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## Research Report

# Moving away from aid: Lessons from country studies

ODI Report

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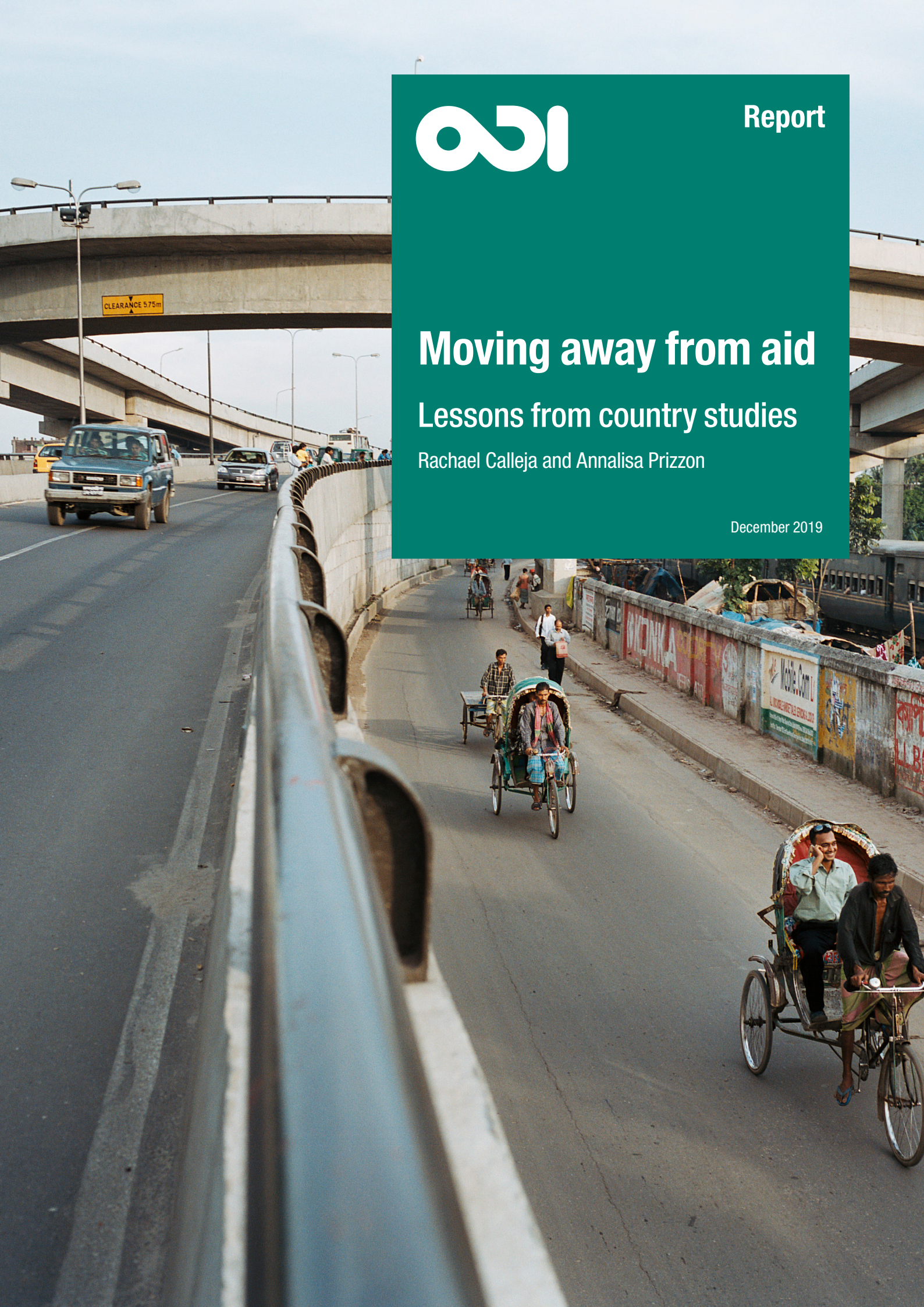
Report

# Moving away from aid

## Lessons from country studies

Rachael Calleja and Annalisa Prizzon

December 2019



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Cover photo: A raised highway with cycle rickshaw in Dhaka, Bangladesh. Credit: Laurent Weyl/Panos Pictures.

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We have taken care to validate the information included in this report and any omissions, errors or misreporting are unintentional and the authors' own. The views in this report do not reflect those of ODI or GIZ.

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# Acronyms

<b>AGCI</b>	Agencia Chilena de Cooperación Internacional
<b>AIDS</b>	Acquired Immune Deficiency Syndrome
<b>AMEXCID</b>	Agencia Mexicana de Cooperación Internacional para el Desarrollo
<b>COP</b>	Conference of the Parties
<b>DAC</b>	Development Assistance Committee of the OECD
<b>DFID</b>	Department for International Development (UK)
<b>EDCF</b>	Economic Development Cooperation Fund (Republic of Korea)
<b>EU</b>	European Union
<b>GCF</b>	Green Climate Fund
<b>GDP</b>	gross domestic product
<b>GEF</b>	Global Environmental Facility
<b>GFATM</b>	Global Fund to Fight AIDS, Tuberculosis and Malaria
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>GNI</b>	gross national income
<b>HDI</b>	Human Development Index
<b>HIV</b>	human immunodeficiency virus
<b>IADB</b>	Inter-American Development Bank
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>IDA</b>	International Development Association
<b>KOICA</b>	Korea International Cooperation Agency
<b>NGO</b>	non-governmental organisation
<b>ODA</b>	official development assistance
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>SADC</b>	Southern African Development Community
<b>UMIC</b>	upper-middle-income country
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>USAID</b>	United States Agency for International Development

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# Executive summary

## Introduction

When a country's income per capita<sup>1</sup> exceeds approximately \$12,000 for three consecutive years, it is removed from the list of countries eligible for official development assistance (ODA), as per the policy set out by the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC). While this 'ODA graduation' does not mean donors must no longer provide development support to these countries, it does mean that their programmes cannot be counted towards ODA targets. At the same time, against a backdrop of growing scrutiny on public spending, assistance to wealthier countries is increasingly being challenged.

Several countries are expected to graduate from ODA: the OECD estimates that 29 will graduate from the list of ODA recipients by 2030 (OECD, 2014), and many other countries are expected to transition from aid as they approach ODA graduation. However, we know little about how countries that have started or completed the transition and graduation process from aid have managed it while ensuring that development results are sustained and expanded when ODA declines or disappears. We also have little evidence about how development partners should support such countries to maximise the effectiveness of their resources or how countries could engage in global dialogue when ODA falls or is no longer an option.

## About this report

To fill these gaps and identify useful lessons for development cooperation policy and practice, we undertook a research project with three main objectives. First, we sought to understand how countries at different stages of the transition and graduation from aid have managed this process to maintain and sustain development outcomes (*managing the transition from aid*). Second, we aimed to review and identify lessons from the approach that development partners applied and the demand from recipient country governments when aid flows fall (*cooperation with development partners*). Finally, we mapped graduating and graduated countries' expectations for future bilateral and multilateral cooperation as they moved away from aid and after their graduation from the list of ODA-eligible countries (*cooperation beyond aid*).

We grounded the analysis in the experiences of four countries: Botswana, Chile, Mexico and the Republic of Korea.<sup>2</sup> These economies reflect three different stages of the transition from aid and graduation from ODA: mid-way through the graduation from ODA but not yet there (Botswana and Mexico); a recent graduate from the list of ODA-eligible countries (Chile in January 2018); and the entire transition process, from recipient economy to fully fledged donor (Republic of Korea).

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1 Calculated using the World Bank Atlas method.

2 Individual case studies are published separately and provide in-depth but accessible analyses around the main research questions of this project.



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This report is informed by a combination of data analysis, a literature review of the main academic and policy documents and semi-structured interviews with more than 150 informants across the four case studies. Interviewees included stakeholders from central and line government agencies, bilateral development partners, multilateral development banks, multilateral organisations and civil society organisations. Across the four country case studies, interviews were conducted either by phone or during four country visits – to Santiago (December 2018), Gaborone (March 2019), Mexico City (May 2019) and Seoul (June 2019).

## Lessons from the four country case studies

The small size of the sample and the different economic, political and social factors in place at the time the transition and the graduation from ODA occurred mean that we cannot generalise findings and lessons across developing country governments. However, we can highlight findings and lessons from the four country case studies, common elements across them and examples identified as preferred approaches by countries that moved away from aid and entered into a new stage of relations with former development partners.

These lessons could be illustrative to other countries entering or progressing through the trajectory towards ODA graduation to ensure development results are maintained. They can also support development partners to articulate their strategies to sustain development outcomes achieved and rekindle policy dialogue in a renewed type of partnership when aid flows decline or are no longer an option.

### Managing the transition from aid

**Countries in transition should detail in their national development plans how they will sustain development outcomes and should define the contribution of ODA flows.** In most cases, these plans acted as the country's implicit strategy for transition, with economic development and achieving high-income status seen as the end goal. Perhaps the clearest example is the Korean case, where ODA resources were aligned to

priorities developed in its five-year development plan and actively supported economic development and transition. Only one country plan (that of Chile) included an explicit reference to the likelihood of declining ODA resources as a result of transition; this was not systematic across the four cases. For donors engaging in countries that are in transition, national development plans should be viewed as a key document for planning engagement to ensure support aligns with domestic needs as well as for considering the potential timeline for exit over the longer term.

**Governments should consider innovative financing mechanisms and the use of joint funds.** The Mexican case showed that trust funds can serve as a tool for adapting development partner relationships with countries in transition and can provide the space for mutual ownership of and accountability for programming. Joint funds also offer a space for dialogue when traditional bilateral programmes are scaled down. Innovative mechanisms for generating revenue, such as the Mexico–Chile Joint Co-operation Fund, could also support emerging donors' outward cooperation.

**Development partners should develop a strategy to manage the transition from aid and communicate this effectively and across the recipient government to increase predictability.** Development partners should plan the transition from aid early and should communicate their strategies to the recipient country government and across government agencies. Donors should make their intentions to withdraw known to the country and discuss with its government the strategic directions for the transition from ODA and 'beyond-aid' relations, making sure that decisions are understood well and widely. In Botswana and Chile, despite the presence at the start of the process of explicit strategies for managing transition, lack of communication resulted in misaligned expectations between recipients and donors in terms of the transition process and post-aid relations. In Chile's case, there was no dedicated strategy for managing graduation from ODA, and some parts of the government were caught by surprise as graduation drew near and funding was cut.

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## Cooperation with development partners

Development partners should boost technical assistance demanded by countries in transition to support knowledge transfer and peer learning that can help address key gaps. By and large, as donors phased out resources, government officials did not find reductions in financing to be a challenge; most had well-developed economies and could finance further development themselves. Rather, concerns about the transition from aid centred on declining technical assistance – support that often follows ODA projects and programmes, and the learning and capacity development opportunities that accompany ODA projects and programmes. While government officials in the countries we reviewed had capable civil services, they hoped to fill remaining gaps through continued learning and engagement with development partners. Government officials asked donors to support a range of issues, mostly related to building capacity for development management (monitoring and evaluation, institutional strengthening of development institutions) and economic development (supporting economic diversification and skills development).

Development partners should cooperate with countries that are seeking to become providers of development cooperation or regional players. Most countries in this study received some support to develop and promote their capacity as providers of development cooperation or as a regional knowledge hub. In Botswana, the United Nations Development Programme (UNDP) helped the country develop its first strategy for South–South and triangular cooperation; in Mexico, UNDP and GIZ worked with the Mexican agency for development cooperation (Agencia Mexicana de Cooperación Internacional para el Desarrollo, AMEXCID) to deepen institutional capacity; and in the Republic of Korea, the United States Agency for International Development (USAID) led early outward cooperation and funded the creation of the Korea Development Institute. In each instance, the countries in transition valued this support from their development partners, who were well positioned to provide expertise and leadership on developing institutions and policies for outward cooperation.

