# Rethinking Development Effectiveness: Perspectives from the Global South

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## Executive Summary

This research paper examines the imperative of a new conversation on development effectiveness "from the bottom up". Four dimensions are addressed; conceptual concerns, emerging trends, political economy issues affecting the global and country levels, and issues related to the measurement of effectiveness.

### Conceptual Concerns

Discourse on development cooperation effectiveness has significantly evolved over time. Aid policies have been influenced by contemporary dominant theories. Transitions have been marked by high-level political for a, in particular the 2005 Paris Forum, and increased engagement of non-traditional providers has led to shifts in dominant perspectives.

The "aid effectiveness" discourse was rebranded as "development effectiveness" through the formation of Global Partnership for Effective Development Co-operation (GPEDC). Although the development effectiveness agenda was to create a more inclusive global governance structure, buy-in by Southern providers was largely absent. Thus, there is neither a commonly understood definition of "development effectiveness", nor a clear distinction from the aid effectiveness agenda. The development effectiveness agenda remains dominated by the OECD's Development Assistance Committee providers. Consolidation of the various understandings by an increasing set of diverse set of actors is a fundamental challenge for a shared development finance architecture.

Aspects where North-South Cooperation and South-South Cooperation diverge are the scope and principles that guide development cooperation. North-South Cooperation is usually confined to official or public cooperation, and has recently included blended finance. South-South Cooperation goes beyond overseas development assistance; public and private sources of cooperation are not as distinctive. Member states of the Development Assistance Committee do not tie their aid to procurements, but impose other conditionalities against continuation of finance flows, which reduces their predictability. South-South Cooperation adheres to the norm of non-interference in domestic affairs, but does not shy away from tying aid to procurement under the principle of "mutual benefit", having implications for transaction costs. While Northern providers engage in coordinating aid efforts and achieving policy coherence, this emphasis has not been noticed in Southern providers.

Areas where the two types of cooperation overlap are in prioritising national ownership and alignment with recipient country's priorities; inclusiveness and multi-stakeholder participation; importance of capacity development; compliance with the principle of transparency and mutual accountability; and results-driven processes. These trends might tempt one to suggest that we are witnessing a process of mutual alignment; the "Southernisation of the North" and the "Northernisation of the South". However, the burden of any possible convergence may fall on the shoulders of the poorer recipient countries.

There are three different routes that the discourse could move from here. The first is the least likely scenario; a business-as-usual approach, where traditional perspectives and practices continue with the "old rules" defining the "old game"; the GPEDC Zero. The second possibility is a GPEDC Plus scenario, where efforts to bring in more tailored and contextualised approaches are expanded; the "old game, with new rules". The third possibility is GPEDC 2.0; an altogether "new game with new rules" towards a mutual learning platform. It is this scenario that the rest of the paper focuses on as the most desired route.

## Emerging Trends

Implications of the changing landscape in development cooperation effectiveness are more pertinent than ever. Financing requirements for implementing the Sustainable Development Goals (SDGs) in low-income developing countries are enormous. Growth in overseas development assistance has been less than encouraging in recent years, while Development Assistance Committee providers' forward spending plans indicate a new stagnation. However, membership of the Development Assistance Committee has enlarged, the number of other providers reporting to the OECD has increased, and Southern providers have become more prominent in scale and visibility. Many new international finance institutions and development finance institutions have been established, including by Southern providers. The volume and share of funds from private philanthropy have also improved. Innovative instruments such as blended finance have come with promises of leveraging additional private investment for financing development.

The profiles of, and circumstances in, recipient countries have been changing, reflecting their shifting in financing needs. Many low-income countries and least developed countries are graduating to higher status. Poverty is no longer concentrated in low income countries, but rather in the bulging middle-income countries. Concurrently, the number of fragile and conflict-affected countries is on the rise. Spending priorities of providers tend towards humanitarian assistance; long-term development projects are usually not prioritised.

Growing recognition of the need for global public goods has created separate financing windows beyond overseas development assistance. Environmental concerns have put incremental demand on development finance. The aid climate is further affected by a foreboding global economic slowdown, an unfolding US-China trade war, the faltering World Trade Organisation, a fragmented European Union, pandemics, and rising national and international inequality, worsened by automation and the fourth industrial revolution. These have created a structural disjuncture of development cooperation regime with the need of inputs from grass-roots organisations.

