

Inclusive and sustainable development:

challenges, opportunities,
policies and partnerships

Two challenge papers by Andrew Norton and Andrew Rogerson, ODI, prepared for the International High Level Conference to mark DANIDA's 50th Anniversary: 'Development policy in a changing world'.

Foreword by Simon Maxwell

September 2012

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These two challenge papers were commissioned by DANIDA in preparation for the International High Level Conference 'Development policy in a changing world', marking DANIDA's 50th anniversary (March 2012).

Paper 1, 'The challenge of, and opportunities for, inclusive and sustainable development' by Andrew Norton, ODI Director of Research, aims to support high level discussion on the challenges facing global development. It reviews four key challenges: persistent poverty; globalisation and socio-economic transitions; sustainable development in the context of climate change; and human security, violence and conflict. Major potential risks include shocks in the world economy, civil conflict and fragility, long-term resource scarcities and climate change. As a result, policy needs to engage with change, focusing on the supra-national level to deliver global public goods. The most significant contemporary challenge is at a meta-level – how to improve the weak capacity of global institutions, processes and relationships to act coherently to address collective action problems in an increasingly multi-polar world.

Paper 2, 'The policy and institutional response to development challenges: forging new partnerships' by Andrew Rogerson, ODI Senior Research Associate picks up the themes emerging from paper 1 to address the policy and institutional responses that are needed for inclusive and sustainable development. The paper argues that the challenges outlined in Paper 1 call for collective action of an unprecedented scale, scope and speed. It examines the complex institutional space occupied by the many actors, policies and instruments available to tackle these challenges, and their varied motivations and capabilities. It outlines three main options available to development agencies:

- concentrate on being an efficient disbursing of official development assistance (ODA)
- become brokers and managers of ODA and ODA-like funds, concentrating on financial issues and building stronger partnerships with the private sector and non-traditional donors
- become deal-makers and brokers across government and internationally, providing a unique perspective and resources (financial and non-financial) on issues that shape global well-being.

Together, these two challenge papers aim to illuminate the context of the current development paradigm, and outline potential responses.

Foreword

Same mission statement, new job description?

Simon Maxwell, Senior Research Associate of the Overseas Development Institute.

The Danish development programme celebrated its fiftieth birthday in March 2012 with a series of events and exhibitions that included a high-level conference, 'Development Policy in a Changing World'.¹ Denmark's Minister for International Development, Christian Friis Bach, asked for a strategic and forward-looking debate, rooted in respect for the human rights of the poorest people in the world. I was asked to commission two background papers from ODI, and was lucky enough to be asked to moderate proceedings.

Two questions framed the debate, which were addressed in the two background papers presented here, in three keynote addresses², and in two panel discussions.³ The questions were:

- first, how had the development challenge changed, and how could it be understood for the future?
- second, what were the implications for development agencies and development partnerships?

The new development challenge: a consistent long-term 'mission statement' but a changing short-term 'job description'?

The first question was presented as having two parts: was the 'mission statement' of development cooperation the same, in the sense of being guided by consistent long-term objectives; and was the 'job description' the same, in the sense of dealing with the same problems as in the past?

The long-term objectives of development

As far as long-term objectives were concerned, there was strong support for commitment over the long term to shared objectives such as poverty reduction, human

development, and sustainability. In particular, Christian Friis Bach emphasised the importance of rights. This was picked up by several other speakers, particularly in the context of gender relations. The elimination of discrimination more generally was a recurrent theme. This was linked to debate about power and empowerment as intrinsic objectives of development as well as instrumental routes to poverty reduction; and to the importance of good governance and democratic values as objectives of development. Andris Piebalgs laid special stress on good governance in his keynote address.

Resilience was also stressed as a new priority in development, linked especially to sustainability issues. This was brought out especially in relation to natural and man-made disasters, but also more generally in the context of sustainable livelihoods.

Beyond these modifications to the mission statement, a central theme of the conference was a challenge to the very concept of 'development' as a dependency relationship between rich and poor countries. This was seen in repeated calls for a new and more equal partnership between developed and developing countries, as had been discussed at the High Level Forum on Aid Effectiveness in Busan. The new role of South-South donors was cited in this context, with a new Council of Ministers from 160+ countries forging new links between North and South.

More generally, Donald Kaberuka pointed out in his keynote address the positive contribution that emerging economies were making to tackling the global economic crisis. He called for a paradigm shift in North-South relations: a new partnership was not just about aid management, but about the need for all countries to collaborate for mutual prosperity and joint action to tackle what Kaberuka called 'global bads'.

A number of speakers also made the point that new partnerships should not just be about government-to-government relationships, but about wider communities, including civil society and the private sector.

1. Materials can be found at: <http://um.dk/en/danida-en/about-danida/danida-50-years/development-policy-in-a-changing-world/high-level-conference/>
2. Keynote addresses were by: Christian Friis Bach, Minister for International Development, Denmark; Andris Piebalgs, Development Commissioner, European Commission; and Donald Kaberuka, President, African Development Bank.
3. Participants in the panel discussions were: **Panel 1** - Antonio Guterres, UNHCR High Commissioner; Kristalina Georgieva, EU Commissioner; Barsha Man Pun, Minister for Finance, Nepal; Mahmoud Mohieldin, World Bank Managing Director; Heidi Hautala, Minister for International Development Finland; Irene Owonji-Oweala, Chair of Action Aid International; **Panel 2** - Babatunde Osotimehin, UNFPA Executive Director; Stephen O'Brien, UK Minister, International Development; Mustafa Mkulu, Minister for Finance, Tanzania; Nathalie Delapalme, Mo Ibrahim Foundation Executive Director; Josette Sheeran, WFP Executive Director; Brian Attwood, OECD/DAC Chair.

The 'to do list' of development cooperation actors

When it came to the 'job description' – the 'to do' list of development cooperation actors – the first background paper made the point that the fight against poverty remained central to the development 'project'. Progress towards the Millennium Development Goals had, in many cases, been extraordinary, and it was right to celebrate development successes. The growing number of middle-income countries was a manifestation of development that worked in the long term. At the same time, hundreds of millions of people still lived below the poverty line, including in some of the most successful developing countries.

There was special concern about the lack of progress in fragile states, with a welcome for the New Deal agreed at Busan: 17 countries have now identified themselves as fragile. Conflict prevention, and post-conflict rehabilitation were both, not surprisingly, major themes.

Other topics prominent on the to do list were climate change, environmental stress more generally (including water), and the management of globalisation to minimise risk and deliver more inclusive benefits. Population also featured. There were many connections to these themes in current development debates, including at the G-20, Rio+20, and in the Global Partnership for Development Cooperation.

Did the accumulation of new challenges change the job description? Some argued that it was important to maintain continuity, avoid running after the latest fashion, and recognise the long-term nature of development work. Others agreed with this point, but also recognised the challenge of working on a wider range of topics and in new partnerships. Development cooperation actors should not forget, for example, how to build health centres in rural areas; but, at the same time, they should have the will and competence to engage globally and regionally, as well as at national level, on big, new global challenges.

The implications for development agencies

The meeting then turned to the implications of the changing agenda for the orientation and organisation of development cooperation agencies. The current situation is described in the second background paper as a 'sprawling landscape'. The paper offers three options for the future of development cooperation agencies: supporting new philanthropy; managing trade-aid blends and South-South cooperation; and 'protecting shared space'.

There were six big themes in the discussion.

Improved global governance

First, many speakers pointed to the need to build more effective global governance and more effective multilateralism. This was because the 'new' agenda posed problems of global collective action that required international solutions. This was true, for example, of climate

change, but also of conflict prevention and resolution. The need was especially urgent in a world that could no longer be considered uni-polar.

It might be thought that existing institutions were competent to work in this space, but there was considerable scepticism. The G-20, for example, was accused of being unrepresentative and unaccountable. The UN was described as essential, but also by some as ineffective, and as having lost the trust of citizens. There were several calls for review and renewal.

Innovations in development finance

Second, it was widely agreed that development finance would need to continue, but in a changed form. Traditional aid would still be needed, especially for the poorest countries, with a strong focus on results. The case was less clear for the middle-income countries (MICs). In fact, there was support from many for the proposition that traditional aid to MICs should be phased out, replaced with new and more differentiated partnerships (including blended loans and grants, support to private sector facilities and so on). Some did argue, however, that transfers from richer to poorer countries would be justified for some time to come, as indeed is occurring within Europe on a growing scale. The need to support MICs in transition was also evident, with Tunisia cited as an example. Within developing countries, raising tax revenue was a priority: governments had to take responsibility for the mobilisation of their own resources.

Even if poverty-focused funding were to fall, the meeting acknowledged that funding for other purposes would need to continue, for example to combat climate change. Some thought that the boundaries between development and climate funding might well become blurred, with climate finance being treated as an 'aid-like' transfer. Others, however, reminded the meeting that climate funding should be thought of as having a different character to aid: it was an entitlement not a donation, and should be programmed with that degree of automaticity in mind: a mutual financing contract, with mutual obligations. Conditionality, for example, would be inappropriate. It was also noted that climate finance would not have the same focus on the poorest countries.