Development partners should diversify the financing toolbox for countries in transition from ODA to enable the move to a relationship based on partnership. Across the cases, government officials had a broad range of needs that were dependent on national priorities and challenges. There was demand for higher prioritisation of technical assistance, including reimbursable assistance from international financial institutions (when resources were available to pay for it), knowledge-sharing and technology transfer. While countries in transition can generally meet domestic financing needs, there is still demand for support – including for grants and concessional loans. Some development partners actively used regional and triangular cooperation to maintain relations and support countries as they neared and reached graduation from ODA. Triangular cooperation was particularly important in the lead-up to graduation from ODA as it helped to transform the donor–recipient relationship to one based on partnership for national, regional and global development.

## Cooperation beyond ODA

Countries and development partners should develop a strategy for development relations beyond ODA. Across the country case studies, we found that donors and partners often had no strategy or approach that outlined the evolution and the nature of relations following the scale-down and exit of ODA. Such strategies should define the future type and modalities of engagement and determine the trajectory for how relations are expected to evolve – for instance, towards economic partnerships or supporting global public goods. While countries with high geostrategic value, such as Mexico, may be at little risk of losing access to dialogue with development partners in the absence of aid, other countries may struggle to find forums for continued engagement when the development programmes – on which relationships are based – cease.

Countries and development partners should leverage key international forums and create spaces for policy dialogue in the absence of ODA projects and programmes. Countries in transition valued their relationships with

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donors but felt sometimes that traditional lines of communication were closing alongside ODA programmes. Most government officials we interviewed also saw international forums as crucial to maintaining and deepening relations beyond ODA. Multilateral spaces provide an outlet for engagement on matters of mutual interest and for knowledge-sharing and peer learning on policy issues such as development cooperation or climate change. For countries in transition, multilateral spaces could help them to build more mature relationships based on partnership. Where participation in international forums is constrained by membership (as is the case for Botswana, which is neither a G20 nor OECD member), development partners should seek actively to create spaces for continued policy dialogue and engagement or develop instruments

to foster peer learning and technical cooperation on areas of mutual interest.

**Development partners should take advantage of regional and triangular cooperation programmes as a tool for continued cooperation beyond ODA.** The Chilean and Mexican cases highlighted the value of triangular cooperation in maintaining relationships with donors, developing technical expertise and positioning themselves as a hub within their region. Engaging with partners in this way can provide both countries in transition and graduated countries with some ODA resources to support capacity development. Similarly, regional cooperation allows countries in transition and graduated countries to access funds for addressing regional challenges and maintaining policy dialogue beyond bilateral ODA relations.

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# 1 Introduction

Over the past decade several developing economies have achieved strong and sustained economic growth. Some have moved rapidly up the income per capita ladder, particularly into the upper-middle-income country (UMIC) bracket (above \$4,000 annual income per capita).<sup>3</sup> Typically, these are economies that have strengthened their macroeconomic management, played a stronger and more visible role in global policy and diversified their financing sources.

When a country's income per capita exceeds \$12,000 for at least three consecutive years,<sup>4</sup> it is removed from the list of countries eligible for official development assistance (ODA),<sup>5</sup> as per the policy set out by the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC). While this 'ODA graduation' does not mean donors must no longer provide development support to these countries, it does mean that their programmes cannot be counted towards ODA targets. Against a backdrop of growing scrutiny on public spending, providing development assistance to these wealthier countries may be controversial.

On the path towards graduation from the list of ODA-eligible countries, many aspects of international development cooperation are likely to change. First, the range and volume of financial sources a country can access from bilateral and multilateral donors narrow down and decline: ODA flows progressively reduce; finance – from multilateral development banks, for example – becomes less concessional. Second, falling development cooperation tends to shift from financial support towards more targeted

and sophisticated technical assistance. Middle-income countries rely on financing options other than development assistance (notably tax revenues and commercial loans) but they might lack specific knowledge and look for expertise in specific domains. Third, relationships are expected to evolve, with the donor–recipient and assistance flows dynamic changing to one of partnership and international cooperation on issues such as climate change, regional cooperation and migration.

As developing countries become richer and address their own development challenges, donors usually reconsider their programming and interventions. In this way, transition and exit from bilateral development cooperation programmes should be celebrated as an indicator of economic and social development success. But while ODA may become less important (and accessible) over time, countries still seek development cooperation in other forms to help them achieve their development aims, address key vulnerabilities and contribute to the global agenda. This applies in particular to the planning, implementation and financing of development projects to ensure that development results are sustained and expanded when ODA declines or is no longer provided.

Between now and 2030, several countries are expected to graduate from ODA. However, we know little about how countries that have started or completed the transition and graduation process from aid have managed it while ensuring that development results are sustained and expanded when ODA declines or disappears. We also have little evidence about how development

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3 The number of UMICs has risen: in 2005, 39 countries were classified as UMICs; in 2017, this number rose to 56 (World Bank, 2019).

4 Calculated using the World Bank Atlas method.

5 The actual year the country is removed from the list depends on the timing of the review run by the DAC.

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partners should support such countries to maximise the effectiveness of their resources or how countries could engage in global dialogue when ODA falls or is no longer an option. There is also little evidence about how development partners should best support countries that are moving away from aid to maximise the impact of declining flows and how these countries ‘in transition’ could engage in global dialogue beyond ODA.

## 1.1 What we mean by transition from aid and graduation from official development assistance

Throughout this report, we use the terms ‘transition’ from aid and ‘graduation’ from ODA. ‘Transition’ from aid is used to describe the period during which donors start reducing their programmes in a recipient country because that country is considered less in need of aid. This is often associated with higher per capita income, rather than being a decision to withdraw from a country because of political or security reasons (see Jalles d’Orey and Prizzon, 2019). ‘Graduation’ from ODA, which happens in the late stages of the transition from aid, refers to the point at which a country is no longer included in the DAC list of ODA-eligible countries.

Three points are worth noting. First, graduation from the list of ODA-eligible countries does not mean a country no longer receives international development assistance. Donors may choose to continue allocating funds to countries after graduation. It does mean, however, that a donor cannot count these funds against their ODA as a proportion of gross national income (ODA/GNI) target.

Second, graduation from the list of ODA-eligible countries is only one conceptualisation of ‘graduation’. Graduation from multilateral development banks and vertical (climate and health) funds are driven by criteria other than only income per capita (Box 1).

Finally, we refer to transition from aid and graduation from the list of ODA-eligible

countries primarily from the perspective of recipient country governments and not from those of civil society organisations.

## 1.2 Motivations, objectives and research questions

In 2014, the OECD estimated that 29 countries will graduate from the list of ODA recipients by 2030 (OECD, 2014). In the coming years, several countries will no longer be classified as recipients of development assistance and others are expected to move away from ODA as they approach graduation.

Donors are aware that an increasing number of countries will graduate from ODA, or that they will exit as countries near high-income status. However, in our review of the relevant literature, we found that the practical challenges and issues affecting countries throughout the transition and graduation from ODA are not yet well studied. In particular, we found little comparative evidence (1) on how countries prepare for and manage such a transition process;<sup>6</sup> (2) the types of cooperation countries seek from donors throughout it; and (3) the expectations about the evolution of relations with former donors beyond ODA.

### 1.2.1 Gaps in the literature

Managing the transition away from aid. We did not identify any contribution in the literature that analysed specifically whether and how recipient countries explicitly plan for transition from ODA. Instead, references to planning, from the recipient country perspective, for the transition from aid tend to centre on national development strategies, many of which include an explicit goal to reduce aid dependency. However, as Thomas et al. (2011) suggest, the goal of reducing aid dependency is often aligned with domestic efforts to advance policy autonomy, accountability and the predictability of government spending, rather than it representing meaningful planning for transition from ODA from the perspective of broadening and sustaining development results.

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<sup>6</sup> Throughout this report we refer to recipient countries as ‘countries’ and their donors as ‘development partners’. For simplicity, here we consider countries as a whole, but the analysis in this report distinguishes between approaches across central and line agencies within each government.

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### **Box 1 Different conceptualisations of ‘graduation’ and funding eligibility criteria**

Each organisation usually sets its own criteria triggering and defining eligibility for and graduation from funding. The policy that informs graduation from the list of ODA-eligible countries is the only one that is based solely on income per capita – i.e. when a country’s income per capita meets the high threshold for three consecutive years.

**Multilateral development banks.** The Inter-American Development Bank (IADB) does not have a policy of graduation from its assistance. This decision reflects the institution’s cooperative nature and the largest voting power in the hands of regional borrowing countries. In the case of the non-concessional arm of the World Bank, the International Bank for Reconstruction and Development (IBRD), the current policy on graduation is highly flexible, in part because it is widely recognised that the income threshold is an imperfect proxy for a country’s economic and social development.

Two substantive criteria were introduced to assess and quantify these conditions: (1) a country’s ability to access external capital markets on reasonable terms; and (2) a country’s progress in establishing key institutions for economic and social development (Prizzon et al., 2016). Eligibility for IBRD funding also determines if a country can receive assistance from the Global Environmental Facility.

The graduation policy from regular assistance (or non-concessional lending) from multilateral development banks should not be confused with changes of the analytical classification (i.e. low income, middle income and high income). This classification reflects income per capita only and does not affect (at least, not directly) eligibility for funding and its terms and conditions.

**Vertical health funds,** like the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), have specific eligibility criteria largely based on income per capita, usually focusing on low-income countries, but with exceptions for UMICs whose disease burden is high.

**Other institutions have loose criteria** – that is, eligibility may be based on the recipient being a developing country as defined by, for example, the Green Climate Fund.

Note: As this report focuses on UMICs, this box reviews the approaches to graduation from non-concessional assistance. For a review of bilateral donors and European Union (EU) approaches to transition and graduation see Jalles d’Orey and Prizzon (2019).

There are two comprehensive studies that have explored approaches and implications of transition and exit from aid. Slob and Jerve (2008) explore the effects of transition from ODA across five countries (Botswana, Eritrea, India, Malawi and South Africa). They found that the shift from donor–recipient relations to international cooperation and partnership depends on careful and mutual planning. Good examples of exit from bilateral programmes include proper long-term planning for their sustainability. However, the same study identified that post-exit relations can evaporate when donor exits are politically motivated and executed rapidly rather than gradually to ensure their sustainability. Similarly, an Independent

Commission for Aid Impact (ICAI) study of the UK Department for International Development’s (DFID) approach to transition and exit also found disrupted communication undermined the sustainability of the work that DFID had undertaken (ICAI, 2016).

In part, this approach could be linked to the general lack of planning for transition and exit from bilateral programmes from the perspective of donors. Explicit strategies for managing transition are used inconsistently by donors themselves and often differ across ministries within donor governments, with few development partners actively planning for transition and post-ODA relations (Jalles d’Orey and Prizzon, 2019).

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Donor cooperation with countries in transition. There are only a handful of contributions that review and analyse the needs of countries in transition from ODA and the ways in which donors can support this process. These studies have largely concentrated on mapping financing for development, including changes to the scale and types of financial resources available at various stages of the transition process, both cross-country and country studies, rather than on other dimensions of project and programme planning and implementation. For instance, Piemonte et al. (2019) and European Report on Development (2015) use aggregate cross-country data to highlight the rise of private flows and tax revenues alongside declining ODA as countries move towards high-income status. Others have considered individual case studies (of Lebanon (Chiofalo and Poensgen, 2019); the Cook Islands (Bertram, 2016); and the Republic of Korea (Collins and Park, 1989; Woo, 2015)) or have undertaken cross-comparative analyses of specific groups of countries (such as small island developing states (Quak, 2019)) to demonstrate similar changes to development finance throughout the transition and graduation from ODA.