In this context, multilateral development banks, along with global funds and a myriad of international finance and development finance institutions, have become important channels of external financial assistance. Their funding sources have also evolved with emerging economies, becoming significant contributors. Beyond traditional multilateral development banks, new development banks such as the Asian Infrastructure Investment Bank, founded by Southern countries, have been established.

Share of overseas development assistance towards fragile states has improved for both multilaterals and regional development banks. Unlike bilateral overseas development assistance, humanitarian aid from multilaterals, although increasing, has not grown significantly. Recent years have seen an increasing share of earmarked funding and decreasing share of core funding. Curiously, economic infrastructure has emerged as the most preferred sector for all genres of external development finances including overseas development assistance, South-South Cooperation, and blended finance. Protecting external assistance for the social sectors is becoming a challenge for the poorer developing countries.

In today's SDGs era, the role of the private sector will become a significant component of development finance. Public finance, external and domestic, may not be enough to bridge the projected financing gap in realising the SDGs. External public finance and private finance play different roles in the development process and are not necessarily mutually exchangeable. However, mobilisation of private finance through overseas development assistance is disproportionately lower in least developed countries.

The sectoral distribution of blended finance indicates a preference for low risk investments with clearer business cases and revenue streams. There is room for rethinking the design and governance of blended finance, especially in relation to contextual realties of recipient countries to optimise development impact and inclusivity.

The role of international cooperation in domestic resource mobilisation has not received the necessary policy attention. Policy coherence and cooperation on tax policies at the global level, systematising issues related to digital trade, and more stringent handling of illicit flows are critical. Integral to the discussion of effectiveness are greater domestic private finance, and improving the flow of domestic public revenue.

These challenges cannot be addressed by the existing, and often dysfunctional, development cooperation architecture. Financing the ambitious 2030 Agenda requires the mobilisation of all types of interlocutors of the financial markets within a shared framework; these stakeholders range from bilateral providers (including Southern), regional banks and multilaterals institutions, to blended finance and private philanthropy. Such a shared framework would enhance the allocative efficiency as articulated by the recipient countries, allowing them greater flexibility in aid portfolio management. This will also be conducive for greater domestic resource mobilisation in recipient countries. A move towards the realisation of this aspiration would need a "new conversation", espousing the novel multilateralism, which would amount to a "new game with new rules".

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## Political Economy

Political economy aspects embedded in the development cooperation regime and its outcomes are often rooted in the intrinsic imbalance of power, evident in traditional provider-recipient relationships. Power imbalances in this context may be understood as the control that one party exercises over the other through supplying or withholdinging of development assistance. Such imbalances exist in traditional North-South cooperation relationships. They are intrinsic to such relationships due to asymmetries in military, economic and knowledge spheres. The dominance of Northern providers over Southern recipients is also manifested in ownership and governance of international institutions.

Actual or perceived financial and institutional capacity constraints of recipients contribute to control issues over development interventions in provider-recipient relationships. Weak political support of governments domestically, together with an overreliance on foreign assistance to strengthen political legitimacy at home, often keep recipient governments from challenging power asymmetries. Diversity among an increasing base of actors makes collective action for more effective accountability mechanism difficult.

While the problem of collective action could be dealt with by addressing underlying trust issues or strong leadership, it would be much more difficult to tackle the challenge of diverging vested interests. The lack of a shared development cooperation framework for the promotion of development effectiveness may thus require some basic global norms, accompanied by other institutional arrangements and strategies throughout the implementation of programmes with external public finance. While a UN-mandated forum such as the Development Cooperation Forum has potential, a GPEDC 2.0 can bring new energy to the global agenda.

In any new development cooperation architecture, recipient countries' ownership is critical. Government ownership would be replaced by in-country democratic ownership. Such democratically-designed plans could be achieved by utilising national institutions and capacities. Good practices of country ownership thus entail a position that allows greater control of recipients over their development agenda. The concept of ownership is politically defined by the power dynamics between providers and recipients, and determined through the exercise of control over the outcomes of that relationship.

Mutual accountability between providers and recipients is a core principle in the effectiveness agenda. The challenges of achieving mutual accountability in the context of an asymmetric power distribution and diverse interests are less clear, especially as there are broken feedback loops, which impede the effective practice of mutual accountability. Multiple accountability channels throughout the value chain of development cooperation experience broken feedback loops, starting from the tax payer in provider countries to beneficiaries in recipient countries. In national democratic systems, public policy beneficiaries can hold the government to account through electoral votes. In the case of international development cooperation, both geographical and political distance make the links between providers of cooperation and the final beneficiary almost impossible. Split constituencies have implications for the decision-making process and can induce ownership challenges. Given governance challenges and imperfect democracies, domestic accountability lines in the recipient are also far from ideal. The important question is which line of accountability should each party prioritise for effectiveness and how that line can be enforced.