New players as 'creative disruptors'

Third, different actors would play new roles, especially, but not only, in MICs. Philanthropists were re-writing the rules of development cooperation, fostering innovation and acting as 'creative disruptors' of the existing system. They had made important contributions, for example encouraging the focus on results and measurement, with respect to people-to-people links, and in building capacity.

Civil society organisations could also be especially valuable actors in many developing countries, but especially in MICs where official aid was declining: for example, working with human rights watchdogs and supporting transparency, empowerment and accountability. The space for civil society was shrinking in many countries (rich and poor) and needed to be protected. Diasporas had a big role to play.

Brokering the role of the private sector

Fourth, there was strong support for new development partnerships with a high level of private sector engagement, supported by blended finance and other kinds of public private partnership. A new era of 'radical collaboration' was suggested. This was essential to underpin inclusive and sustainable growth, as described, for example, in the EU's new policy statement, the Agenda for Change. Growth needed to be green; and, as Christian Friis Bach emphasised, the objective should be to produce strong green economies and strong welfare societies at the same time.

The private sector, it was pointed out, was not just a source of finance, but also of knowledge. There were some excellent examples of the private sector partnering with aid agencies, for example, to reduce warehousing costs, or develop new, therapeutic foods. The private sector also played an important role in improving transparency and promoting democratisation.

Scale was important. One speaker emphasised the need to reach the medium-scale enterprises that neither micro-credit agencies nor banks would touch. There was also an emphasis on regional integration.

Policy coherence

Fifth, the commitment to the private sector went hand-in-hand with a strong commitment to better trading environments, more private investment, and fair taxation. The policy coherence agenda was seen as likely to rise even further up the agenda. In this connection, one speaker said that for the past fifty years, Africa had requested aid. For the next fifty, it is going to seek investment.

Reconfiguring development agencies

Finally, all these changes would require a different configuration of development agencies, taking on new tasks, behaving in new ways, and with different specialist skills. What were described as the 'mainframe institutions' were not fit for purpose, and needed transformational change. It might be possible to benchmark bilateral agencies, for example, in the same way that multilateral agencies were tested against each other.

Conclusion: winning support for an optimistic take on international development

A final thought was about the importance of 'messaging' development in the correct way: recognising the straitjacket of austerity in public budgets and acknowledging the risks of long-term development work – but also being optimistic about the results achieved and the potential of new drivers like new communications technologies and new financing mechanisms. Christian Friis Bach laid particular emphasis on the scope for innovation in development thinking and policy.

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1

The challenge of, and opportunities for, inclusive and sustainable development

By Andrew Norton

with inputs from William Avis, Marta Foresti, Maia King, Simon Levine, Claire Melamed, Tom Mitchell, Andrew Scott, Dirk Willem te Velde, Steve Wiggins, Leni Wild. With thanks to Alison Evans, Edward Hedger and Simon Maxwell for review comments and guidance.

Introduction and background

This paper reviews four key challenges: persistent poverty; globalisation and socio-economic transitions; sustainable development and climate change; and human security, violence and conflict.

The paper concludes that the world has made real progress in reducing poverty in the last 20 years. There is, however, far more to do in ensuring that the benefits of growth are distributed equitably, particularly in fast-growing middle-income countries (MICs). There are also big risks, including shocks in the world economy, potentially significant challenges of civil conflict and fragility, long-term resource scarcities and climate change. Policy needs to engage with change, focusing especially on the supra-national level to deliver global public goods. The most significant contemporary challenge is how to address collective action problems in an increasingly multi-polar world.

Challenge 1: Persistent poverty

Twenty years ago extreme poverty was the norm in many regions. In Asia and Sub-Saharan Africa more than half of the population lived on less than \$1.25 in 1990 (Melamed, 2012). Between a quarter and half of all children in the two regions were underweight, and in Africa only half of all children were in school.

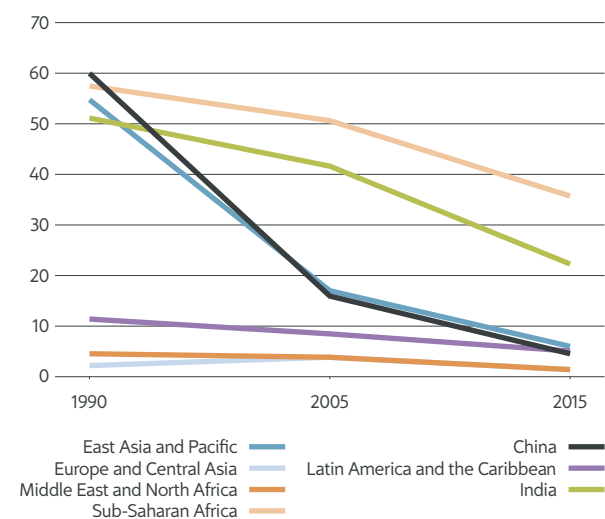
Things are different, and better, in 2012, although an unacceptably large number of people still suffer from extreme poverty. While extreme income poverty has been slow to decline in some areas, particularly Africa, it has shrunk to affect well under half of the population in Asia. Reductions in East Asia in particular have been striking (Figure 1). Social indicators have improved at a faster rate. The proportion of children underweight has fallen to between one and two-fifths. Three quarters of children in Africa are now in school, and well over 90% in most of Asia (Melamed, 2012)

Globally, there has been progress on all of the Millennium Development Goals (MDGs). There has been enough progress on the targets related to three MDGs to meet

the goals at a global level: on income poverty, gender parity in primary education and water. Three targets will be nearly met: nutrition, primary school completion and child mortality. Just one (maternal mortality) continues to lag very far behind the target (Figure 2) (Kenny and Sumner, 2011).

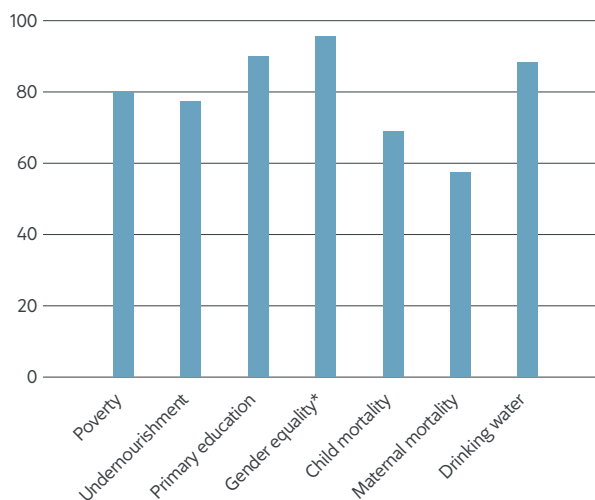
However, the averages hide inequalities within countries (Melamed and Scott, 2011). Globally, between 1981 and 2005, nearly 600 million people who would have escaped poverty had inequality remained static were denied that chance (Hillebrand, 2009). Progress on social indicators also tends to be concentrated among the better-off in a given country. Research by Save the Children, for example, found national progress on child mortality, even where the poorest saw no change. Occasionally, as in Burkina Faso, they found an actual increase in death rates among the poorest (Save the Children, 2010).

Figure 1: Poverty was the norm in many regions 20 years ago. In Asia and sub-Saharan Africa more than half of the population lived on less than \$1.25 in 1990 (Percentage of population living under \$1.25)



Source: World Bank, Global Monitoring Report 2011: Improving the Odds of Achieving the MDGs, Heterogeneity, Gaps, and Challenges (2011b, p.11).

Figure 2: Globally, there has been progress on all MDGs (Percentage, 100% = goal attained)



Sources: Kenny and Sumner (2011) based on Fukuda-Parr and Greenstein (2010), Leo and Barmeir (2010), World Bank (2011b) and authors' own estimates based on World Development Indicators and Hogan et. al. (2010) data. Notes: *Represents the proportion of developing countries for which the appropriate data are available.

The people who have not benefitted from progress are not distributed randomly within countries. They tend to be from ethnic minorities, and/or to live in remote areas, and/or to be from religious groups that suffer discrimination. Disability is another common and widely ignored source of inequality: UNESCO estimates that one-third of the approximately 75 million children who do not attend school suffer some disability (UNESCO, 2008). Women and girls often fare worse than men and boys within these marginalised groups.