There is some evidence that countries find the reduction of financial flows less significant than the withdrawal of institutional support and capacity development activities (Slob and Jerve, 2008; ICAI, 2016) and that the transition from ODA will likely require a multidimensional approach to support persistent structural challenges (CEPAL, 2018). However, questions related to the forms of cooperation that countries find useful throughout the transition process away from aid are generally unanswered in the literature.

Cooperation beyond ODA. The ‘beyond-aid’ agenda usually refers to the transformation of the international cooperation landscape, including the proliferation of new development actors, the diversification of financing options beyond ODA, the shaping of rules and policies

(policy coherence, for instance) and new ways of knowledge-sharing (Janus et al., 2014a; 2014b). The beyond-aid paradigm recognises that developing countries are becoming less reliant on ODA (Klingebiel, 2014) and that achieving longer-term sustainable development will require differentiated forms of cooperation with traditional donors in areas including trade, migration, climate and security (Bülles and Kindornay, 2013). However, contributions reflecting on how cooperation practically evolves after transition and graduation from ODA are limited. Where literature is available, it focuses on new modalities for engagement. For instance, OECD (2017) highlights the potential for triangular cooperation to support win-win situations by developing the institutional capacity of countries throughout transition and as countries graduate from ODA. Yet further analysis of alternative partnership models, modes and spaces for continued engagement beyond ODA are largely absent from the literature and offer no real insight for countries moving away from aid.

### 1.2.2 Objectives and research questions

Given these analytical gaps, this project set out with three main objectives. First, to understand and learn how countries at different stages of the transition away and graduation from aid have managed this process to maintain and sustain development outcomes (*managing the transition away from aid*). Second, to review and identify lessons from the approach that development partners applied and the demand from recipient country governments when aid flows fall (*cooperation with development partners*). Finally, to map the expectations of graduating and graduated countries regarding future bilateral and multilateral cooperation while moving away from aid and after the graduation from the list of ODA-eligible countries (*cooperation beyond aid*). Box 2 elaborates on the detailed research questions that guided this research project and the individual country case studies.

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## Box 2 Detailed research questions

1. Managing the transition from development assistance, i.e. when development partners are phasing out their development assistance
  - a. How have countries ‘in transition’ planned (and how will they plan) to manage, finance, sustain and broaden development results? To what extent are countries ‘in transition’ continuing or updating development programmes and in which policy areas?
  - b. How has transition affected well-established relations with development partners (multilateral and bilateral donors)?
2. Cooperation with development partners
  - a. What needs and requirements do countries ‘in transition’ have in managing their sustainable development independently from development assistance, for example with respect to planning, implementation and financing?
  - b. What forms of cooperation do graduating countries consider helpful in successfully managing this phase of graduation and beyond ODA and in which areas?
3. Cooperation beyond aid
  - a. What do countries ‘in transition’ expect from their development partners regarding the future extent and modalities of bilateral and multilateral cooperation?
  - b. Which forums of global exchange and cooperation do they consider relevant and which global policy areas and global public goods appear most suitable for increased cooperation?

## 1.3 Case study selection

To fill the current gaps in understanding and to answer the research questions outlined (Box 2), we looked at the experiences of and lessons from four countries: Botswana,<sup>7</sup> Chile, Mexico and the Republic of Korea (see Figure 1). Our aim was not to evaluate the approach of the respective governments and their development partners, but rather to identify lessons that could be relevant for other countries and their development partners that are starting out on a similar process and are redefining their development cooperation partnerships.<sup>8</sup>

We chose these countries as our case studies for several reasons. First, they represented different stages of the transition process away from aid, which would maximise the scope for learning.

- **Mexico** and **Botswana** have not yet graduated from the list of ODA-eligible countries and they are part-way through the transition

from aid and the graduation from ODA. This allows us to explore the particular challenges and opportunities at this stage of the process, and how relations beyond aid are both being planned and shaping up in practice.

- **Chile** was removed from the list of ODA recipients in January 2018. Our analysis focused on its trajectory since the early 1990s, the phase-out of development partner programmes, the last years of development partner engagement as ODA providers, and what modalities of engagement beyond ODA have been explored to date.
- The **Republic of Korea** has been a fully fledged DAC member since 2009 and graduated from the list of ODA-eligible countries in 2000. The Republic of Korea is the first country to have transitioned from being one of the world’s poorest recipient countries, as it was after the Second World War, to becoming a donor itself. A longer time horizon than in the other case studies for this study allowed us to investigate the entire

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7 Botswana was added only at a later stage in January 2019.

8 In this paper, we focus on countries that did experience reversed graduation (i.e. that were eligible for ODA and then were again included in the list of ODA-recipient countries).



path of transition from an aid recipient to a donor country and to analyse the evolution of modalities from development to international cooperation over the past 20 years too.

Second, we aimed to ensure regional representation within this small sample, covering Asia, Latin America and sub-Saharan Africa. Finally, we selected countries in which we had existing local networks, including through GIZ country and programme offices. These offices worked with the ODI team to prepare for the study, scheduling meetings and identifying specific interviewees based on a stakeholder mapping exercise undertaken by ODI.

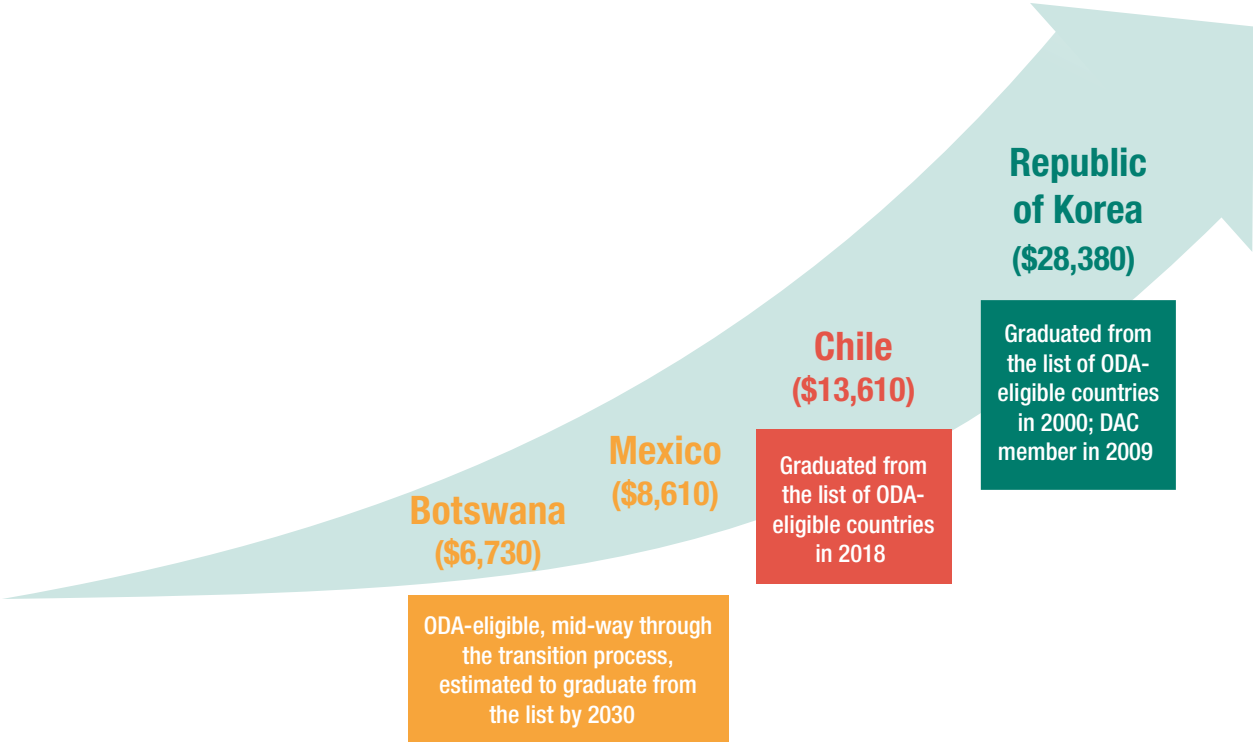
The contribution, coverage and emphasis of each country study in the three groups of research questions depend on where the country is on the path towards graduation from ODA. For example, the study on the Republic of Korea focuses on the experience of and options for international cooperation beyond aid, the country having graduated from the list of ODA-eligible countries in 2000. Furthermore, although we applied the same research protocol for the

studies in Botswana, Chile and Mexico (all three of which have either yet to graduate from ODA or have done so recently), the breadth and depth of the analyses and of their findings vary across the country cases due to a number of factors. These factors include different data availability, wealth of academic and policy literature, membership to international organisations and forums (for example, the Republic of Korea and Mexico are both G20 members; Botswana is not; and Chile is usually invited to G20 summits), timing of the mission and variable access to interviewees and other informants.

### 1.4 Methodology

We applied a combination of quantitative and qualitative data analysis and qualitative methods (semi-structured interviews) to tackle the project’s main research questions. First, we analysed the strategies and national planning documents of central ministries (development agencies, foreign affairs ministries and treasury departments) and main government line agencies relevant to this project and depending

**Figure 1 Gross national income per capita in the four countries studied (2017)**



Source: based on World Bank (2019).

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on the study (i.e. environment, energy, rural development, social protection), focusing on line agencies in which the country is still a recipient of development programmes. We also reviewed OECD reports (DAC, including peer reviews) and reports from international organisations (the UN Economic Commission for Latin America and the Caribbean and the World Bank, in particular).

Second, we gathered and analysed data on vertical, horizontal and triangular cooperation based on development agencies' sources, OECD and academic literature. Third, we reviewed the main economic, governance and social development aspects of each country that influence decisions on volumes; and we explain the allocation of external assistance based on a political economy framework elaborated in Prizzon et al. (2016b) and then adapted in Prizzon and Rogerson (2017) for the case of countries in transition from aid in relation to a pilot study on Indonesia.

Finally, we conducted semi-structured interviews with 164 informants across the four case studies to fill any gaps in our desk-based review and to triangulate information. Respondents included individuals from central and line government agencies, bilateral development partners, multilateral development banks, multilateral organisations and civil society organisations. The choice of informants was based on a preliminary stakeholder mapping and then snowball sampling, where subjects refer future subjects.

The number of interviewees in the Korean study was far lower than for the other case studies, and the composition of respondents also differs. This is for a number of reasons. First, the institutional memory is fading in relation to the period of the Republic of Korea's transition from aid and early role as a donor; this meant we had to rely more heavily on academic and policy literature. Second, interviews with government officials concentrated on central rather than line agencies, and those with a development mandate. Third, we did not meet with former development partners as they had either left the country or we were unable to reach out to former officials. Finally, while we scheduled semi-structured interviews with informants across government agencies, we relied primarily on meetings with

civil society organisations, think tanks and academia to fill the gaps from our desk-based review and triangulate information.

Across the four country case studies, interviews were conducted either by phone or during one of four country visits – to Santiago (Chile, December 2018), Gaborone (Botswana, March 2019), Mexico City (Mexico, May 2019) and Seoul and Sejong (Republic of Korea, June 2019).

During the missions in Santiago, Gaborone and Mexico City, in the context of the institutional partnership, GIZ country and programme offices helped the ODI team to identify stakeholders – based on an initial mapping of institutions and roles – and to arrange logistics for the meetings. However, interviews were conducted solely by ODI staff to ensure confidentiality of responses and independence when it came to the application of the research protocol. ODI had sole responsibility for the stakeholder mapping and interview scheduling for the Republic of Korea case study. To ensure consistency, the same ODI team conducted all four country case studies and drafted this report, which summarises the findings and lessons across the project.