One of the lagging dimensions of the aid effectiveness agenda is the predictability of aid flows. Systematic analysis on why predictability remains an unmet target and why commitments have remained unmet is absent. Absolute predictability may not be possible, but lack of it reduces effectiveness. The issue of underlying power asymmetry and associated policy conditionalities are also relevant in this regard. Both of these issues contribute to the lack of enforced accountability, making aid flows more unpredictable. Providers attribute absorptive capacity issues of recipients, as well as corruption and mismanagement at the country level, to unpredictable disbursements. From the recipient's perspective, changing aid conditions contribute to their slack in meeting commitments.

Changing conditionalities are often the result of changing political scenario or policy focus and priorities in provider countries. Unpredictability originating from such situations affect recipient governments in planning and implementing their own budgets and programmes. Volatile political environments in recipient countries also contribute to the inability to keep commitments.

The aspired "new conversation" on development cooperation is expected to put political economy aspects at centre stage. The "new rules" of the "new game" will have to ensure balance, particularly by addressing the problem of collective action by the recipients. Such an improvement in the rules of the game would hopefully do away with the current practice of multiple channels of accountability and lacking feedback loops. Strengthened accountability mechanism within the development architecture may enhance predictability of resources, allowing the recipient countries to undertake and own more credible integrated planning of development finance.

## Measurement Challenges

Flow of overseas development assistance is an inadequate indicator to measure development cooperation efforts. Country programmable aid, the amount actually disbursed to the recipient country, would be a better measure in this regard. Incidentally, the gap between overseas development assistance and country programmable aid has been gradually widening. Reported figures on country programmable aid remains on the higher side as it includes technical co-operation, which usually does not follow recipient country procedures and is often exaggerated. Amounts reported as country programmable aid by the OECD and actual receipts recorded by national statistical systems demand reconciliations.

Challenges of effectiveness measurement are multiplied by complexities related to various issues, including concepts, methodologies, scale, level, sectors, timeframes, contexts, capacities, and data. Assessment frameworks broadly encompass two aspects;

processes and results. Most of the broad-based established assessment frameworks operating at the global level still examine mostly the processes, and usually align their findings with adherence to global principles. Process-oriented reviews include the GPEDC monitoring framework, the Development Cooperation Forum's biennial survey, the OECD Development Assistance Committee's periodic review of its members, the Centre for Global Development, and Brookings Institution's independent assessment framework Quality of Overseas Development Assistance. The assumption is that quality of processes will lead to expected results and ensure effectiveness.

Both North-South and South-South Cooperation have focused on results in their effectiveness agenda. Results are generally understood as outputs, outcomes, and impacts often evolving with scale, level of intervention, and time. Results-based management has become the "go-to" strategic approach of cooperation agencies in monitoring and evaluating development efforts on the ground. Micro-level assessment frameworks at the national level usually confine to the monitoring and evaluation exercises, although with varying approaches and methods. There is a need for more macro-focused approaches at the national level.

This is especially pertinent against the backdrop of a seeming "micro-macro paradox" when it comes to impact of development cooperation. Capturing impact at higher levels of aggregation with comparable accuracy achieved at the micro level is difficult. Evaluating outcomes at the sectoral level, in lieu of the macro level, may be a feasible alternative if aggregate outcomes of development cooperation are sought to be captured beyond projects. Country studies can be ideal for exploring possibilities of the micro-macro interface at the sectoral level. Country-level benchmarking exercises in assessing outcomes should look to make use of the SDG-related indicators for social impact.

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Availability of credible data and transparency issues across different types of providers remain a crucial barrier in the assessment of development effectiveness. Transparency on overseas development assistance from Development Assistance Committee providers has improved over the years; however, progress has mainly focused on reporting on providers' spending. Definitional and methodological discrepancies among global and national statistical reporting systems, as well as capacities of national statistical systems, remain a major concern in providing reliable data. Disclosure and/or transparency of data on development cooperation from non-traditional sources and instruments are needed. In case of blended finance deals, access to data becomes difficult given the associated restrictive norms on disclosure and confidentiality. Lack of transparency and data is thus a major obstacle in measurement, and precludes reasonable comparisons across different sources and instruments of cooperation.