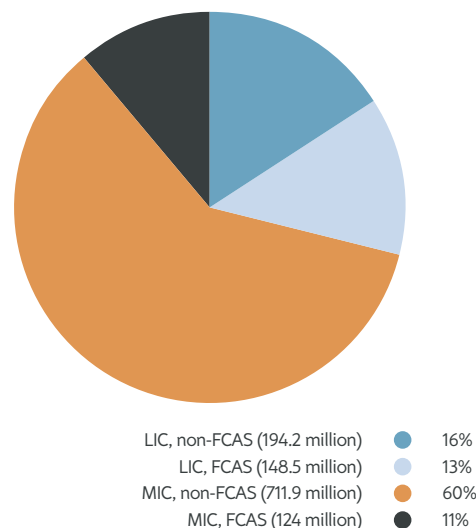
A growing number of those trapped in poverty are likely to be chronically poor, and to be poor because of discrimination and exclusion as much as because of a society-wide lack of opportunity. Deliberate policy measures are therefore required to address poverty in this group, including:

- social protection to provide insurance against shocks
- rules such as those on asset ownership and transfer of assets to prevent particular groups, such as widows, from being forced into poverty
- measures to prevent discrimination in access to services and markets
- spending decisions that prioritise remote regions and excluded groups.

But the question of how best to address deep-seated forms of exclusion and discrimination is embedded deeply in specific political contexts – and often requires strong indigenous social and political mobilisation if it is to be addressed.

At the national level, there are reasons to be cautious about assuming that future progress will be as rapid or as linear as progress in the recent past. On the positive side, economic growth means that a large number of countries have graduated from low to middle-income status in recent years. The result is that more than 70% – up to one billion – of the

Figure 3: The proportion of the world's poor living in middle-income countries has risen, as has the proportion of extremely poor people living in fragile states (Percentage of world poor, \$ 1.25, adjusted base years, 2007)



Sources: Processed from World Bank PovCal Net. Notes: FCAS (Fragile and Conflict-Affected States) = 43 countries of combined three lists as per OECD (2010); LIC/ MIC status is based on World Bank country classifications for World Bank financial years 1992 and 2011 (based on GNA per capita atlas data for two years).

world's poorest people now live in middle-income countries (MICs) (Melamed, 2012).

The potential for these countries to tackle their poverty problems is now much greater. However that potential is not always realised. Growth in India, for example, has been stronger than in most other South Asian countries, but its conversion into improved well-being for the poor has lagged behind countries such as Bangladesh on many indicators (Dreze and Sen, 2011).

The proportion of extremely poor people living in fragile states has also risen, from 14% (mainly in low-income countries) in 1990 to 24% in 2008 (nearly half were in low-income fragile states and half in middle-income fragile states) (Figure 3) (Melamed, 2012). The lack of progress in fragile states is striking: no low-income fragile state has yet achieved a single MDG (World Bank, 2011c).

Growth in average incomes accounts for approximately 80% of absolute poverty reduction in the long-run, but the phenomenon of 'jobless growth' haunts much of Africa (Aryeety and Baah-Boateng, 2007), characterises much of India's recent experience (Mehta et al., 2011) and is also present in Latin America (Jemio and del Carmen Choque, 2006). A decade of strong growth and export performance in Africa has not created many jobs: while exports have grown by 18.5% per year, and GDP by 5.4%, the number of jobs has only increased 3% per year. Young people are particularly hard hit by rising unemployment (Ancharaz, 2011).

Another challenge to our understanding of poverty and the policies needed for its continued reduction is rapid urbanisation. A growing literature emphasises the benefits of cities as centres of innovation, opportunities to reduce

humanity's carbon footprint, and places where lives can be transformed by freedom from the constraints of rural tradition (Glaeser, 2011).

But the nature of poverty and vulnerability differs in urban and rural areas, and our ability to process and understand the implications of this difference is insufficient. Urban populations can, for example, look relatively rich in terms of 'money-metric' measures of poverty as they pay for many things in cash that rural populations do not (from transport to fuel, to rent). But this does not make them better off, or less vulnerable, than rural populations that seem poorer in cash terms. The most disturbing implication is the risk that global progress on poverty reduction has been over-estimated as a result of overlooking the different conditions of rural and urban life in an increasingly urbanised world.

Some continued progress towards broad-based poverty reduction can be achieved through well-directed technological change, for example on agricultural production. The level of pessimism or optimism of different analysts on the future of the world's food supply depends, to some degree, on their assumptions about the capacity of technological advance to offset the growing pressures of: competing uses for foodstuffs (e.g. biofuels); changing consumption patterns in developing countries (e.g. eating more meat); continuing growth of emerging markets that raises consumption levels; and population increases (Locke et al., 2011). Grain production in Bangladesh is one example of the profound impact of improvements in technology (Box 1).

Perhaps the most iconic arena of technological change today is communications. Improvements in this sphere correlate clearly with enhanced economic performance (ICRIER, 2009). The fact that this relationship is non-linear (with a jump at a certain level of penetration of a particular technology, such as mobile phones) suggests a dynamic relationship in which improved communications makes a significant contribution to growth rates.

There are also important pathways between transformations in communications technologies and issues of governance,

Box 1: Grain production in Bangladesh

Between 1980 and 2000, production of rice and wheat in Bangladesh increased from below 15 to over 25.7 million tonnes, increasing per capita availability of these staple foods from 425 to 510 grams per day, despite a population that has increased from 91 to 148 million people. Real wholesale prices of rice and wheat in Dhaka markets have fallen dramatically, with the price of rice almost halving in 20 years. Despite falling prices, farmers have successfully increased their production, yields and incomes, with rice yields rising from an average of 2 tonnes to over 3.4 tonnes per hectare by the early 2000s through the use of new varieties, fertiliser and, above all, an expansion of irrigation. These improvements have allowed farmers to cut their unit costs of production, offsetting the impact of falling prices on their incomes. It appears that smaller farmers have been included in these technological advances.

voice and power. The argument that step-changes in communications infrastructure are driving new modes of political engagement and social mobilisation has been explored extensively in the media – with a particular focus on the dramatic political changes of the 'Arab Spring' in countries such as Egypt, Tunisia, Syria and Libya. Paper 2 by Andrew Rogerson on the institutional response explores the potential of public policy to accelerate the poverty reduction impact of such technology, alongside other 'catalytic' approaches to the use of development finance.

Challenge 2: Globalisation and socio-economic transitions

Globalisation may be understood as the widening, deepening and speeding up of worldwide interconnectedness in all aspects of social, cultural, political and economic life – a phenomenon that has accelerated in the past 50 years (Held et al., 1999). All regions have become more globalised by most measures of economic inter-connectedness. Exports, inward flows and stocks of foreign direct investment (FDI) and remittances all grew in value and in their percentage of GDP between 1970 and 2010 (Figure 4) (World Bank, 2011a). But the peak was in 2008, with a considerable contraction afterwards as a result of the global financial crisis.

Figure 4: Exports of goods and services by income level (% of GDP) 1970-2010 (Left) and FDI by income level (% of GDP), 1970-2010 (Right)



Source: World Development Indicators.

The global discourse to describe a shifting geography of wealth and economic power has changed – from the ‘East Asian Tigers’ of the 1980s and early 1990s, to a focus on the ‘BRICS’ (Brazil, Russia, India, and China) from the late 90s onwards – to a general sense that well-governed low- and lower- to middle-income countries worldwide are now catching up with the OECD countries (which have had largely stagnant growth rates for 10 years). After decades of stagnation or decline, growth in sub-Saharan Africa turned around in the mid-1990s (before commodity prices began to rise) suggesting that policy and institutional changes crucial for African growth were in place. Others have commented on the phenomenon of fast-growing African countries in this era – variously described as ‘Cheetahs’ or ‘Lions on the move’ (McKinsey Global Institute, 2010; Radelet, 2010).

The OECD has noted that the 2000s were the first time in many decades that poorer developing countries grew faster than high-income economies (OECD, 2011b). It calculated that as many as 83 developing countries managed to double OECD per capita growth rates in the 2000s, compared to only 12 countries in the 1990s. It is clear that there has been a striking acceleration in global economic convergence. This is no longer just about a small group of high profile countries – whether the BRICs, the East Asian tigers or the Cheetahs. Economic growth in developing countries is producing a major shift in the global economic and political balance of power.

Contemporary globalisation presents a paradox of inequality. Inequality between countries (by money-metric measures) is declining as a large cohort of developing countries catches up with OECD nations in terms of national income and wealth. There is also a corresponding change in the balance of the global middle class, which Kharas (2010) expects to grow massively in developing countries in the next 20 years. Taking a metric of an annual level of per capita household consumption of between \$10 and \$100 dollars of purchasing power parity (PPP) per day, Kharas estimates that the global middle class will increase from 1.8 billion people in 2009 to 4.9 billion by 2030 and that Asia’s share of this middle class will increase from 23% to 66%.