## 1.5 Structure of this report

This report is structured as follows:

- Chapter 2 reviews the main elements of the economic, governance and social development context that can influence decisions on aid volumes and allocation based on a political economy framework developed in Prizzon et al. (2016b). In this chapter we also briefly describe the main trends in aid flows (both inflows and outflows) as well as the institutional arrangements for aid management (as both donors and recipients) across the four country case studies.
- Chapter 3 builds on this descriptive evidence to summarise the main findings for each group of research questions identified for this study.
- Chapter 4 outlines the main lessons that can be drawn from the experience of the four governments.

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In this report, we have summarised our findings across the four country case studies.<sup>9</sup> Given the small size of the sample and the different economic, political and social factors in place at the time the transition and the graduation from ODA occurred, we recognise that the findings are not generalisable to all

developing country governments. However, we hope that the common trends, lessons and reflections offer a starting point for other countries and development partners that may be defining their own approaches and strategies in the transition from aid, exit from bilateral programmes and relations beyond ODA.

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<sup>9</sup> The individual case studies are published separately and provide in-depth but accessible analyses around the main research questions of this project.

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# 2 Country context, aid flows and management

In this chapter, we look at the factors that help explain development cooperation approaches and modalities in the transition from aid. Specifically, we identify 10 key features of the

economic, governance and social development context that influenced the trajectory of development cooperation in all four countries, summarised in Box 3.

## Box 3 Country context, aid flows and management

1. The four countries share a common path of **sustained and often rapid economic growth**, of large financial crises or commodity prices boom and bust.
2. In three of the countries, **income inequality is high**: Botswana, Chile and Mexico are among the most unequal countries in the world and within their regions.
3. The four countries have recorded either positive or even steep and remarkable **progress in human development indicators, but challenges remain**, notably the HIV/AIDS prevalence in Botswana and the quality of education in Botswana and Mexico.
4. Chile and Mexico managed the transition towards democratic governments since the 1990s; Botswana and the Republic of Korea share a history of strong government development planning.
5. **Vulnerability to climate change** is (or used to be) a key concern for most of the countries in this study. While Botswana remains vulnerable to effects of climate change, environmental concerns were of lower priority for the Government of Botswana.
6. **Dependency on ODA has been low**, well before the reclassification to UMIC status. Government budgets and investment used to be highly dependent on aid flows in Botswana and Korea.
7. In the cases of Mexico and the Republic of Korea, the countries' **geostrategic importance** motivated either stable or rising flows even after they had been reclassified as middle-income.
8. **Tax revenues** rose in Botswana and the Republic of Korea, with a deliberate strategy to reduce dependency on external aid. In Chile and Mexico, tax rates remain relatively low and have been flat throughout the transition (and graduation) from aid.
9. All countries have been involved in and led **South–South and triangular cooperation** programmes, albeit to very different degrees. Ad hoc demand-driven technical cooperation and knowledge exchange were the main modalities for engagement with other developing countries (and for the Republic of Korea, too, at the early stages of its outward development cooperation programmes).
10. The countries took different **approaches to managing inward and outward assistance**. Chile and Mexico opted for a single agency to manage both; the Republic of Korea separated the two functions and they did not overlap; and the Ministry of Finance and Economic Development in Botswana retains the management of inward flows.

This chapter synthesises the analyses from the individual case studies (see Calleja and Prizzon, 2019a; 2019b; 2019c; 2019d), which apply the political economy framework detailed in Prizzon et al. (2016b) and Prizzon and Rogerson (2017).<sup>10</sup> For a more detailed picture of each country context, readers should refer to the individual case studies.

## 2.1 Sustained economic growth

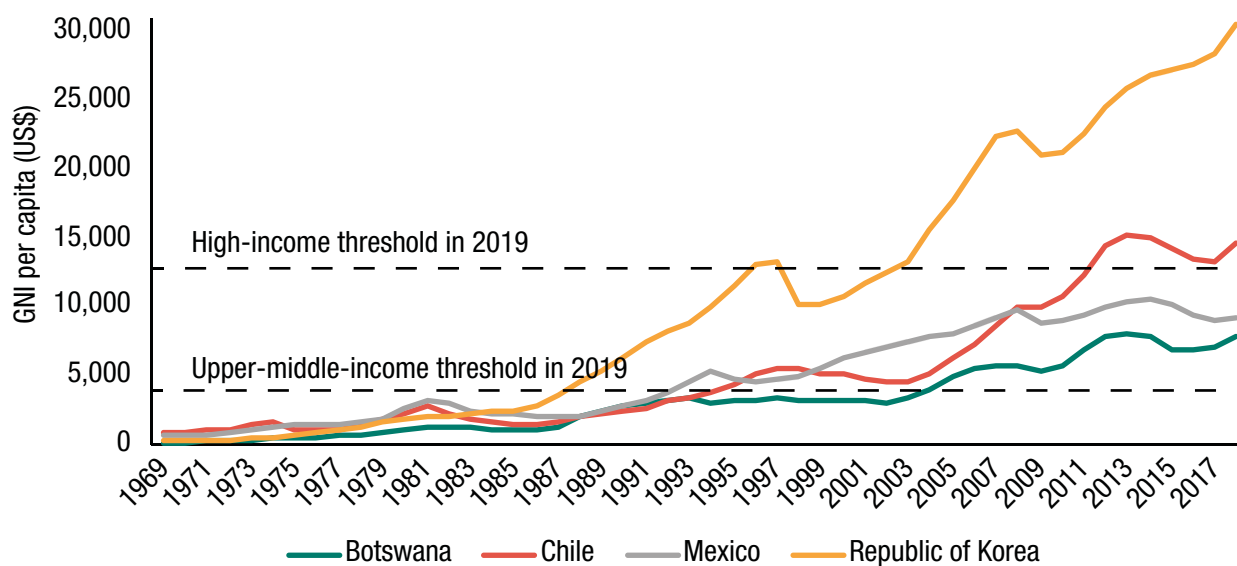
*Each of the four countries share a common path of sustained and often rapid economic growth, while also experiencing large financial crises or commodity prices boom and bust.*

Figure 2 shows the trajectory of GNI per capita since 1969<sup>11</sup> for the four countries and Box 4

articulates the implications of income per capita growth for the access to assistance from multilateral development banks, health and climate vertical funds. At their independence, Botswana and the Republic of Korea were among the world's poorest countries. Two countries (Botswana and Chile) are mineral-rich countries (diamond and copper respectively) and oil extraction is a relevant component of the Mexican economy.<sup>12</sup>

Botswana is a 'success story' of remarkable growth performance, fuelled largely by natural resources – in particular, diamonds. At independence in 1966, Botswana was one of the poorest countries in the world. However, since the 1970s Botswana's economy has grown rapidly, far above the sub-Saharan

**Figure 2** Gross national income per capita of Botswana, Chile, Mexico and the Republic of Korea



Note: Calculated using the World Bank Atlas Method. In 2019, the threshold for upper-middle-income countries was \$3,996 and for high-income countries \$12,375. The income per capita thresholds are kept constant throughout the graph for ease of reference.

Source: World Bank (2019) (accessed August 2019).

10 References to the data and information presented in this chapter, if not provided, are included in the individual country case studies.

11 World Bank data available from 1969.

12 According to the Natural Resource Governance Institute (NRGI), 'oil production has been one of the most important sources of public revenue and exports in Mexico, generating 33 percent of government income and 20 percent of exports in 2013' (2017: 1).

#### Box 4 Eligibility for funding from selected multilateral development banks and main vertical funds

Income per capita determines whether a country can be ascribed among recipient countries (or, in other words, be on the OECD's list of ODA-eligible countries). However, it is worth noting that three of the four countries reviewed in this project (Botswana, Chile and Mexico) can still borrow, albeit at non-concessional terms, from the World Bank and the relevant regional development banks (in the case of Chile and Mexico, the IADB does not have a graduation policy in place for regional borrowing members) (Tables 1 and 2).

Funding from the GFATM is largely channelled towards low- and lower-middle-income countries, but there are exemptions when disease burdens are high, as was the case in Botswana. (In 2012 a new rule was introduced and G20 member countries can no longer be beneficiaries of GFATM assistance; in Mexico, existing programmes had to be phased out earlier than planned.)

Countries can apply for climate finance from the Global Environmental Facility (GEF) and the Green Climate Fund (GCF) if they are classified as developing countries. This applies to all the countries reviewed for this project, including Korea, when it comes to GEF assistance (Table 2).

**Table 1 Graduation from eligibility for official development assistance and reclassification of World Bank income category**

Country	Graduation from the list of ODA-eligible countries	Year of reclassification to UMIC	Year of reclassification to HIC
Botswana	By 2030 (estimated)*	1997	–
Chile	2018	1993	2013
Mexico	By 2030 (estimated)*	1990	–
Republic of Korea	2000	1988	1995

Note: \*based on OECD (2014) estimates; HIC, high-income country; UMIC, middle-income country.

Source: Individual country case studies (Calleja and Prizzon, 2019a; 2019b; 2019c; 2019d).

**Table 2 Graduation from or eligibility for selected multilateral development banks and main vertical funds**

Country	IDA	IBRD	AfDB	IADB	ADB	GFATM	GEF	GCF
Botswana	1979	✓	✓	–	–	✓	✓	✓
Chile	–	✓	–	✓	–	2008	✓	✓
Mexico	1979	✓	–	✓	–	2012	✓	✓
Republic of Korea	1971	2016 (second time)	–	–	1988	✗	✓	✗

Note: ✓, eligible; ✗, not eligible; n.a., not applicable; –, not available; AfDB, African Development Bank; ADB, Asian Development Bank.

Source: Individual country case studies (ibid.).

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Africa average.<sup>13</sup> This growth has driven by ‘diamond revenues being channelled through the government, with subsequent high investment in infrastructure, health and education’ (World Bank, 2015: vii), strong governance and low corruption rates compared to other countries in the continent.

Economic growth has been strong in Chile since the 1990s, especially during the 2000s, and the country weathered the great financial and economic crisis of 2007/2008.<sup>14</sup> The World Bank (2017) credited Chile’s economic performance to a strong macroeconomic framework. If we exclude small island states, Chile is the fourth richest country in the Americas by income per capita, after the US, Canada and Uruguay.

Mexico’s GNI per capita rose over time but it was affected by the financial crises of the 1980s and 1990s. Growth rates are also lower than in other countries in Latin America. Mexico’s GNI per capita more than doubled from 1998 to 2014, and the country was on a strong trajectory towards the high-income per capita threshold, which could have triggered its graduation from the list of ODA-eligible countries. Since then, however, Mexico’s GNI per capita declined, mainly because of falling oil prices and production (see OECD, 2018). The country has experienced several severe macroeconomic shocks since the 1980s.<sup>15</sup>

The Republic of Korea is one of the most striking examples of economic success, transforming from one of the world’s poorest countries, as it was after the Second World War, to a G20 member and the 34th richest economy.

Korea’s economic development was fuelled by import substitution, export-led growth, progressive liberalisation and innovation policies in the 1960s and 1970s. The 1997 financial crisis was a major step back in the country’s growth trajectory, but this recovered fully within the five years that followed.

## 2.2 High income inequality

Botswana, Chile and Mexico are among the most unequal countries in the world and within their regions.<sup>16</sup> In 2015, income inequality in Botswana was the second highest recorded across developing countries, following its neighbour, Namibia (based on World Bank (2018b) data). In Chile income inequality declined over time but remains high compared to other OECD members and other countries in the region, with very little difference (less than 5%) between pre- and post-tax Gini coefficients (OECD, 2018). Mexico’s Gini coefficient had fallen in recent years and is lower than in other countries in the region, like Argentina, Brazil and Chile (World Bank, 2019), but inequality remains a challenge.

