries left in the world. Two-thirds of the poorest people live in middle-income countries. Eradicating poverty has become more complex. Aid is no longer used to only address income poverty but also a large variety of development challenges, including climate change, inequality and insecurity. Many of these challenges need to be addressed outside the traditional development cooperation sphere.

Currently, it is not clear what will replace traditional aid. Observers often speak about a *beyond aid* future. As an umbrella term, *beyond aid* describes different aspects of the transformation of development cooperation. The transformation is particularly pronounced in four dimensions where aid is decreasing in relative importance: the proliferation of actors, the diversification of finance, the shaping of rules and policies, and the sharing of knowledge for development.

The future of development cooperation depends on how the policy field learns to create linkages with these dimensions. This includes rethinking the relationship between the goals and instruments of development cooperation. Such a process is already ongoing and can lead in two main directions that are not mutually exclusive: development cooperation can specialise on poor countries and/or be integrated into the broader framework of global cooperation.

In the case of specialisation, development cooperation retains the focus on poverty reduction and concentrates on an ever smaller number of mostly fragile countries. In the case of integration, development cooperation supports a more complex system of global development objectives, including the provision of global public goods. In both scenarios, development cooperation needs to strengthen its linkages with other areas of international cooperation along the four dimensions of *beyond aid*: actors, finance, regulation and knowledge.

Although these partly overlapping scenarios are likely to play out simultaneously in the policy field as a whole, individual development actors face choices for their strategic orientation. For example, development actors need to consciously revisit their specific objectives for engaging in development cooperation. Is poverty reduction, the provision of global public goods or a mix of both the priority of their development cooperation? Depending on the answer, the allocation pattern of their budgets would differ. A global public goods allocation model would mark a departure from the predominant country allocation system, for instance. Also, development actors need to re-evaluate whether current principles for effective development cooperation are suitable for cooperation *beyond aid*.

Thus, thinking through the scenarios of specialisation and integration of development cooperation in a *beyond aid* future should already be shaping the strategic decisions of development actors today.

Aid must adapt to a dynamic context

Development cooperation – a policy field dealing with the mobilisation of resources for the purpose of promoting development – is in a transition phase. For a long time, development cooperation has been closely linked to "aid" or official development assistance (ODA), a concept developed by the Organisation for Economic Co-operation and Development (OECD). This concept is outdated in several regards because a dynamically changing global environment has restructured the foundations of international cooperation.

The differentiation of partner countries as a consequence of global shifts in wealth and poverty reduces the relative importance of aid. On the whole, developing countries are becoming less dependent on aid, and donors' ability to shape policy through aid is decreasing. A group of poor and fragile countries will continue to be dependent on aid. In the long term, however, the number of countries receiving aid is set to fall. According to the OECD, 28 developing countries, with a total population of 2 billion, are projected to graduate the list of ODA-eligible countries by 2030.

Today, aid needs to deal with a larger variety of development situations across countries and on the global level. Beyond basic needs and poverty reduction, the national and local problem areas in partner countries vary considerably. At the same time, issues such as climate change, global health and food security have emerged as global development challenges. Attempts by aid actors to keep their formal goals free of policy objectives other than poverty reduction are being challenged by new global demands related to the provision of global public goods. Finally, aid is under budgetary pressure in a number of rich countries.

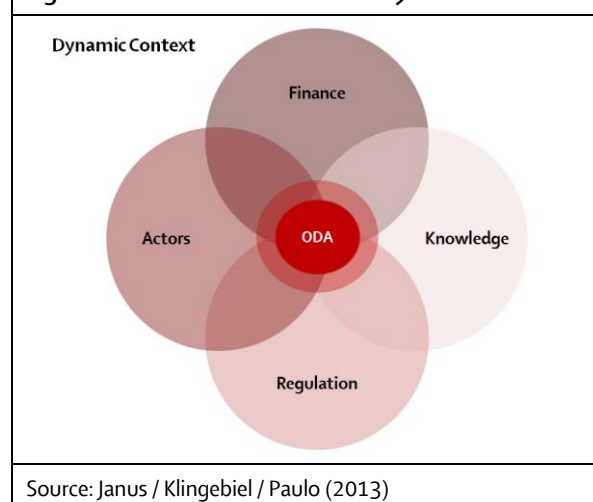
As a result of this context, aid is becoming (even) less relevant compared to other contributions to development. The international debate on effective development cooperation partly acknowledges the need for reform (redefining ODA, moving from aid to development effectiveness). But discussions fall short of a more holistic view on how the policy field of development cooperation is changing as such.