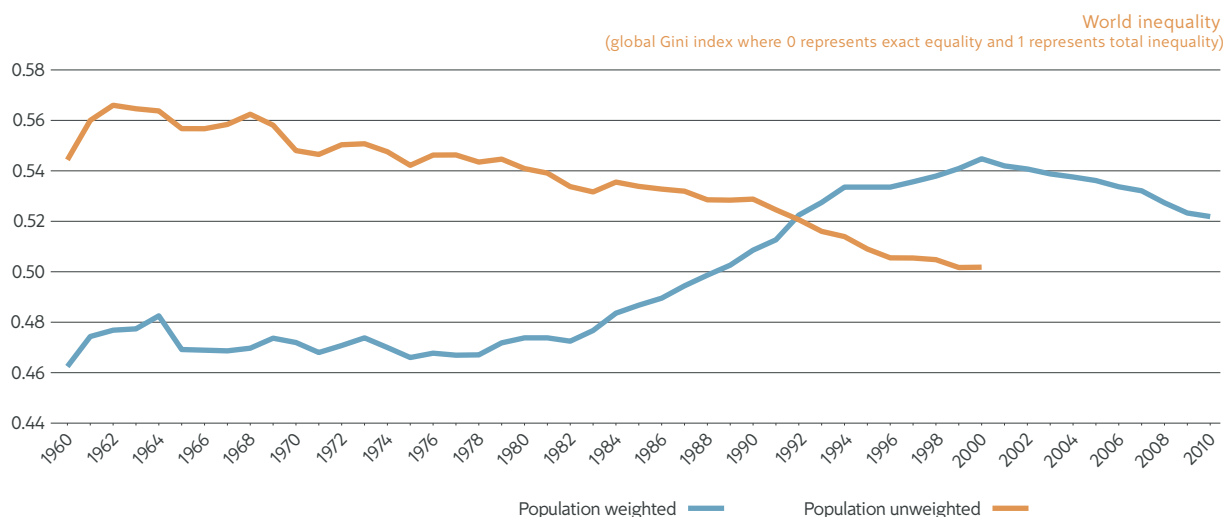
Both of these phenomena point to a decline in total global inequality. Crude quantification (such as attempts to construct a ‘global gini coefficient’ and track the sum of the world’s inequality through it) supports this proposition (Figure 5). And yet there is growing concern about inequality. The World Economic Forum *Global Risk* report, for example, ranks ‘severe income disparity’ as the most likely global risk – having not been on the radar screen of similar reports for the past five years (WEF, 2012).

Drivers include:

- *the development of a ‘hyper-elite’ separated from the rest of society.* Frank characterises the global phenomenon of the super-rich as a global super-class, creating a global society and a global economy of their own (Frank, 2007). Between 2002 and 2011, the number of billionaires in the Forbes Rich list increased by 248% (Beaverstock, 2011). In Latin America, for example, evolving income distribution is characterised by a shift to a ‘winner takes all’ pattern. In Chile the richest 10% of the population increased their share of national income by nearly 50% between 1972 and 1987 (reaching 51%) (Palma, 2006).
- *the stagnation of growth in many OECD countries – with dramatic collapses in welfare in some cases* (notably Greece). The middle class in OECD countries has experienced a series of shocks, from the collapse in house values in the US and Ireland, to alarmingly high levels of youth unemployment in Spain and Portugal.
- *ageing populations.* OECD and middle-income nations face the prospect of the largest population of retirees in history becoming increasingly dependent upon government budgets. Part of China’s growth has been driven by a ‘demographic dividend’ of a population that is largely working age. This will soon reverse as a population with dramatically reduced fertility rates becomes older and increasingly dependent on a relatively reduced national workforce.

The overall paradox is that while the ‘global gini coefficient’ is dropping as inter-country inequality is reduced, concern about the potentially destabilising effects of inequality at country level is rising.

Figure 5: Attempts to construct a ‘global gini coefficient’ to track the sum of the world’s inequality



Source: The Conference Board of Canada: Hot Topic, World Income Inequality: <http://www.conferenceboard.ca/hcp/hot-topics/worldinequality.aspx>

Challenge 3: Sustainable development and climate change

When modelling the impacts of the latest trends in CO₂ emissions, projections show that global average temperatures will increase by about 3.5°C by 2100 (Climate Action Tracker, 2012; IEA, 2011). This is well above the 2°C of warming considered by many to be the threshold for triggering dangerous, runaway climate change (UK Met Office, 2010). Even with rapid decarbonisation and a green growth revolution, most climate scientists now consider 2°C to be unobtainable, though this remains a target for political negotiations. Such rapid warming has fundamental implications for development and economic activity.

- More frequent and severe extreme weather, combined with ever growing numbers of people and assets in exposed coastal areas and floodplains, will lead to massive economic losses. This is particularly so in Asia, where 125 million people are expected to be exposed to tropical cyclones by 2030, double the number in 1990 (IPCC SREX 2011; Peduzzi et al., 2011).
- Significant long-term shifts and inter-annual variability in agricultural yields will amplify food insecurity through unpredictable supply. In a world of global food supply chains, direct climate impacts will have diverse, distant and indirect effects. For example, based on modelling warming of 4°C, soya bean yield will be halved, at least, in almost every developing country in which it is grown (Osborne et al., 2009).

This threat of dramatic climate change hangs over a world in which resources are already scarce in many regions, with global scarcity of key resources a real risk under business as usual scenarios.

By 2030, the world will need at least 50% more food, 45% more energy and 30% more water (High Level Panel on Global Sustainability, 2012). Almost one quarter (23%) of the substantial increase in crop production achieved over the past four decades was due to the expansion of arable land. Agriculture accounts for about 70% of water withdrawals, while water extraction from rivers and lakes has doubled since 1960 (Turrall et al., 2011). Only 13% of global energy comes, at present, from renewable sources, but the imperative of emissions reduction means that renewable energy must increase, with consequences for both land and water resources.

There are three key features of the new context of natural resource use:

- greater competition among users (people and countries) and among uses (sectors) for a limited pool of resources, which is likely to push up prices and exacerbate the deprivation of those who already lack access to natural resources
- greater global interconnections between the demographic and socio-economic drivers of production and consumption: pressure on a country's natural resources comes not only from within its own borders and is not related necessarily to domestic demand
- the possibilities of absolute scarcity, or irrevocable deterioration, of ecosystem functions.

While the challenges are immense, action on climate change and resource scarcity presents some rich opportunities for climate compatible and sustainable development.

- New markets and trade opportunities are emerging, driven by growing demand for low carbon goods and services. Bolivia's vast lithium deposit, for example, offers a transformative path linked to the batteries that will be needed for low-carbon vehicles.
- The vast forests of central Africa, South-East Asia and South America could offer new revenue streams for forest dependent communities who could be paid for their carbon stewardship. This will require a strong focus on the design of institutions and arrangements that safeguard the interests of such communities – as the same incentives could lead easily to their displacement as others attempt to control the same revenue streams.
- Technological innovations that decouple growth from resource use. Countries that have yet to develop centralised power grids based on fossil fuels, for example, could 'leap-frog' this stage of development to develop localised adaptive energy supply systems based on renewable sources.

As highlighted by the Secretary General's High Level Panel on Global Sustainability, our challenge is 'to eradicate poverty, reduce inequality and make growth inclusive, and production and consumption more sustainable, while combating climate change and respecting other planetary boundaries' (High Level Panel on Global Sustainability, 2012).

It is important to note that it is the poor and powerless who are most vulnerable to the negative impacts of climate change (whether from biophysical events such as droughts and cyclones – or from the unintended consequences of mitigation policies that can negatively impact the poor, such as bio fuels). The protection of their assets (whether land and land-based natural resources in rural areas or housing in urban areas) is a critical element.

Challenge 4: Human security, violence and conflict

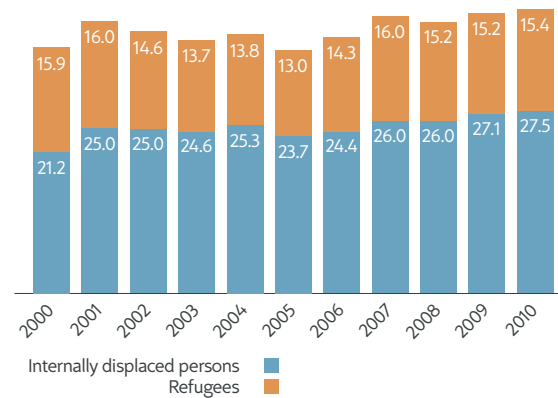
Over the past decade the threat of inter-state conflict has reached historically low levels, suggesting that this is an era of unprecedented peace and security. But this is only a partial picture. Security issues are very high on the development agenda, particularly civil conflict, terrorism, trans-national criminal networks, and some forms of social violence (e.g. urban gangs).

The engagement of development actors to support the 'stabilisation' of areas of strategic importance has led to concerns that the 'securitisation' of development action will undermine the legitimacy of key humanitarian institutions (Disasters, 2010). However, development assistance can enhance security and improved security can, in turn, create the necessary conditions for long-term development and institutional transformation. One major concern is countries that are trapped in repeated cycles of violence, contributing to low economic growth and poor human development (World Bank, 2011c; Collier, 2007). *The World Bank's World Development Report 2011 on Conflict,*

Box 2: Displacement as a development challenge

Despite the fact that 40 million people have been displaced from their homes (2010 figures: 27.5 million internally displaced people: www.internaldisplacement.org), and that 15.4 million are refugees (UN, 2011), they have not, until recently, been seen as a development challenge for their host states, but as a humanitarian case load. The paradigm has been: 'keep them alive until they can go back home, then they're okay'. But the causes of displacement are usually very protracted, and few of those who return to their countries may go 'home' to old lives and livelihoods. Land may have 'disappeared', there may be ethnic hostilities, and young people who grew up in displacement may not want to return to farming. This paradigm is now being overturned, with a growing focus on displacement as a development challenge. But there is very little evidence about what actually works in supporting displaced people, either during their displacement or on their return home. And there is even less evidence on how to make the most of displacement as an economic opportunity – including for the states 'benefiting' from the inflows of skills.