Intracountry income disparities also remain high, especially in Chile and Mexico.<sup>17</sup> In 2016, the average income per capita in one of Mexico’s richest states (Nuevo Leon) was comparable to that of Poland, while that of its poorest state (Chiapas) was similar to that of Honduras or Timor-Leste (World Bank, 2018a). In Chile, interregional disparities among urban areas are not substantial but are considerable in rural areas.

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13 This has been the case until recently, with Botswana’s per capita GDP declining between 2012 and 2015 (Figure 2). The drop was driven by ‘fluctuations in diamond prices, electricity disruptions that affect manufacturing, and the negative impact of drought on agriculture’ (see Anderson and Reynolds, 2017).

14 Between 1986 and 1997, Chile’s GDP grew at an annual rate of 7.6%, slowing to 3.5% in the following decade (World Bank, 2011: i). More recently, Chile’s GDP growth fell from 6.1% in 2011 to 1.5% in 2017 (World Bank, 2018b), but the economy still grew at a faster pace than most advanced and emerging economies, especially during the 2007–2008 global financial and economic crisis.

15 These include the 1982 debt crisis (being the first Latin American country to default on its public debt, the 1994 peso crisis (as a result of investors’ perceptions rather than driven by macroeconomic fundamentals, see Sachs et al. (1996)) and the global financial and economic crisis in 2007 and 2008.

16 Korea has far lower figures, with a Gini index of 0.316 that has been very stable over time (the lower the index the more equally income is distributed).

17 The countries for which we have data.

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## 2.3 Human development progress but not in all areas

All in all, the four countries have recorded either positive and sustained or steep and remarkable progress in human development indicators. Between 2000 and 2017, Botswana's Human Development Index (HDI) rose every year,<sup>18</sup> performing well because of the increase in years of schooling and income per capita. In the case of Chile, social development indicators have improved since the early 1990s. In 2017, Chile ranked 44th on the HDI, ahead of other Latin American countries including Argentina (47) and Uruguay (55). Mexico's HDI score has steadily improved over time, and the country is classified as having achieved 'high human development', ranking 74th in 2017 (UNDP, 2018). Korea's HDI score has improved markedly. For example, in 1969 life expectancy at birth in Korea was more or less in line with the average figure across East Asia and the Pacific (about 60 years).<sup>19</sup> However, since the mid-1980s, this statistic rose faster in Korea than in its region, with a widening difference (of seven years in 2017) (World Bank, 2019).

However, a few human development challenges manifested and remain, notably the HIV/AIDS crisis in Botswana in the 2000s and, across three of the four countries, the quality of education. These challenges have had implications for both attracting development assistance and its allocation. In 2000, then-president of Botswana Festus Mogae told the UN General Assembly that the Botswana people were 'threatened with extinction', pleading for support from the international community to tackle the HIV/AIDS crisis. In that year, 27% of the country's population aged 15–49 years were HIV positive – more than five times the average in sub-Saharan Africa. Today, Botswana still has the third highest prevalence of HIV in the world after Swaziland and Lesotho, with more than one

in every five 15–49-year-olds in the country being HIV positive.

In three of the four case study countries (Korea being the exception), increased access to education was not accompanied by rising quality standards. Particularly in Botswana and Mexico, the relatively poor quality of education, at all levels, and the implications for youth employment were the main social development challenges mentioned during the interviews.

## 2.4 Democratic transition in Chile and Mexico; strong institutions in Botswana and Korea

Two of the four case study countries – Chile and Mexico – transitioned towards a democratic government during the periods under review. With the election of President Patricio Aylwin in 1989, Chile formally started its transition process towards democratisation of its institutions, marking a new phase of engagement with development partners. Mexico's democracy was dominated by a single party until 20 years ago and the country is still in the process of developing and strengthening its democratic institutions.<sup>20</sup>

The other two countries studied, Botswana and Korea, share a history of strong development planning. Botswana is a well-known case of good institutions and institutional management. The civil service has been perceived as strong and meritocratic (Rakner, 1996), with capacity, sovereignty and ownership greater than in other countries at the time the country was reclassified as a UMIC (Bräutigam and Botchwey, 1999). Meanwhile, Korea's development success has largely been attributed to the central development planning led by Park Chung-hee's administration in the 1960s. These plans were initially funded via aid, which was strategically used to advance Korea's economic development objectives at a time when other resources

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18 It rose from 0.565 in 2000 to 0.717 by 2017; this increase is equal to 23.3%.

19 Based on data availability of the World Bank World Development Indicators since 1965.

20 Mexico's democracy dates to the revolution of 1917 but, between 1929 and 2000, the country was dominated by a single party, the Partido Revolucionario Institucional (Klesner, 2001). Multi-party democracy began with the election of Vicente Fox of the Partido de Acción Nacional in 2000.



were unavailable because of capital account restrictions.

## 2.5 Vulnerability to climate change

With the exception of Botswana, a key concern for the governments in this study is the vulnerability to climate change. Chile is considered highly vulnerable to the impacts of climate change across the nine vulnerability criteria established by the UNFCCC (Holmes et al., 2016).<sup>21</sup> Mexico is also highly exposed because of its location between two oceans and its 'latitude and topography [which] increase the country's exposure to extreme hydrometeorological phenomena' (GoM, 2016: 39), with rainfall declining, particularly in the south-east and temperatures increasing in the north (GoM, 2016: 40).

The fight against the causes and consequences of climate change used to be among the Korean

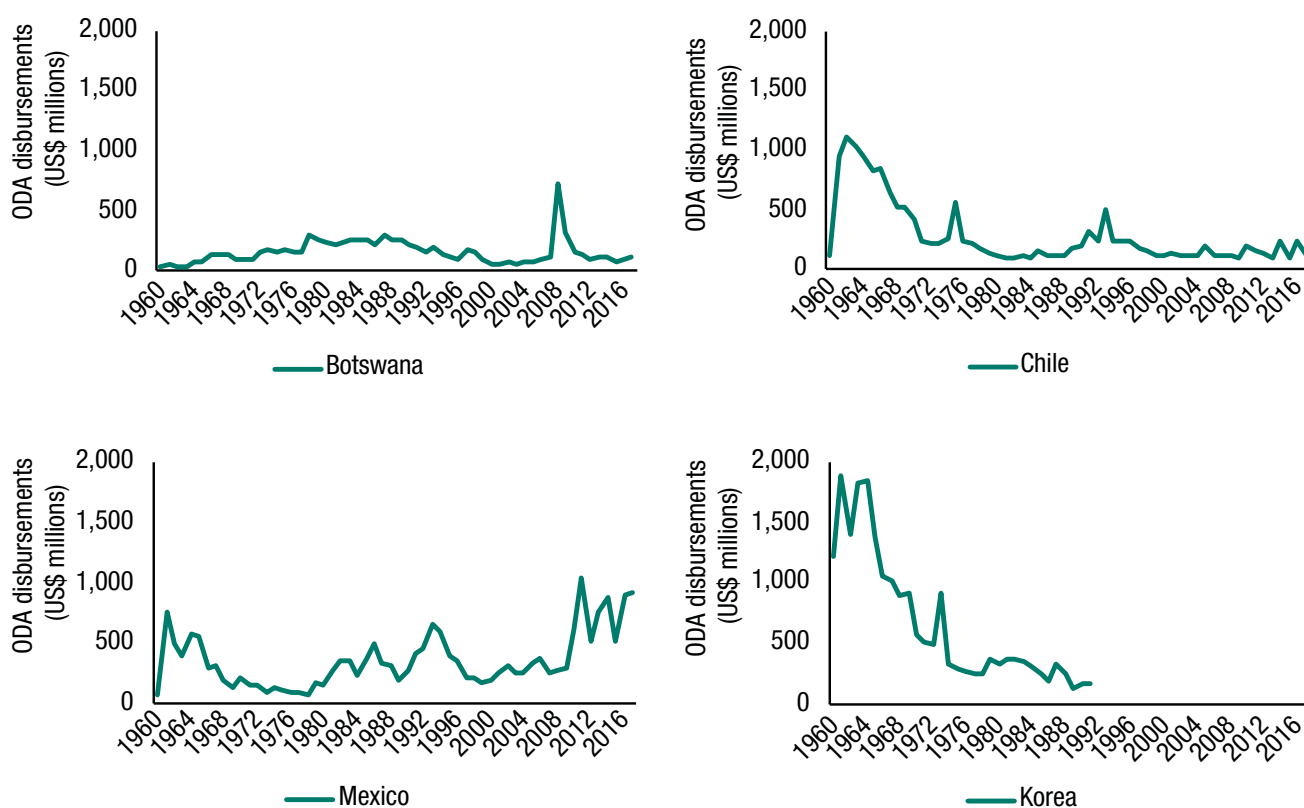
government's priorities. President Lee Myung-bak put actions against the causes and the effects of climate change top of the government agenda, establishing the Global Green Growth Institute and contributing to the creation of, and hosting, the Green Climate Fund among many initiatives.

Botswana is a vast country, scarcely populated but largely desert and with pressure on water, vulnerable to effects of climate change. However, at the time the case study was conducted, environmental concerns were of lower priority for the Government of Botswana.

## 2.6 Falling aid flows and low dependency on aid

ODA flows in the case study countries have mostly followed a downward trajectory, even before being reclassified as UMIC, albeit with specific trends for Botswana and Mexico (Figure 3).

**Figure 3 Trends in official development assistance disbursements, 1960–2017**



21 These include low costal level throughout its territory; arid and semi-arid areas; areas prone to natural disasters; areas prone to drought and desertification; and areas with fragile ecosystems, including mountain ecosystems.

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While ODA to Botswana remained relatively flat throughout the 1980s, it fell sharply across the 1990s. By the time Botswana graduated from the Least Developed Countries group in 1994, some donors (notably the Scandinavians) had already signalled intentions to cut or withdraw funding. Botswana's development landscape was defined by the challenge and response to the HIV/AIDS epidemic; assistance into Botswana increased throughout the 2000s, with most funding allocated towards the HIV/AIDS response. By the early 2010s, overall ODA flows to Botswana were again in decline because of progress made towards HIV/AIDS treatment and prevention.

In the case of Chile, ODA inflows more than doubled in the early 1990s as donors returned following the country's transition to democracy, with social development a key priority. From the late 1990s, Chile began transitioning from a net recipient of ODA towards a more active partner in development cooperation. Several bilateral donors started withdrawing or scaling down their assistance. The 2000s and 2010s were marked by the continued decline of ODA to Chile as more donors closed their bilateral programmes, especially in the 2010s leading up to its graduation from the list of ODA-eligible countries in 2018.

In Mexico, the transition from ODA began in the mid-1990s, when ODA volumes declined. The lower levels of ODA received by Mexico were likely linked to the signing of the North American Free Trade Agreement, the membership of the OECD and the 1994 peso crisis. Beginning in 2008, however, Mexico received much more ODA than it had during the previous decade – a trend that goes against the trajectories of ODA flows in the other countries we studied. First, the Mérida Initiative, a security and rule-of-law partnership to address drug trafficking and crime, brought renewed and increased ODA support to Mexico from the US. Second, France and Germany increased their budgets because of Mexico being a strategic partner on the climate change agenda. Many interviewees questioned whether the country was transitioning from aid at all, given the rise in assistance since 2008.