Discussions about the future of development cooperation stress the demand for *beyond aid* approaches. However, confusion about the meaning of the term is an obstacle to turning the debate into practical policy changes. We therefore propose a simple definition: *beyond aid* is an umbrella term that covers different perspectives on the transformation of development cooperation. The transformation is particularly pronounced in four areas where aid is decreasing in relative importance: the proliferation of development actors, the diversification of development finance, the development coherence of different policies and international regimes, and the role of knowledge in development.

The four dimensions of *beyond aid*

Beyond aid comprises four dimensions: actors, finance, regulation and knowledge (Figure 1). These dimensions describe the transformation of development cooperation primarily from a global or external perspective. However, this approach should not disregard the significance of domestic policies in partner countries. The concept of *beyond aid* also stresses that a proper understanding of development processes has to begin with actors, institutions and political processes in partner countries.

Figure 1: The four dimensions of *beyond aid*



Source: Janus / Klingebiel / Paulo (2013)

Actors: The number and diversity of actors dealing with developing countries have been expanding beyond bi- and multilateral aid agencies. Other actors include emerging economies that engage in South-South cooperation. Line ministries from donor countries deal directly with actors from other countries in areas such as health, energy and science. Moreover, sub-national actors such as cities form networks with their counterparts in developing countries. This diverse group of public actors is complemented by a range of actors from the private sector: companies, non-governmental organisations, and church-based and philanthropic actors, such as the Bill & Melinda Gates Foundation.

Finance: The relevance of aid for developing countries is decreasing relative to other sources and flows of development finance. First of all, domestic resources are the main source of public investments in developing countries. Although aid accounts for just 2 per cent of international funding available for developing countries, it remains essential for many low-income countries, especially those affected by conflict. Private international financial flows (e.g. foreign direct investment, securities transfers or remittances) also play a bigger overall role than aid in financing development. Further, a range of innovative financing mechanisms create incentives (often market-oriented in nature) to use private sources of finance for development purposes. These include public-private partnerships, which operate globally in specific thematic

areas, such as health and climate change. Finally, carbon emissions certificates and transnational taxes on financial transactions and air travel are examples of innovative sources of finance.

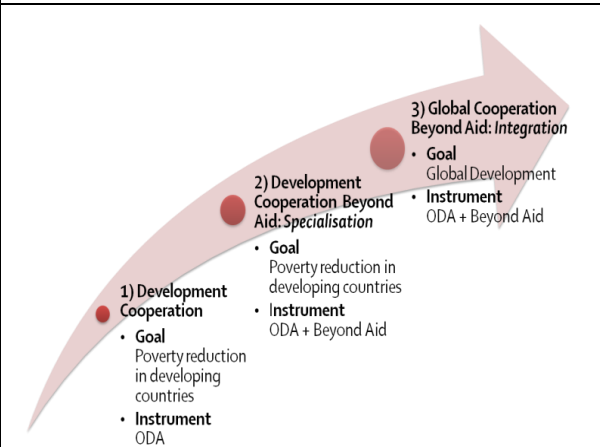
Regulation: Donor policies and international regimes have a strong impact on development outcomes. Concepts such as policy coherence for development (PCD) aim to align different policies with the objective of poverty reduction. Although such approaches remain important, they must also adapt to the broadening development agenda and differentiation of partner countries. First, a broadening development agenda will have to manage a growing number of goal conflicts arising between individual dimensions of development (e.g. reducing poverty versus mitigating climate change). Second, policy coherence has varying effects on different groups of countries. Finally, a growing number of developing countries must be included in efforts to achieve greater coherence of their policies and shape development-friendly international regimes.

Knowledge: The broadening and specialisation of knowledge in development is a main feature of *beyond aid*. Development requires knowledge from many areas, such as new farming methods, practices of public financial administration and measures to mitigate climate change. With aid decreasing in importance, knowledge is becoming more dissociated from financial and aid-advisory transfers. Moreover, knowledge relating to the expanded development agenda and the differentiated needs of partner countries increasingly comes from outside of the aid arena. In the *beyond aid* context, the challenge is to identify and share knowledge that is both specialised and scattered around many sources, and to apply it to specific contexts. Aid actors can continue to play a key role in this process, though they will face competition. Knowledge intermediaries might become redundant in relations with more advanced developing countries.

Beyond aid as a learning process

The transformation of development cooperation is a learning process that creates links between development goals and the four dimensions of *beyond aid* (Figure 2). Typical learning concepts distinguish between *simple* and *complex* learning, depending on how instruments and goals interact with one another. Here, aid and the *beyond aid* dimensions represent the instruments. Goals in this context are understood as the formal and explicit purpose or the main narrative of a policy area. This definition should not downplay that actors have a mix of underlying motivations, such as political or economic interests. Still, an accurate understanding of the relationship between instruments and goals is highly relevant for ongoing debates. Whereas simple learning expands instruments without redefining goals, instruments and goals influence each other in the case of complex learning.