Figure 6: 40 million people live in displacement
Refugees and Internally Displaced Persons (IDPs) 2000-2010 (millions)



Source: United Nations, The Millennium Development Goals Report 2011, p.15

Security and Development estimates that 1.5 billion people live in countries affected by repeated cycles of violence and conflict (World Bank, 2011c). Changing patterns of conflict and violence now characterise the lives of many people in the poorest countries. While deaths caused by civil war have fallen by three-quarters since the 1980s, one-quarter of the world's people still live in conflict-affected countries with high levels of criminal and political violence. Some 40 million people have been displaced from their homes (Figure 6), and Box 2 outlines the neglected development challenge of guaranteeing their rights and improving their living conditions.

Another cause for concern is the unpredictability of trajectories and events that can cause a rapid descent into conflict and fragility. Recent events in Mali are one example. The country faced an influx of well-armed and well-trained fighters from the Libyan army following the fall of Gaddafi, which re-energised the long-simmering Tuareg insurgency against the Malian Government. A variety of groups have since emerged as powerful actors in an area now beyond government control of any kind. The subsequent coup d'état resulted in a situation where external assistance could not easily be mobilised due to questions of regime legitimacy at the centre. Meanwhile the fighting has disrupted important humanitarian efforts to address the impact of drought and could cause widespread instability across the Sahel region of West Africa (BBC, 2012).

Many countries with elements of societal fragility are not particularly poor. Insurgencies in India and Nigeria, for example, could also cause serious instability, and the spread of criminal gang organisations in many parts of Latin America has already done so.

Attempts to use development action in crude ways to reinforce security – at the local or national scale – are fraught with risks and there are many depressing examples of failure. Recurring themes in the literature are the tendency to set unrealistic goals and time-frames for transitions out of conflict and fragility, and the failure of development actors to invest in a deep understanding of the context in which they are operating (Pain and Kantor, 2010).

Questions of how to (re)build institutions remain at the forefront of security/development debates, which has often led to an international focus on state-building and delivering core state functions (e.g. security, justice, service delivery, public resource management and economic stability) in fragile and conflict-affected states (OECD, 2011a). Increasingly, however, there is recognition that state institutions must be embedded within societal processes (Evans, 2009). This can mean having to work in countries characterised by contested state legitimacy and where the bonds of social cohesion and shared values between groups are weak, often as a result of systemic exclusion and pervasive 'horizontal inequalities' (Stewart and Brown, 2009). One common lesson cited in the humanitarian, development and security literatures is that the 'stabilisation project' in post-conflict situations has often been over-complex, lacking convincing models of how change will occur, and beset by unrealistic expectations of what can be achieved over what time frame (Norton, 2011).

Significant lessons for development practice include the need to recognise:

- the importance of understanding context and the complexity of relationships, interests, perceptions and incentives in conflict situations (although ability to do this effectively does not follow on automatically from recognition of the issue) (Elhawary et al., 2010)
- the importance of sustainable governance transitions as a basis for development following fracture and conflict. Political arrangements need to be inclusive and durable enough to allow progress
- that getting markets moving (through small, local enterprises) is critical to build social cohesion and sustainable development
- that tackling persistent and chronic inequalities between social groups (including gender inequality) really matters for social cohesion and long-term sustainable development
- that tackling trans-national threats to development through illegal trafficking is a high priority for sustainable development.

Conclusion: the challenges to global collective action

The WEF *Global Risks Report* of 2012 places global governance at the centre of its 'global risks map' – with links to issues of greenhouse gas emissions, chronic fiscal imbalances, critical systems failures, rising income inequality, fragility, and demographics (WEF, 2012). From climate change to trade, progress on confronting the big global challenges at a multilateral level looks weaker than it should be.

Increasingly the public goods challenges that matter are wholly or partly global. As Martin Wolf puts it:

'Our states cannot supply [GPGs] on their own. They need to co-operate. Traditionally, the least bad way of securing such co-operation is through some sort of leadership.....As a result, some global public goods have been adequately – if imperfectly – supplied. But as we move again into a multipolar era, the ability of any country to supply such leadership will be limited. Even in the unipolar days, it only worked where the hegemon wanted to provide the particular public good in question.... Ours is an ever more global civilisation that demands the provision of a wide range of public goods. The states on which humanity depends to provide these goods, from security to management of climate, are unpopular, overstretched and at odds. We need to think about how to manage such a world. It is going to take extraordinary creativity.'(Wolf, 2012)

The undoubted successes of global poverty reduction in the last two decades show what is possible when effective coalitions for action are mobilised. In the case of the 'big push' on global poverty and debt in the 1990s, the coalition involved civil society networks as well as governments, which all determined to 'make poverty history'.

The maintenance of global progress requires action to confront a broader set of challenges and the task looks more demanding as a result of geopolitical changes that make effective global public action harder than it was. Maintaining coalitions for change based on solidarity – and engaging citizens as well as governments – will be an important part of the solution.

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2

The policy and institutional response to development challenges:

forging new partnerships

By Andrew Rogerson

with inputs from William Avis, Jonathan Glennie, Maia King, Pedro Martins, Tom Mitchell, Andrew Scott, Heidi Tavakoli and Leni Wild. With thanks to Alison Evans, Edward Hedger and Simon Maxwell for review comments and guidance.

Introduction

The challenges described by Andrew Norton in Paper 1 on inclusive and sustainable development are daunting. They call for collective action of unprecedented scale, scope and speed to bear down on complex problems. But opinions differ on how best to achieve this.

This second paper looks at the messier institutional space occupied by the many actors, policies and instruments that need to come together to tackle the challenges raised in the first paper, and how these may complement or compete with one another.

This sprawling landscape – the international development ‘ecosystem’ (Rogerson, 2010) – operates neither as a competitive industry or a planned system, though it contains elements of both. Its diversity, therefore, promises more choice and opportunities for complementarity, as well as costly overlaps and gaps. Any set-up that has so many independent elements, and that lacks sanctions against free-riders, cannot meet the fundamental criteria for collective action. Any attempt at the deliberate ‘shaping’ of this landscape must, therefore, be indirect.

This sweep of the implied policy agenda is vast, especially where trade, investment, competition and related policies are concerned. This poses practical challenges for typical development agencies and they will have to be selective.

On what basis are their choices to be made? Development agencies have a range of models that would allow them to engage on such non-aid issues rather than the standard financial levers, or they could combine the two.

In this light, the outcome of the 4th High Level Forum on Aid Effectiveness in Busan in 2011 (HLF4) was a valuable reference point. It updated the lexicon of ‘development effectiveness’ for a changed global context in which factors well beyond aid, beyond the public sector and beyond the OECD are integrated as key drivers of progress. It also recognised the need for a broader, more differentiated partnership for development.

This remains, however, a vision, rather than a recipe. Some specific advances – the New Deal for fragile states, for example – are discussed in this paper as being full of promise, while facing practical hurdles in moving from broad principles to time-bound commitments and disciplined delivery.

At the global level, a new partnership mechanism is under discussion. This could combine the universal ownership of the United Nations with the results-focused experience of the OECD. How inevitable tensions between inclusion and effectiveness are resolved will largely determine its success.

This paper reviews on-going innovations in the existing ‘traditional aid’ system, focusing on three powerful factors – or disruptors – that shape the development ecosystem (after Kharas and Rogerson, 2012):

- new philanthropy and impact investment (for social progress)
- trade-aid blends and South-South transfers (for growth)
- climate change financing (for shared space)

For reasons of space, the paper illustrates the implications for development of just one huge ‘global public good’ challenge (climate change), while acknowledging others, notably the delicate policy nexus between security, humanitarian assistance and development (Box 1). In the case of each of the ‘disruptors’, the major differences between these phenomena and ‘business as usual’ for development cooperation are highlighted.

In the final section, the paper asks how a typical development agency may withstand and even thrive on such a cocktail of challenges in the future.

Innovations in aid

The first innovation in aid concerns the **results agenda**. This is justified by various distinct motivations beyond the self-evident desire to improve the impact of aid programmes (e.g. to justify aid to donor taxpayers; to manage aid agencies better; and to respond to the complexity of aid) (Barber, 2012). Development practitioners are becoming

more interested in what types of aid provide specific support for the achievement of results, as compared to the other principles of aid effectiveness outlined in the Paris Declaration (national ownership, harmonisation, alignment and mutual accountability).