In the aftermath of the Korean war, foreign aid to Korea was a key resource for funding

reconstruction. At a time when Korea was unable to attract private sector investment, aid played a key role in supporting relief efforts and the post-war reconstruction. Throughout the 1960s, ODA was increasingly used to support economic development rather than humanitarian needs, and aid was provided as concessional loans rather than grants. As the Republic of Korea's economic take-off continued and gained momentum throughout the 1970s, the country transitioned from ODA as concessional flows began to be replaced by non-concessional loans. (Non-concessional flows to Korea soared again in the mid- to late-1990s as part of an emergency response to the Asian Financial Crisis, which severely affected the Republic of Korea in 1997).

ODA dependency was low well before the countries were reclassified as UMIC. At the time of the reclassification to the UMIC group, ODA accounted for less than 0.5% of GNI in Chile, Mexico and Korea and 1.6% of GNI in the case of Botswana. For Botswana and the Republic of Korea, this was a marked shift: both countries had been highly aid dependent. In the years following independence (1966–1969), dependency on aid was high in Botswana, with ODA accounting for almost 25% of Botswana's GNI per year on average. The UK was the main donor to Botswana and contributed the equivalent of half the Botswana government's budget (Maipose et al., 1997). In the case of Korea, in the aftermath of the Korean war, 'aid accounted for about 74 percent of total government revenues and 85 percent of total imports between 1953 and 1961' (Woo, 2015: 13).

## 2.7 Geostrategic significance

One of the dimensions that justified donor engagement (albeit decreasing), or even rising assistance as in the case of Mexico, lies in the geostrategic importance of the recipient country. Mexico is influential in Central and Latin America and in international relations. Several factors motivate Mexico's high geostrategic importance for many development partners: its large geographic size and population (nearly 130 million inhabitants), its large potential market and growing middle class, its role as a strategic

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partner on the climate change agenda (being a large emitter of greenhouse gases), and its position in North America – sharing a border with the US in the north and Central America in the south. Korea became a geostrategic region for both the Soviet Union and the US during the Cold War and into the late 1980s. This was because, at the end of the second world war, the Korean Peninsula was divided at the 38th parallel and occupied in the north by the Soviet Union (the Democratic People’s Republic of Korea) and in the South (the Republic of Korea, or Korea) by the US. To a certain extent, Korea continues to be a key diplomatic partner for similar reasons: it shares its history and a border with one of the world’s last few socialist countries. Mexico and the Republic of Korea are both G20 members.

In the case of both Botswana and Chile, limited geostrategic relevance, on the other hand, meant declining aid flows. Botswana is a small country in terms of population size and is not considered geostrategically relevant for development partners. Similarly, Chile’s population is also small relative to that of other Latin American countries and occupies a peripheral position in Latin America.

## 2.8 Mixed policies and trajectories on tax revenue mobilisation

In Botswana and the Republic of Korea, tax revenues rose with deliberate strategies to reduce dependency on external aid. Fiscal revenues have risen in Botswana but they are highly vulnerable to fluctuations in diamond prices and are dependent on tariffs collected and distributed to member states from the Southern African Customs Union. In 1965, the Korean government undertook a major tax reform to increase revenues, partly in response to falling aid flows – first from the US, then from Japan. Based on OECD data, the Korean government’s revenue mobilisation efforts appear to have expanded substantially since the early 1990s; while its ratio of revenue to GDP has been consistently below the OECD average, the gap has narrowed over time.

In Chile and Mexico, tax rates remain relatively low and have been flat. Chile’s

tax-to-GDP ratio is far lower than the OECD average, which reflects a smaller public sector than other OECD countries (20% in Chile on average compared to about 35% in OECD countries). The Chilean government has also implemented fiscal austerity programmes in recent years. In Mexico, fiscal revenues have been rising, but they are far lower than the OECD average. In the draft version of the National Development Plan 2019–2024, released in May 2019, the government proposed a very prudent approach to debt management, with public debt to be kept in the medium term at its 2018 baseline at 51.2% (so borrowing can only expand as much as GDP growth).

## 2.9 Involvement in South–South and triangular cooperation

Botswana, Chile, Mexico and the Republic of Korea have all been involved in and led South–South and triangular cooperation programmes, albeit to very different degrees. Ad hoc, demand-driven technical cooperation and knowledge exchange were the main modalities for engagement with other developing countries throughout transition (and for Korea, but at the early stages of its outward development cooperation programmes).

Despite being largely demand-driven and not yet formalised, Botswana’s South–South cooperation programme has been responsive, providing technical assistance and humanitarian support to neighbouring countries. Botswana’s outward cooperation has to date been primarily in-kind contributions. The majority of Botswana’s cooperation tends to focus on neighbouring countries and Africa. Through cooperation with UNDP, Botswana developed its first strategy for South–South and triangular cooperation to be released in 2019. While Botswana’s cooperation programme is still in its early phases – indeed, triangular cooperation in particular is quite limited – its new policy vision indicates a willingness to expand engagement as a partner in regional development cooperation.

Chile formalised its South–South cooperation/triangular cooperation programme in the 1990s, with the latter in particular seen as a way to maintain relations with development partners

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amid declining ODA. Chile's South–South cooperation was intended to serve the dual purpose of supporting regional development while pursuing Chile's foreign policy interest. Chile's triangular cooperation programme began in 1998 and increased in scope throughout the early 2000s as donors continued to reduce traditional bilateral programmes and instead promoted cooperation via triangular projects. However, the absolute size of its triangular cooperation programme remains small.

Mexico has a long history of providing outward cooperation to other developing countries – notably in the Central American region, dating back as early as 1947. Throughout the 1980s, Mexico's horizontal cooperation was driven by efforts to contain violence within its region. Mexico is one of the biggest providers of South–South cooperation in the region (SEGIB, 2018) and it covers a large spectrum of sectors. Mexican development agency AMEXCID is one of the largest global actors in triangular cooperation and currently engages in triangular cooperation with several strategic development partners.

Korea's outward cooperation programme started in the 1960s, with early cooperation activities designed to support Korea's political and economic priorities amid its economic transformation. In 1965, the Korean government initiated its own invitational training programmes, the first example of Korea's outward cooperation. Korea's South–South cooperation programme expanded throughout the 1960s and 1970s to deepen economic linkages with the Global South. In the 1980s, Korea's outward ODA accelerated with the creation of technical assistance and knowledge transfer programmes driven by efforts to advance Korea's economic interests. It is worth reiterating here that the Republic of Korea became a DAC member in November 2009.

## **2.10 Agencies to manage inward and outward development assistance flows**

Chile and Mexico both created agencies with dual mandates to manage inward and outward development cooperation. In 1990, Chile's

development cooperation programme was formally institutionalised with the creation of its first ever development agency, the Chilean International Cooperation Agency (AGCI). AGCI was initially accountable to the Ministry of Planning and Cooperation. From its inception, AGCI not only managed development cooperation inflows (or vertical cooperation) but was also mandated to coordinate and manage Chile's small (but growing) portfolio of South–South cooperation outflows. In 2005, AGCI was relocated to the Ministry of Foreign Affairs, reflecting shifting priorities and increased focus on horizontal and triangular development cooperation as a tool of foreign policy. The increasing importance of Chile's outward cooperation led the agency to be renamed the Chilean Agency for International Development Cooperation in 2015.

In Mexico, AMEXCID is the main institutional actor responsible for managing and coordinating Mexico's inward and outward development cooperation. While Mexico has been engaging in development programmes, also as a donor, for several decades, its institutions for managing development cooperation were formalised in 2011, two decades later than in Chile, when the Law on International Co-operation for Development was approved.

From 1961 onwards, Korea's inward ODA was centrally managed by the Economic Planning Board (EPB), a 'super-agency' created by General Park to lead Korea's economic development. Under the management of the EPB, inward foreign aid was positioned as a tool of the state and was primarily used 'to support various state-led economic development projects' (Kim, 2011: 282). In the late 1980s and early 1990s the Korean aid management system underwent a substantive organisational change with the creation of two new agencies – the Economic Development Cooperation Fund (EDCF) and the Korea International Cooperation Agency (KOICA) – for managing Korea's growing development engagement. The 1987 creation of the EDCF was a manifestation of the commercial drivers of foreign assistance. In 1991, KOICA was set up under the Ministry of Foreign Affairs as an agency with responsibility for implementing ODA grant programmes. Both institutions

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reflected the structures of, and shared aims with, Japan's development cooperation system.

In Botswana the Ministry of Finance and Development Planning, and not the Ministry of Foreign Affairs (or its development agencies), is responsible for the management of inward

aid. The absence of an agency coordinating and overseeing Botswana's outward cooperation is likely linked to the small volume currently provided and domestic challenges justifying Botswana's engagement as a provider of development cooperation.

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# 3 Common trends from the country studies

Referring back to the different elements of the economic, governance and social development context shaping the volumes and allocations of development assistance, this chapter summarises the findings across the four country case studies in relation to the three main research questions. Given this study's small sample size, the findings from this study cannot be fully generalisable to other countries that are currently in transition from ODA or about to graduate from ODA. However, the results presented in this chapter reflect trends across our cases or provide key examples from the analysis. For further details the reader should refer to the individual case studies.

## 3.1 Managing the transition from aid

Management of the transition from aid was not treated as a separate issue but was implicit in national development plans, the main instrument for ensuring development results. None of the countries reviewed for this project had an explicit strategy for managing the transition from aid; rather, it was often implied in their national development plans. For example, external assistance provided to Botswana in the 1990s focused on economic growth, which reflected an increasing prioritisation of national development plan efforts to support economic independence (primarily by improving economic infrastructure and building mining production). The Botswana government also strategically took advantage of technical assistance programmes to ensure sustainability of development projects, especially during the early 1980s. Expatriate staff were placed only in intermediary and technical roles, rather than in senior management positions.

They were also part of line positions, rather than being external advisors, which meant they could develop capacity and share expertise with local staff who could then replace them.

The Korean government strategically channelled development assistance to reduce dependency from aid by aligning it to national priorities, including economic development. First, the Republic of Korea decided the ultimate uses and beneficiaries of inward aid, which were largely determined within the framework of the economic policies of the government and would support economic rather than social sector development. Second, the government of Korea tactically took advantage of aid flows when other financing options – notably foreign direct investment – were not available, progressively lifting capital account restrictions and opening to foreign investment over time. In the case of Mexico, the government planned to sustain and broaden its development results via its six-year national development plan. The national development plans have historically been used as the main document for setting policy priorities for ODA inflows and channelling available resources to domestic programmes.

In the late 1990s, the Chilean government recognised it would no longer be eligible for grants and that donors were already withdrawing cooperation, but no explicit strategy was elaborated in later planning documents (the graduation from ODA was not on the government's radar). However, Chile responded quickly to news of its impending graduation, writing to the DAC to rethink the graduation criteria.

Government officials from the case study countries did not express concerns about losing access to funding after graduation from the

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list of ODA-eligible countries, even at early stages of the transition from aid. In each case, ODA inflows contributed such a small share of the budget by the time that countries were reclassified as UMICs (see section 2.6) that further reduction of flows (or their complete cuts) did not, to the best of our knowledge, affect project delivery when it was handed over to the government. In the case of Korea, declining ODA resources were more than offset by access to market resources as the Korean economy grew and opened its capital account. In Botswana, diamond revenues helped fund national investment and government budgets, while Chile had enough financial resources to support its own budget and development plans. A notable exception is Mexico under the current administration, as some line ministries expressed a demand for funding to counteract budget cuts.

When financing was available, however, governments prioritised grants and concessional loans. This was particularly true for Botswana and Mexico, both of which have prudent approaches to debt management and are more willing to accept ODA grants rather than loans. In Mexico, this preference is the result of the current government debt policy limiting additional public borrowing – even at concessional terms. Previous governments were more willing to borrow at both concessional and non-concessional terms. By contrast, the Republic of Korea faced fewer restrictions on the types of financing it could access and borrowed at non-concessional terms in the years leading up to its graduation from ODA.