Figure 2: Beyond aid as a learning process



Source: Janus / Klingebiel / Paulo (2013)

Applied to development cooperation, three scenarios emerge.

The **baseline scenario (1)** of the Millennium Development Goals (MDGs) has reduced development cooperation to a relatively simple goal-instrument relationship: poverty reduction in developing countries should be supported by aid from OECD countries. With the exception of MDG-8 (Global Partnership for Development), the *beyond aid* dimensions were not pronounced in this development framework. The post-2015 development agenda is set to have a broader horizon in terms of goals. Implicit in this approach is the recognition that broad goals, such as inclusive development, environmental sustainability, and peace and security, cannot be achieved solely by providing aid. The four dimensions of *beyond aid* become increasingly important in this regard.

The two other scenarios show how simple and complex learning lead to different conclusions about the linkage of development cooperation and *beyond aid*.

Simple learning leads to the second **scenario (2): development cooperation beyond aid**. The instruments include aid and the four *beyond aid* dimensions. However, development cooperation retains a focus on poverty reduction and targets a group with an ever smaller number of countries and the specific problems they face. Although domestic resource mobilisation and good governance are the basis to achieve this goal, aid continues to be a main external contribution. At the same time, achieving poverty eradication will also require making selective use of the four dimensions of *beyond aid*, for instance security policy in fragile states.

Complex learning results in the third **scenario (3): global cooperation beyond aid**. In this scenario, learning calls key basic assumptions into question, leading not only to an expansion of instruments, but also to a substantial redefinition of goals. As a result, development cooperation integrates itself along the

beyond aid dimensions into the broader system of global cooperation and creates strong linkages with other areas of international cooperation. Poverty reduction is an important part of this policy, but global cooperation is also intended to achieve other national and global goals. The division of countries into developed and developing nations is no longer the defining characteristic of this scenario. Instead, development is an issue that occurs in a wide range of contexts, whether in fragile and conflict-affected countries or in middle- to high-income countries.

The future of development cooperation: specialisation and integration

Scenarios 2 and 3 illustrate the spectrum within which development cooperation can change and fit into the overall system of international cooperation. In a scenario of “simple learning”, development cooperation specialises on poverty reduction in a smaller number of poor and fragile countries. In a “complex learning” scenario, development cooperation integrates with other areas of international cooperation embedded within a broader narrative of global challenges. In reality, both scenarios overlap and are likely to play out simultaneously.

The challenge in both scenarios is to establish effective links between the *beyond aid* dimensions and the respective overarching goal or narrative. In the case of specialisation, it is unclear to what extent aid actors are capable of working with other actors and instruments in order to achieve their own goals. The scenario of integration provides potential for synergies between development cooperation and other areas of cooperation, but it also demands a high degree of mutual openness. This scenario would lead to new conflicts of interest that require reconciliation.

The two scenarios also differ as to how they resolve the trade-off between control and relevance. In the case of specialisation, aid actors have great potential for steering matters within their own sphere, but they have little influence outside of it. As part of global cooperation efforts, development cooperation becomes more relevant in

addressing global challenges, but plays a smaller role in steering overall cooperation.

Whereas development cooperation as a policy area needs to accommodate both scenarios, individual development actors must make strategic choices:

1) Clarification of the goal system. The transformation of development cooperation raises the crucial question about the *raison d'être* of aid. Should development actors target an ever smaller group of poor countries and abandon its former, more comprehensive cooperation mandate with developing regions? Or should (and could) development actors also be in charge of cooperation relationships involving a wider range of areas (environment, climate change, security, etc.)?

2) Strategic allocation of aid. Conflicts of interest are likely to increase the more development cooperation is linked with other areas of cooperation. But will the volume of available resources still be appropriate for the broadened goals of development cooperation? There are a wide variety of conceivable models for allocating resources within international cooperation. Countries could have certain “entitlements” to international cooperation, in which case allocation would be country-specific, with sector-based allocations coming second. Another option would be to prioritise global public goods, in which case the primary mechanism for allocation would be thematic.

3) Governance of *beyond aid* instruments. The aid effectiveness agenda contains key principles to guide traditional development cooperation. But can this governance model be transferred to *beyond aid* instruments (such as climate finance)? And to what extent can a regime with a mixed record in enforcing its own standards provide lessons for the transformation of development cooperation? A new framework might also be driven by the desire to maintain the status quo (without necessarily being effective). Therefore, development actors need to decide whether to reform the aid effectiveness agenda or change the approach entirely. Current reform efforts around the Global Partnership for Effective Development Cooperation fall short of moving towards a *beyond aid* world.

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