This has led to the blossoming of ‘results-based aid’ instruments, including the budget support MDG-contracts (EU), Cash on Delivery (the Centre for Global Development and the UK Department for International Development) and Programme-4-Results (World Bank). Few results-based instruments have been implemented in full or evaluated rigorously. However, if aid disbursed solely upon the basis of the results achieved were ever to become the ‘new normal’, development agencies as they operate at present would become largely redundant.

The second innovation relates to **greater differentiation of aid** across and within countries. Increasingly, donors want to target their resources to those areas where the need is greatest and where they can have the greatest impact (as in the EU Agenda for Change).

In paper 1, Andrew Norton shows that three-quarters of the world’s absolute poor already live in middle-income countries (MICs), while other large countries will soon ‘graduate’ to middle-income status. Mature MICs already have broad financial market access and a large middle class and tax base and the case for continued OECD taxpayer-funded assistance to such countries is under relentless public scrutiny.

In some cases, the poverty gap remains large relative to domestic resources and there is a strong case for continued external support (Ravaillon, 2010). In others, the residual case for aid rests on four lines of argument that are less convincing:

- second-best humanitarianism (national elites are able but unwilling to help, so external assistance is needed)
- social engineering (external engagement could help to change the priorities of the country in question)
- know-how transfer (countries are willing to make changes but lack the capacity do so: external support would allow them to pilot interventions)
- a ‘catalytic aid’ approach, whereby a little official finance can leverage larger private resources (Rogerson, 2011).

Such considerations also shape the future of the largest multilateral funds, such as the European Development Fund (EDF), the International Development Association (IDA), the African Development Fund (ADF) and their parent bodies. If the current eligibility criteria are retained, what are the consequences for their mandates and funding, as their clientele shrinks (the population covered by the IDA, for example, is projected to fall by two-thirds by 2025) and their work overlaps increasingly in Africa? If they are altered, how will the lines be re-drawn for both low-income countries (LICs) and MICs (Moss and Leo, 2011)?

Fragile states. Differentiation also assumes that aid programmes take appropriate account of the political, economic and social context of partner countries. One illustration is the New Deal for Fragile States, a new

approach to support fragile and conflicted-affected states that reflects their particular needs and priorities (Box 1).

Finally, the aid agenda has broadened into the ‘aidscape’ (Glennie, 2011). This covers traditional aid or official development assistance (ODA), other official flows and a number of other sources of development finance (Figure 1). In turn, these are linked to very different policy levers.

Box 1: The g7+ group of Fragile and Conflict-Affected States and the ‘New Deal’

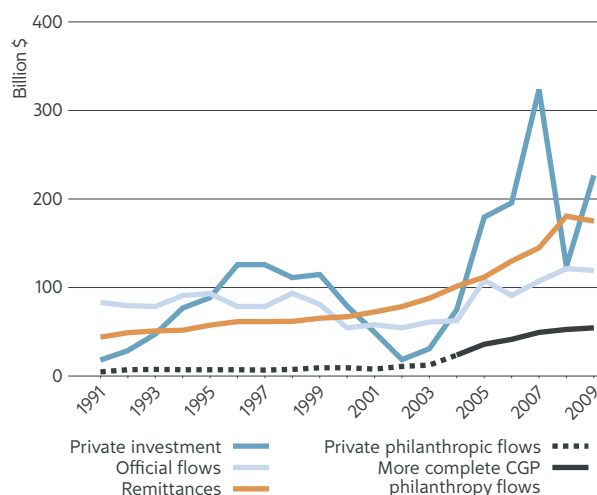
The g7+ is a group of 19 conflict-affected states, formed in 2010 and currently chaired by Min. Emilia Pires, Minister of Finance of Timor-Leste. At the Busan High-Level Forum on Aid Effectiveness in November 2011, the g7+ and the international community agreed a ‘New Deal’ for international engagement in fragile states, which includes three key elements:

- the importance of Peacebuilding and Statebuilding Goals (PSGs) to prioritise legitimate politics, security, justice, economic foundations and revenues and services and guide work in fragile and conflict-affected states.
- a focus on new ways to support country-led and owned transitions out of fragility based on a fragility assessment, one vision and one plan, a country compact, and inclusive and participatory political dialogue
- a commitment to achieve better results from donor support by enhancing transparency, risk management, predictability of funding, the use and strengthening of country systems and building national capacities.

The New Deal is being piloted in seven g7+ countries with the support of co-pilot donor partners.

Source: Adapted from www.g7plus.org, ODI event ‘A New Aid Deal for Fragile States’ (10 October 2011), and the New Deal (<http://www.g7plus.org/new-deal-document/>).

Figure 1: Official, private investment, philanthropic, and remittance flows from OECD donor countries to developing countries, 1991-2009 (Billions of \$)



Source: Hudson Institute for Global Prosperity (2011) *The Index of Global Philanthropy and Remittances* p.15.

There is a clear deceleration of ODA: global country programmable aid is virtually static and expected to fall in nearly two-thirds of recipient countries between 2010 and 2013 (OECD-DAC, 2011). This is set against an expectation that aid-like flows from countries outside the OECD's Development Assistance Committee (DAC), such as the governments of emerging economies, foundations and other actors, are growing at a much faster rate. However, best estimates of such flows, which are subject to considerable variation depending on definitions, show that they start from a smaller base and that, together, they equate to roughly one quarter of DAC ODA (Prada et al., 2010).

Disruptors in development cooperation

a) New philanthropy and impact investment

Observers have been predicting the demise of traditional development aid for years (Kharas et al., 2011), given the inexorable rise of new philanthropic actors and, increasingly, 'social' enterprises and their hands-on investors, which deliver development outcomes using market-based disciplines and skills.

Micro-charity and ethical lending: This trend has recently been energised by advances in information and communications technology (ICT), coupled with renewed appreciation for the potential benefits of household or individual level action such as small cash-transfers and micro-credit. Longstanding traditions of charitable giving can now be web-based and even cell phone-assisted. The formidable transaction and information costs of matching programme organisers and beneficiaries to remote supporters are starting to dramatically decline.

Global Giving (www.globalgiving.org), for example, invites individual donors to select projects, countries and amounts with simple drop-down menus. Give Directly (www.givedirectly.org) goes further to use Kenya's advances in mobile banking, M-PESA, with the donor deciding how much to give. The poorest families in the poorest villages are selected at random through census data and receive the funds instantly and regularly via cell phones. Kiva, the micro-credit clearinghouse (www.kiva.org), provides a similar service for ethical lenders. This matters, with over \$2 million a week in new loans raised from the general public.

Complementarity with public policy: Such models face constraints that automation alone cannot resolve. For example, cash safety nets reduce income volatility and increase poor families' propensity to invest in their future, but someone must ensure that such investments are accessible. Micro-projects are powerless against structural obstacles that require broader public action. Micro-credit is not suitable for everyone, and depends on the rule of law. There are natural complementarities here with 'traditional' ODA and good public policy.

Possible competition: The expanding aid landscape offers an alternative proposition that can be called individual-to-individual solidarity, or I2I. This contrasts with traditional aid that is brokered – indeed monopolised – via the tax system and governments at both ends (or bureaucrat-to-bureaucrat,

B2B, giving). It even has some advantages over the approach used by international NGOs, who appeal for voluntary donations from the public, but then decide how to spend it.

Will I2I undermine, fatally, public support for B2B, or what is called aid or ODA at present?

It may, but not at once in the most generous DAC countries. It is in the US, where B2B is well below average, that channels for private giving are the most developed, suggesting that, in the US at least, the two are substitutes rather than complementary (Table 1).

Table 1: US total net economic engagement with developing countries 2009)

| | Billions of \$ | % |
|-------------------------------------|----------------|------------|
| US official development assistance | 28.8 | 13 |
| US private | 37.5 | 17 |
| Foundations | 4.6 | 12 |
| Corporations | 8.9 | 24 |
| Private and voluntary organisations | 12.0 | 32 |
| Volunteerism | 3.0 | 8 |
| Universities and colleges | 1.8 | 5 |
| Religious organisations | 7.2 | 19 |
| US remittances | 90.7 | 40 |
| US private capital flow | 69.2 | 31 |
| US total economic engagement | 226.2 | 100 |

Source: Hudson Institute for Global Prosperity (2011) The Index of Global Philanthropy and Remittances, p.9. (Values do not sum due to rounding)

It is only logical to assume that I2I must, at some point, start to compete more broadly for the disposable income of generations who have grown up with social media and, therefore, for their votes on aid that is financed by taxes. Are taxpayers and givers, on the whole, more generous when they believe that their specific (even interactive) preferences are taken seriously? Can such preferences be accommodated within a public sector management context?

Social enterprises are understood here as those designed for specific social outcomes, such as micro-credit banks to promote financial inclusion. They also need to cover costs and attract investment in order to survive and expand. There is disagreement about the trade-off between their financial and social returns, because achieving high profitability from transactions with the poorest can be exploitative, as well as inclusive.