Government officials did not express concerns about losing access to funding after ODA graduation, rather to channels for policy dialogue and the technical assistance that often accompanies loan and grant assistance. Government officials from Botswana, Chile and Mexico pointed to capacity gaps in planning and implementation as persistent challenges. For Botswana and Chile, while access to donor funding fell, both countries continued to value donor support for learning and capacity development for programme and project planning and implementation. In Botswana, we also heard that monitoring and evaluation of development programmes continues to be a

key area in which donors could provide support to build capacity. For countries experiencing declining ODA funding, reimbursable assistance from multilateral development banks was sometimes used to access technical assistance in the absence of traditional projects (although some countries noted that it was often too expensive to be a viable alternative). In the case of Korea, however, we found no evidence that it needed further technical support at the time graduation took place, partly due to a concerted effort to promote education and training earlier in the transition process, and was instead engaging in knowledge exchange via multilateral forums.

Different government agencies in countries in transition have different perceptions of how the transition from aid will affect domestic development. In Chile, the government was in two minds about its transition and graduation from ODA. Some officials saw transition as a sign of Chile's economic development and were proud of the graduation from aid. By contrast, other officials were concerned that graduation from ODA would have reduced Chile's access to and space for policy dialogue and technical exchange with development partners. In Mexico, diverse views of the transition from aid were linked to differentiated needs. Line ministries were increasingly seeking grant finance from development partners, due to the López Obrador government's policy of limiting new borrowing and his domestic austerity programme on public institutions and policies, which saw cuts to the development programme budgets of several line ministries. AMEXCID sought technical assistance to develop its expertise as a development partner.

In some cases, development partners' decisions in relation to a country's transition and graduation from ODA were not well communicated to or across governments. In Botswana, some Scandinavian donors in the mid-1990s abruptly withdrew their programmes and failed to communicate with the Botswana government (Slob and Jerve, 2008). In Chile, despite being aware in the 1990s of falling aid flows in the medium term, the government was surprised to learn that they were to graduate from the list of ODA-eligible countries after having achieved high-income status in the

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mid-2010s. It was the EU's decision to cut its funding to Chile in 2012 (the Development Cooperation Instrument) that in the end caused the government to engage with the reality of its impending graduation from aid.

Countries in transition questioned the criteria for graduation from ODA. Several interviewees challenged the graduation criteria, which are based on GNI per capita alone, arguing that income-based criteria failed to capture the actual conditions within their country – specifically especially high levels of income inequality, regional disparities and other economic vulnerabilities. In Chile, the GNI per capita criteria was criticised for masking stark interregional inequalities and was said to reflect the graduation of Santiago, the country's capital, rather than of the entire country. In 2016, this criticism led the Chilean government, along with counterparts from Antigua and Uruguay, to ask the DAC to review the graduation criteria. In Botswana, some interviewees feared that the emphasis on rising average per capita GNI figures masked poverty gaps, particularly in the country's north. Some within the government also felt that Botswana was in effect being punished for its strong developmental performance.

In all country studies except the Republic of Korea, respondents thought that graduation from the list of ODA-eligible countries should be based on a multidimensional assessment of national development, looking beyond income per capita and accounting for differences within the country and for other structural vulnerabilities. Meanwhile, Korea was proud to graduate from ODA and saw it as a sign of its strong economic development and achievements over the prior decades.

Transition from aid disproportionately affected domestic non-governmental organisations (NGOs), which were often the first to feel the effects of donor exit. In Botswana, Chile and Mexico, NGOs often experienced falling flows from traditional development partners at the outset of the country's transition process. The falling ODA tended to be channelled via the government rather than via NGOs. In the cases we explored, governments generally did not provide additional funding to account for

falling flows to NGOs as countries transitioned from ODA. An exception is Mexico, which previously sought to fill the gap by introducing legislation that made it easier for NGOs to access government support. Yet the López Obrador government cut government funding to NGOs upon taking office. In Chile and Mexico, the only partners that continued to fund domestic NGOs were the EU and Germany. As NGOs lost funding, vital community-level development programmes, often run in rural and poorer areas, risked closure. This was particularly so in Botswana, where community-level development suffered amid an absence of NGO funding.

### 3.2 Cooperation with development partners

Several countries continue to demand technical assistance from development partners, particularly for knowledge transfer and skills development, including technical vocational education and training. Government officials in Botswana, Chile and Mexico cited technical assistance as an important type of cooperation from donors and international institutions that they hoped to continue benefiting from throughout the transition from aid. Most notably, Mexico and Botswana called for continued engagement to support knowledge transfer and capacity-building. Mexico valued highly GIZ and UNDP institutional capacity-building programmes in AMEXCID, which worked with and inside the institution and helped expand Mexico's capacity as a donor. In Botswana, technical vocational education and training programmes helped to fill key skills gaps and improve the employability of Botswana's workforce. Government officials in both Chile and Mexico were also willing to tap into the world-class cross-country expertise of multilateral development banks and pay directly for technical support from them via reimbursable assistance schemes (rather than benefiting indirectly via loan financing – although this preference has recently changed in Mexico under the López Obrador government). This was not the case in Botswana, however, where the government found reimbursable assistance too expensive and might not consider it in the future.



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Climate change was identified as a key policy area for increased cooperation beyond ODA. All of the countries in this study are highly vulnerable to climate change, and Botswana, Chile and Mexico are seeking support to advance the uptake of clean and/or green technologies. For Chile, scientific cooperation on climate change, renewable energy and the environment are seen as key spaces for future collaboration. In Mexico, donors have scaled up their climate-related investments due to Mexico being a large emitter of greenhouse gases. At the time of our study, Botswana did not prioritise adaptation and mitigation challenges; however, the government acknowledged that this will be an important policy area in the future and one that requires continued donor support, both financial and technical.

Donors continued to work with countries in transition to support the development of international cooperation agencies and strategies for outward assistance and partnerships. Donors supported the institutional strengthening of development cooperation agencies or units in three of the four countries reviewed. In Botswana, UNDP worked with the Ministry of Foreign Affairs and International Cooperation to define a new strategy for South–South and triangular cooperation, while in Mexico, as mentioned, programmes run by GIZ and UNDP contributed to strengthening AMEXCID. Moreover, in the case of Korea, early institutions for aid management, such as the Korea Development Institute, were established in collaboration with the US, while the structures and policies of its main aid agencies (KOICA and the EDCF) were modelled on those of Japan. Chile is the only case study country that did not, to the best of our knowledge, receive support for its development cooperation agency, AGCI (later AGCID).

As countries neared graduation from aid, the actors leading engagement from the development partner side changed – from development cooperation agencies to other government departments or development banks. In the years after their reclassification to UMIC, the

experience of Botswana, Chile and Mexico followed a similar path, with each seeing the withdrawal of traditional development partners and an increase in engagement from other parts of donor governments. Development-focused agencies, such as DFID and many of the Scandinavian donor agencies, began to phase out their bilateral development cooperation programmes as countries were reclassified. In some cases, development actors were replaced by other government departments from donor governments, such as the Foreign and Commonwealth Office in the case of the UK, or the Federal Ministry for Environment, Nature Conservation and Nuclear Safety (BMU) in the case of Germany. This was largely due to strategic considerations as development partners sought to shift towards partnerships based on mutual interests such as trade, diplomacy and environmental concerns. These actors often still provide ODA or other official flows, which are not concessional.

Countries have found particular tools useful for transitioning donor–recipient relationships to development partnerships – namely joint funds for development cooperation and innovative financing mechanisms. In Mexico, joint funds are maintained with bilateral partners including Chile, Germany, Spain and Uruguay, and are funded equally between Mexico and its partners.<sup>22</sup> The funds are designed to share responsibility for programming the fund's resources. Money allocated to the joint funds with Germany and Spain can be used to finance triangular cooperation activities in third countries or to support projects within Mexico; resources from the funds with Chile and Uruguay contribute to South–South cooperation between partner countries or in third country partners. Both the Mexican government and development partners value the funds as a space for dialogue and partnership. Chile experimented with new approaches to South–South cooperation. These included the Mexico–Chile Fund, which ensures committed resources, strategic planning and the flexibility to respond to emergencies, and the Chile Fund against poverty and hunger,

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22 Mexico also maintains funds with multilateral organisations including the Organization of American States, and the Ibero-American General Secretariat.

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managed by UNDP, which receives resources from airport taxes for passengers coming in and out of Chile to fund the country's broader Unitaid engagement.<sup>23</sup>

### 3.3 Cooperation beyond official development assistance

Triangular cooperation is often considered an important modality for maintaining development partner relationships during the transition from ODA and beyond, although this importance decreases as the country becomes a more established donor. Chile and Mexico are among the most active participants in triangular cooperation projects and programmes. In both cases, triangular cooperation was considered an important means for maintaining relations with donors, sharing knowledge with third-party partners and becoming established as regional hubs for development cooperation. Moreover, for Chilean government officials in particular, triangular cooperation was seen a key mechanism for preserving and continuing policy dialogue and learning throughout transition and graduation from ODA.<sup>24</sup> In the Korean case, evidence showed that triangular cooperation became a less important modality as the country became a more established donor. Indeed, as a donor, Korea saw greater value in bilateral cooperation because it allows for more strategic dialogue. This being said, it is worth noting that Korea became an established donor before the Development Effectiveness conferences in Accra and Busan, which defined triangular cooperation and increased its prevalence as a modality for supporting Global South providers.

Regional cooperation was also viewed as a modality for cooperation beyond ODA, particularly when bilateral relations are being phased out. For Chile and Botswana, regional cooperation provided both countries with the means to access ODA resources that were increasingly unavailable through bilateral

channels. For Chile, regional cooperation is seen more and more as an important way to access ODA flows since graduation. For Botswana, which has been experiencing donor exit and declining bilateral flows since the 1990s, regional cooperation remains a way to access resources for key regional public goods, albeit in small amounts. For instance, donors' work with the Southern African Development Community (SADC) has supported the development of key regional infrastructure that facilitates interregional trade and linkages for Botswana. In the case of Mexico, regional cooperation is advanced by the Mexican government independently of donor involvement through its Mesoamerica Integration and Development Project. Mexico uses specific funds, such as the Infrastructure Fund for Mesoamerica and Caribbean (known as the 'Yucatan Fund'), to support development in Central America and promote regional stability.

Countries in transition expect beyond-aid relations to include economic engagement, scientific and technical cooperation, and support for global and regional public goods. The clearest example of this was Botswana, whose government officials envisioned beyond-aid relations that focused on diplomatic and commercial linkages with former development partners. In particular, Botswana sought deepened economic relations with former development partners to expand market access and build economic value chains. In the case of Chile, scientific and technical cooperation was considered an important avenue for continued engagement with development partners in the absence of aid programmes, especially in relation to renewable energy and environmental sustainability. Assistance to global and regional public goods – notably climate change and migration agendas – was considered an important space for beyond-aid relations. The Chilean government hoped to maintain relations with development partners

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23 Unitaid is an international organisation that invests in innovations designed to prevent, diagnose and treat HIV/AIDS, tuberculosis and malaria.

24 We consider triangular cooperation as a beyond-ODA modality because countries in transition are typically project implementers rather than cooperation recipients.

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on the climate change agenda, including seeking support from donors for the 25th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP25), which was, at the time of writing, scheduled to be hosted in Chile (together with Costa Rica) in December 2019. While Mexico remains an ODA recipient, beyond-aid relations are expected to support climate change and to curb migration from Central America. Korea championed the climate change agenda as part of its post-ODA engagement, creating the Global Green Growth Institute and hosting the Green Climate Fund in 2010.