Assessment of South-South Cooperation is yet to be as ubiquitously accepted by its participants as is common among players in North-South aid regimes. An institutionalised mechanism to capture effectiveness of South-South Cooperation lacks the necessary consensus or coordination. There have been attempts to assess the effectiveness of SSC, but these have been mostly academic exercises or specific financial arrangements driven by commitment on the part of Southern providers. Measuring effectiveness of South-South Cooperation, and any comparison and integration with North-South Cooperation, is currently implausible at the international level. Such attempts should be initiated at the national level. The "new game" should provide for a common framework of assessment, but with the flexibility of applying "new rules" for different actors, including Southern providers.

The implementation capacity of recipient countries is usually overlooked in assessment frameworks of effectiveness, but omnipresent in provider's considerations regarding cooperation strategies. Arguably, countries most in need of foreign aid are often lacking the necessary financial, institutional, regulatory, human resources, and governance structures required to improve their implementation capacities. Implementation capacity is also closely related to the concept of absorptive capacity of foreign assistance. Stronger institutional capacities improve absorptive capacity but when providers bypass national systems and thereby undermine the strengthening of local institutions, aid flows can induce overreliance on external assistance. Capacity issues vary across countries. Any framework for assessing effectiveness needs to factor in issues related to recipient country's capacity constraints and mitigation efforts by both recipients and providers to improve aid utilisation.

The issue of debt sustainability has become a matter of great concern in recent discussions on development effectiveness. The growing prominence of finance flows from Southern providers to low-income countries at risk of debt distress based on relatively lax conditions has given a new dimension to the debt issue. Debt sustainability should be a major consideration in the assessment of development effectiveness, especially in the case of South-South Cooperation. Measures to include implications of non-concessional finance flows for a country's debt situation needs to be factored in. Providers have the responsibility not to compromise on due diligence when extending credit in risky contexts.

Effectiveness of development interventions is usually seen in the context of national policies. Issues of global systemic concerns remain outside the confines of effectiveness assessment frameworks. These concerns are manifested in, inter alia, distorted international markets of merchandise exports, access to technology and intellectual property rights, weaknesses in the international taxation system and illicit financial flows, restrictions on movement of natural persons, impact of climate change, and human security weakening activities at the global level. Global systemic concerns can also have a positive impact on development cooperation on the ground. The development effectiveness framework has to reflect implications of these issues for the performance of local markets and institutions.

The global advancements on Big Data can have substantive opportunities and risks for measuring effectiveness. Emergence of such innovative data and technology has created both opportunities and challenges for the development sector at large, and for the practice of monitoring and evaluation development outcomes in particular. The implications of these innovations are especially pertinent against the backdrop of the SDGs, marked by greater consideration for sustainability and inclusion as means and metrics of development effectiveness. Reaping the full potential of new data and technologies would require understanding the readiness and capacities at the country level.

## Rebuilding the conversation from the bottom up

New developments influence the course of international development cooperation every day. The space to discuss a universal frame of reference remains constrained. Further evidence from the ground to feed into the new conversation for the design of GPEDC 2.0 is needed. The much-desired refashioned conversation on development effectiveness is only feasible if new knowledge is created from the ground. This paper advocates for rolling out a number of country studies to investigate the identified issues of interest through an examination of diverging practices of different providers. The bottom-up approach is a must to move the needle on the desired conversation and gather much-needed political momentum.

COVID-19 has caught the development cooperation regime unaware and exposed its structural and operational weaknesses. The emerging situation is demanding inclusive reform of the scope, modalities and assessment framework, as well as its governance structure. The allocative priorities will be subject to scrutiny, as calls for more funds for a strengthened public health system, social protection, and climate action will intensify. Investment for more and better data will be necessary for SDG-oriented disaggregated targeting. For all these and other reasons, parameters of development effectiveness discourse will undergo a serious makeover.

In the post-COVID-19 world, a "new conversation" for a "new game with new rules" concerning development cooperation and its effectiveness will gather momentum. To guide this momentum to ensure inclusive, transformative, and sustainable outcomes of international development cooperation, it will be all the more necessary to build the dialogue from the bottom up, based on new evidence and analysis.

**For the extended version of this study and its references click here or go to the Development Effectiveness Initiative page on www.southernvoice.org**