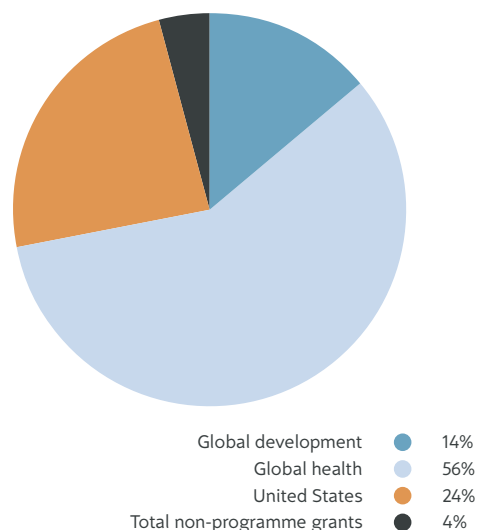
Correcting market failure through innovation: A more demanding test is whether such enterprises have a scalable business model that tackles major market failure. An archetypal case is M-PESA, the Kenyan mobile banking scheme, which grew in a few years to reach around 18 million users and transfers more money within the country than Western Union does throughout sub-Saharan Africa as a whole (Fengler et al., 2011).

Figure 2: Bill and Melinda Gates Foundation Fact Sheet

Funding from 1994 to present

| Programme areas | |
|---|--------------------------|
| Global development | \$3,613,000,000 |
| Global health | \$15,271,000,000 |
| United States | \$6,236,000,000 |
| Non-programme grants | |
| Charitable sector support | \$71,000,000 |
| Employee matching gifts and sponsorship | \$21,000,000 |
| Family interest grants | \$982,000,000 |
| <i>[Total non-programme grants]</i> | <i>[\$1,074,000,000]</i> |
| Total grants | \$26,194,000,000 |

Source: Gates Foundation <http://www.gatesfoundation.org/about/Pages/foundation-fact-sheet.aspx>



A better-known example is the Bill and Melinda Gates Foundation (BMGF) (Figure 2), particularly in the field of vaccine development for communicable diseases and more recently, improving agricultural productivity in Africa (BMGF, 2011). For example, the Advance Market Commitment scheme, co-financed by BMGF and several official aid agencies, accelerates incentives for private pharmaceutical companies to develop drugs for low-income markets by guaranteeing them forward sales.

Implications for a wider partnership: The full implications of these models for the wider development system still need to be digested. They may have real potential in terms of applying commercial principles of risk and return to social outcomes, adopting an ‘investment’ rather than an aid perspective, and investing deliberately in people and ideas, rather than projects.

However, the rhetoric may be running ahead of reality. The definitions and metrics related to these social enterprise models, including those on their impact, are not yet fit for purpose and are applied inconsistently. Their success or failure is also determined, to a large extent, by the enabling environment that surrounds them and the role of national governments in its creation. There is a need for greater understanding of these important linkages.

Are the traditional development agencies alert to the opportunities presented by new philanthropy and impact investment, and do they possess the skills and networks to exploit them? Is their main complementary role to support the patient piloting of, for example, social enterprises with seed money? Or should they come in later with broader funding, to help take initiatives to scale?

b) Growth: Trade-aid blends and South-South cooperation models

Changing paradigms: New perspectives are emerging on the respective roles of the public and private sectors in promoting inclusive economic growth, and the relationship

between aid, trade and investment. Gone is the broad consensus in which the role of the public sector was to promote macroeconomic stability, establish a favourable regulatory environment, invest in basic social services, and leave the rest to the private sector (domestic or foreign). This paradigm, while necessary (no country prospers from chronic instability), has delivered relatively little on its own in terms of sustained development.

Emerging role models: In many successful countries, the State has played a far more important role in the economy than the neo-classical approach would suggest appropriate; there appear to be fewer hard-and-fast restrictions to its remit than mainstream economists once anticipated. Partly because of their ‘heterodox’ success and counter-cyclical contributions to the post-crisis global economy, emerging economies such as Chile, Korea and Mexico are being sought actively by low-income nations as development partners. Their relative influence, therefore, goes well beyond their deceptively modest collective share of aid-like flows, which are often under-estimated as a result, in part, of uncertainty over their financial terms.

There is now consensus that growth is ‘pulled’ by trade and investment opportunities and addressing infrastructure bottlenecks, not ‘pushed’ by external aid, except where such aid is well targeted on the productive sectors (Figure 3, private and official flows). It is also worth recalling that three quarters of the world’s poor (those living on less than \$1 a day) live in countries where aid counts for less than 2% of Gross National Income, and have long done so (Glennie, 2011). This implies that changes in aid spending may not be as significant for global poverty reduction as some have thought. This reinforces calls for greater differentiation of aid and other flows, both between LICs and MICs and, in addition, across countries with unequal access to, for example, revenues and investments linked to natural resource exports.

This blurring of public-private boundaries, together with the clear way in which emerging partners express their mutual-interest motives for cooperation, pervades the aid discourse. In the 1990s, a few major aid donors made efforts to keep their ‘poverty-reduction’ objectives separate to their trade and foreign policy considerations. However, as the rhetoric of south-south cooperation rises in importance there are questions about how long such distinctions can last (Natsios, 2006).

South-South cooperation: Financial assistance is by no means the only, or even necessarily the main, component of South-South cooperation (SSC). SSC usually entails ‘bundling’ financial assistance with trade, investment and (often trade-related) technical cooperation. Many argue that, when compared with other sources of cooperation, SSC allows greater policy space for recipients; tends to be more focused on infrastructure and productive activities (and, therefore, more growth-enhancing); and entails a more equal partnership that is based on shared interests. There are frequent reports that it delivers faster, with fewer conditions and at lower cost, although transparent comparisons are not readily available.

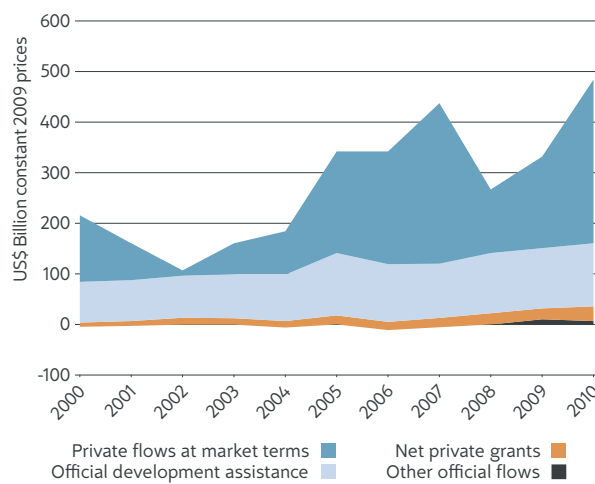
China is a major player in SSC, but is by no means alone, with Brazil, India and South Africa among the other major partners (Figure 4), as well as Arab countries (the latter mainly through financial aid). While all of these are self-branded as SSC, some of them have more in common with the aid provided by DAC countries in terms of relative power relations. Meanwhile greater horizontality can be found among an expanding group of medium-sized providers, such as Colombia, Cuba and Indonesia, which rejects the whole idea of ‘aid as gift’, and underscores mutual benefit explicitly, including trade.

Public-private partnerships (PPPs) and blends can attract significant private resources to finance large-scale public investments, especially in infrastructure. It is estimated that the private sector provided \$1.4 trillion of finance for public infrastructure projects in developing countries from 1990 to 2008 (World Bank, 2012). In 2008, sub-Saharan Africa received around \$13.5 billion in private finance for infrastructure, about 9% of the global total.

However, the evidence on PPPs in Africa shows mixed results and governments should not expect them to be ‘magic bullets’ (Farlam, 2005). The process, which can be complex, requires appropriate legislation and regulatory frameworks, and is quite demanding in terms of time and skills. Nonetheless, donors could ‘catalyse’ private financing by providing partial credit guarantees to investors and ensure that the public interest is safeguarded by providing relevant technical assistance to governments.

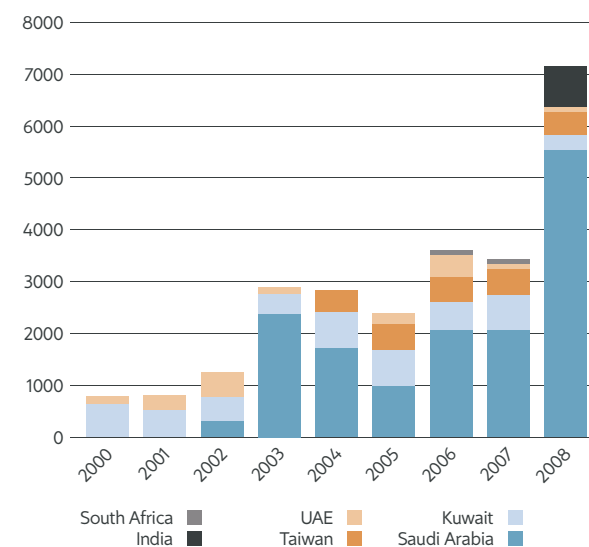
Arguments on the ‘catalytic’ use of public funds in a PPP context should be subject to proper evidence-based scrutiny. It is hard to demonstrate the counter-factual: that private investment would not have been forthcoming in the absence of public intervention. Some simulations have shown, however, that private investment levels were significantly lower in scenarios where there was no engagement by international development finance institutions DFIs (Massa, 2011).