At the bilateral level, however, countries that donors consider less geostrategic may see less space for policy dialogue in the absence of aid. In Botswana, this is already a concern as ODA flows continue to decline and donors see little incentive to remain engaged beyond development programmes. A clear example of this was the rapid withdrawal of the Scandinavian donors from Botswana, which did not follow through on promises to expand economic relations post-exit. This case is in contrast to Mexico, where development partners are highly motivated to continue their development cooperation programmes because of the country's large economy and strategic relevance in the region.

Multilateral spaces – including the OECD, G20, Pacific Alliance and SADC – were considered key forums for dialogue and technical change post-ODA. Chile, Mexico and the Republic of Korea viewed the OECD as a particularly useful forum for exchange of

best practices on issues such as development cooperation and climate and environmental policy. In each case, the creation of local offices of multilateral organisations – research and policy centres as with the World Bank in Chile, the OECD in Mexico, and with the World Bank, UNDP and OECD in Korea – provided a space for policy dialogue and helped these countries to become knowledge hubs. For Botswana, SADC and the Southern African Customs Union are the most important organisations for regional cooperation; Korea and Mexico value the G20 as a global cooperation forum. The European Commission's Development in Transition Regional Facility was also mentioned as a key opportunity for discussing issues and challenges among countries moving to higher levels of income.

Furthermore, in the cases of Chile and the Republic of Korea – both of which are no longer eligible for ODA – interviewees stressed the value of peer learning with former development partners. Chile used peer learning through engagement in international forums to access technical knowledge on key policy issues including climate change.

The Republic of Korea values highly multilateral forums that provide a space for peer learning, particularly as they relate to development cooperation and effectiveness, and it prizes OECD DAC membership and the DAC peer review process especially. Korea also engages actively in the Multilateral Organisation Performance Assessment Network on issues of multilateral effectiveness.

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# 4 Lessons for countries and development partners in the transition and graduation from aid

Based on the main findings from the four case studies, we identify lessons for both countries and development partners when it comes to managing the transition process away from aid and relationships beyond ODA. We recognise that differing contexts and particular challenges may mean that not all recommendations will be universally applicable; however, our intention is that these lessons are a useful reference point for countries starting or in the midst of the transition from aid and for development partners defining their strategies for this transition period and beyond.

Section 4.3 highlights the main lessons to start shaping relations beyond aid when countries are moving away from development assistance. While we consistently probed this area with interviewees, we found that respondents often found it difficult to articulate expectations for future engagement. This was partly due to the absence of arenas or spaces for thinking about and planning post-ODA relations, with most partners focusing on the present rather than on the future. We also acknowledge that the answers to the questions about modalities, arenas and lessons for partnerships beyond ODA are largely affected by the sampling of interviewees as well as the political contexts in countries when we conducted the interviews.

## 4.1 Managing the transition from aid

**Countries in transition should use national development plans to define how they will sustain development outcomes.** Each of the countries included in this study had national development plans that formed a strong basis for ensuring the alignment of ODA with national goals throughout transition. Perhaps the clearest example is the Korean case, where ODA resources were aligned to priorities developed in its five-year development plan and actively supported economic development and transition. In most cases, these plans acted as the country's implicit strategy for transition, with economic development and high-income status seen as the end goals. While one plan (that of Chile) included an explicit reference to the likelihood of declining ODA resources as a result of transition, this was not systematic across the other cases. For donors engaging in countries in transition, national development plans should be viewed as key documents for planning engagement to ensure that support aligns with domestic needs and to inform a timeline for exit over the longer term.

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**During the transition process, governments should award responsibility for managing inward and outward flows to a single unit or agency.** While the type of institution that governments use to manage development cooperation will likely depend on a range of bureaucratic and practical considerations, we found some evidence to suggest that, during transition, assigning responsibility for managing both inward and outward cooperation to the same institution fostered learning relevant to the transition from aid. Such agencies are well placed to manage the transition from recipient to donor because they have a fuller picture of engagement and can use existing relationships with donors to leverage cooperation via new modalities as bilateral ODA falls.

**Governments should consider innovative financing mechanisms and the use of joint funds.** The Mexican case showed that trust funds can serve as an important tool for adapting relations with countries in transition and provided a space for mutual ownership and accountability over programming. Joint funds also provide a reliable space for dialogue in cases where traditional bilateral programmes are scaled down. Innovative mechanisms for generating revenue, such as the Chile Fund, could also support outward cooperation for emerging donors.

**Development partners should develop a strategy to manage the transition from aid over a medium- to long-term horizon and should communicate this effectively and across government.** Donors should plan early for the transition from aid and should communicate their strategies to the recipient country government and across government agencies, to align expectations. Donors should share with the government their intentions to withdraw and discuss the strategic direction for the transition from ODA and beyond-aid relations. It will be important to make sure any decisions are not only communicated clearly but are also understood well and widely across government agencies. In Botswana and Chile, despite the presence of explicit strategies for managing transition at the start of the process only, lack of communication resulted in misaligned

expectations between donors and recipients around transition and post-aid relations. In the case of Chile, the absence of a strategy as the country neared graduation resulted in some parts of the government being caught by surprise when funding was cut as graduation drew near.

**Countries and their development partners should not forget NGOs, whose transition is more acute and often starts earlier than for governments.** This was particularly true in the case of Botswana and Chile, where NGOs felt the effect of transition from the aid well before the government. In Mexico, NGOs are under pressure due to new government policy that limits funding to the sector. Donors should remember that NGOs are often well positioned to support poverty reduction and development at the community level and are likely to have a continued role in supporting local development throughout the transition process. This is especially true in countries with high inequality. NGOs also serve a key function as domestic advocates for social issues. While we have shown that NGOs often experience the effects of transition from ODA earlier than governments, further research is needed to understand the risks for NGOs and what alternative funding options might exist in these cases.

## **4.2 Cooperation with development partners**

**Development partners should boost technical assistance demanded in countries in transition, supporting knowledge transfer and peer learning to address key vulnerabilities.** Government officials told us that financing was, by and large, not the main challenge as donors phased out resources; most of the countries studied had well-developed economies and were able to finance further development themselves. Rather, the primary concern was declining technical assistance – support which often follows ODA projects and programmes. Throughout the transition process, countries continued to highly value technical assistance for planning, implementation and monitoring and evaluation. In this context, donors should consider

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increasing the share of technical assistance and should emphasise knowledge transfer to support sustainable development over the long term.

**Development partners should tailor engagement to key challenges or areas in which the country lacks capacity, especially climate change.** Across the countries included in this study, government officials asked donors to support a range of issues, mostly related to building capacity for development management (monitoring and evaluation, institutional strengthening of development institutions) and economic development (supporting economic diversification and skills development). While the governments of the countries we reviewed had capable civil services, their officials hoped to fill remaining gaps through continued learning and engagement with development partners. Across the case study countries, the climate change agenda was consistently cited as one area in which donor engagement and support was welcomed. Specifically, government officials were looking for technical and scientific exchanges to develop clean technologies and renewable energy projects or to preserve biodiversity, and technical expertise to support drafting applications for climate-related funding to key international organisations such as the Green Climate Fund.

**Development partners should support countries that are seeking to provide development cooperation themselves or to become regional players.** Each country in this study received some support to develop and promote their capacity as providers of development cooperation or regional knowledge hubs. In Botswana, UNDP helped to develop the country's first strategy for South–South and triangular cooperation; in Mexico, UNDP and GIZ worked with AMEXCID to deepen institutional capacity; and in Korea, USAID led early outward cooperation and funded the creation of the Korea Development Institute. In each case, countries in transition valued such support from development partners, who are well positioned to provide expertise and leadership to partners looking to develop institutions and policies for outward cooperation.

Similarly, Chile and Mexico sought and valued the support of development partners in efforts to become regional hubs. Both countries used triangular cooperation to position themselves as leaders within the region. This sort of cooperation allowed them to support regional partners to share with each other their domestic expertise while also creating space for both countries to continue developing their capacity as cooperation providers. While we acknowledge that not all countries can, nor want, to be regional hubs or leaders in specific sectors, there are opportunities for donors to support such ambitions where they are found.

**Development partners should diversify the financing toolbox for countries in transition from ODA to move towards partnerships.** Across the cases, government officials expressed a broad range of needs that were often shaped by national priorities and challenges. These needs include technical assistance (and reimbursable assistance from IFIs, when there are the resources to pay for it), and knowledge-sharing and technology transfer. Technical assistance, in particular, is a high priority for governments as they transition from ODA. While countries in transition can generally meet domestic financing needs, there is still demand for grants and concessional loans. Some donors are also willing to provide development cooperation, albeit in small amounts, to countries that are no longer eligible for ODA. Japan, for instance, continues to implement development projects with Chile. Other development partners actively used regional and triangular cooperation to maintain relations and support countries as they neared, and reached, graduation from ODA. Triangular cooperation was particularly important in the lead-up to ODA graduation as it helped to transform the donor–recipient relationship to one based on partnership for national, regional and global development. This was evident in the case of Chile, where donors such as Japan and Sweden began engaging in triangular cooperation with AGCI as early as the 1990s. Other financing tools, including the use of joint funds, similarly fostered partnership-based relationships as countries transitioned from ODA.

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### 4.3 Cooperation beyond official development assistance

Countries in transition could access loans and reimbursable assistance services from the multilateral system. Multilateral development banks can provide an additional source of development finance for countries that have graduated from ODA; the eligibility criteria for their lending operations are not based solely on income per capita and reflect a country's ability to access capital markets. In a post-ODA environment, countries in transition could access technical assistance available either via lending programmes or reimbursable assistance from multilateral development banks.

**Governments and development partners should develop a strategy for development relations beyond ODA.** Across the country case studies, we found that donors and partners often had no strategy or approach that outlined the evolution and nature of relations following the scale-down and exit of ODA. Such strategies should define the future type and modalities of engagement and determine the trajectory for how relations are expected to evolve – that is, towards economic partnerships or supporting global public goods, for instance. While countries with high geostrategic value, such as Mexico, may be at little risk of losing access to dialogue with development partners in the absence of aid, other countries may struggle to find forums for continued engagement when the development programmes on which relationships are based cease. This was the case in Botswana, where beyond-ODA relations with several former donors were limited.

**In the absence of ODA programmes, countries and development partners should create spaces for policy dialogue and leverage key international**

**forums for peer learning and continued engagement.** The absence of ODA projects and programmes should not be the end of bilateral relations beyond diplomacy. Development partners should actively seek to create spaces for continued dialogue and engagement on key policy issues or instruments to foster peer learning and technical cooperation on areas of mutual interest. Countries in transition valued their relationships with donors, but sometimes felt that traditional lines of communication were closing alongside ODA programmes. Most government officials we interviewed saw international forums – the OECD, G20, UN, African Union, Pacific Alliance, various COPs, among others – as crucial to maintaining and deepening relations beyond ODA. Multilateral spaces provide an outlet for engagement on issues of mutual interest and for knowledge-sharing and peer learning on policy issues such as development cooperation and climate change. For countries in transition, multilateral spaces could help to build more mature relationships based on partnership rather than the donor–recipient dynamic.

**Development partners should take advantage of regional and triangular cooperation programmes as a tool for continued cooperation beyond ODA.** The Chilean and Mexican cases highlighted the value of triangular cooperation to maintain relations with donors, develop technical expertise and position themselves as a hub within their region. Engaging with partners in this way can provide both countries in transition and graduated countries with some ODA resources to support capacity development. Similarly, regional cooperation allows countries in transition and graduated countries to access funds for addressing regional challenges and to maintain policy dialogue beyond bilateral ODA relations.

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