Figure 3: Official development assistance (ODA) Other Official Flows, (OOF), private flows and net private grants from DAC countries to developing countries (part I) net disbursements



Source: OECD/DAC (2011) Official and Private Flows

Figure 4: ODA from selected non-DAC bilateral donors 2000-2008 (US\$ million)



Source: Prada, F. Casabonne, U. and Bezanson, K. (2010) Development Resources Beyond the Current Reach of the Paris Declaration, Supplementary Study, Danish Institute for International Studies, Copenhagen, p.16.

Implications for policy: Aligning external support more closely to the productive sectors of the economy, including through well-chosen infrastructure, is not the sole prerogative of ‘emerging’ sources of cooperation. Embracing bilateral trade interests more openly within development partnerships also requires a shift in perspective. Similarly, leveraging private resources requires regulatory improvements and transparency, as much as clever financial packaging.

The rise of MICs as trade and investment competitors, alongside growing pressures for other countries to justify themselves to their publics, suggests that any substantial further untying of aid is unlikely. However, many of the benefits of untying come from the active use of country systems and the development of local markets. Building on these areas of progress may be a more productive way to accommodate the new geopolitics.

More generally, policy stances by industrialised and emerging countries in trade, competition, investment, taxation and migration should be seen as the underlying drivers of growth elsewhere – the so-called ‘coherence agenda’. Cross-border financial arrangements – whether on market, concessional, or blended terms – are as much a consequence of these areas of policy as of independent instruments. Finally, partnership approaches have to become more differentiated, and thus better able to work in country contexts of quite different trade potential.

c) Protecting shared space: Climate change responses, climate finance and development cooperation.

It is likely that climate change responses to keep the global average temperature rise below 2°C by 2035 (see paper 1) will shape international development policy far more than any international development considerations will shape climate change responses.

This issue cannot be separated from internationally negotiated solutions to the challenge of global warming. Indeed, the less progress there is on agreed emissions reductions and carbon pricing structures that could unlock massive private and innovative resources, the more pressure there will be on conventional public sector financing. It could also be argued that financial concessions are an indispensable piece in the negotiations’ end-game.

The multilateral negotiations state of play: The Rio Summit of June 2012 held the promise of an eventual agreement on new global sustainability goals, but there are still obstacles to overcome. On the one hand, climate change has made the concept of global limits more visible and pressing. On the other, the topic’s precedence is challenged constantly by concerns about growth, jobs and better management of global financial crises. Similarly, the private sector is optimistic about its capacity to roll out new, green technology, but still depends on government subsidies that are hard to fund over long enough investment timeframes.

Last year’s agreement on the Durban Platform can be read as the glass half empty or half full. Half empty, because few players except the EU will sign up to a Kyoto extension and work remains to be done on a successor agreement, including the need to clarify what exactly is meant by ‘with legal force’. In addition, there seems to have been little discussion of country emissions targets. Half full, because the process has been kept alive and made more inclusive. Noting this, Robert Stavins says that ‘in the real world of international negotiations on this exceptionally difficult global commons problem, this is what success looks like’ (Stavins, 2011).

Unilateral and private sector responses: There is disagreement on how much can be achieved in the absence of a new international regime and an international carbon price structure. However, many groups believe that the attempt is worthwhile, including individual governments that are setting high targets for emissions reductions (e.g. Denmark: 40% below 1990 levels by 2020), introducing emissions-trading schemes (Korea by 2015; China on a pilot basis in 2012, building to a nationwide carbon price by 2015); and investing in green businesses (growing by 78% globally each year). The private sector is also showing enthusiasm in sectors as diverse as shipping, lighting, windows, and wind power.

Responding to the huge climate challenge will mean ‘disruptive innovation’: systemic change that is more akin to the technological upheaval of the industrial revolution, rather than a patchwork of individual technologies. New funding sources may be needed as well as imaginative uses of finance, such as blending, risk instruments, co-financing, and equity investments. Many groups see the main driver of the current ‘climate enthusiasm’ as growth and jobs, rather than concerns about climate change itself. Governments and businesses see big opportunities in being first movers, and the ‘green economy’ heralded at Rio+20 is actually about industrial policy. Climate policy, it seems, can no longer be the preserve of environment ministers alone.

Climate finance and aid: strange bedfellows? The lack of progress on reducing greenhouse gas emissions places more pressure on OECD governments to meet the Copenhagen climate finance target of \$100 billion per year by 2020. Despite some assertions to the contrary, and creative appeals to markets and blended instruments, most contributions to climate finance are likely to continue to be drawn from ODA budgets as a result of budgetary squeezes, the persistence of debt crises and competing priorities. And progress toward the 2020 target may itself prove disappointing.

As the development and environment agendas continue an alignment progress that is painfully slow, multilateral environmental agreements (e.g. the UN Framework Convention on Climate Change, and the UN Conventions to Combat Desertification, and on Biological Diversity) are likely to have an increasing influence on the nature of development cooperation. Here, climate finance will be the dominant driver, given the volume of financial resources involved.

There are some important differences in the principles that shape climate finance and aid. Aid may, for example, be shaped increasingly by the principles that apply more to climate finance (Table 2). The political necessities of providing climate finance – necessities that are more legally binding – outweigh the political incentives of protecting the fundamental principles of ODA, which is a more voluntary paradigm.

This shift is likely to be accompanied by a relative increase in the power of developing countries to shape the nature of spending that accrues to climate change finance commitments. This includes ‘direct access’ modalities, which follow some of the basic logic of

unconditional budget support that is linked (ex-post) to verifiable results.

As the worlds of development and climate finance become ever more complex, national mechanisms to manage both types of flow need to be enhanced to ensure effective and harmonised spending. One paradox is that ministers of finance in developing countries may, therefore, be more sympathetic than their environment colleagues to the need for greater integration of financial flows within national systems.

Table 2: Differences between aid and climate finance

| Aid | Climate finance |
|--|--|
| A voluntary paradigm | Yet to be determined |
| Focus on direct budgetary contributions from donor governments | Much greater emphasis on private flows and innovative sources |
| Present imperative of poverty reduction | Dealing with an uncertain future |
| OECD-DAC leadership | UNFCCC leadership |
| Aid conditionality set by donor countries prominent | Commitments expected from both contributor and recipient countries |
| Aid effectiveness has been a retrospective exercise after many years of delivery | Delivery scale has yet to begin |
| Five principles of aid effectiveness | Ten principles of climate finance |
| 1. National ownership | 1. Polluter pays |
| 2. Alignment | 2. Additionality |
| 3. Harmonisation | 3. Transparency |
| 4. Managing for results | 4. Accountability |
| 5. Mutual accountability | 5. Equitable representation |
| | 6. National ownership |
| | 7. Timeliness |
| | 8. Appropriation |
| | 9. Fair distribution |
| | 10. Complementarity |

Source: Bird, N. and Glennie, J. Going beyond aid effectiveness to guide the delivery of climate finance, ODI Background Note (August 2011) <http://www.odi.org.uk/resources/details.asp?id=5732&title=climate-finance-busan-aid-effectiveness>

Country differentiation: a different world map.

As far as public international finance for climate change is concerned, allocation rules will tend to prioritise the climate action imperatives rather than other considerations such as progress towards the Millennium Development Goals, per capita income, or country performance beyond meeting climate change commitments. So, if the mitigation objective is to reduce emissions tonnage as fast as possible, funding will be concentrated on the largest emitters, which tend to

be MICs. This will add to an already complex calculus, described earlier. Adaptation preferences will be based on vulnerability to climate change, which correlates with lower income but also with other attributes (such as low elevation above sea level) associated with countries that have relatively high aid per capita.

How climate change may shape development durably.

What might also emerge is a much stronger orientation towards sustainability for development cooperation overall. Development programmes will need to internalise responsibility for global sustainability and the sustainable local management of natural resources. Initiatives to manage equitable access to these resources would have greater prominence.

Development cooperation would also need to give greater weight to increases in resource productivity, requiring a shift towards more sustainable consumption patterns. While economic growth will still be an objective for low-income countries, the rate at which they deplete their natural resources to fuel that growth would be one factor to consider. Integrating environmental sustainability more generally into economic policy-making, at national level and locally, such as mechanisms to internalise environmental costs or payments for ecosystems services, would be a prime focus for technical assistance, from both OECD countries and South-South partners.

Conclusions: Implications for development partnerships

The sweep of the implied policy agenda is very large in terms of the practical challenges that all of this poses for a ‘typical’ development agency. This is particularly so where trade, investment, competition and related policies are concerned, and traditional development agencies need to select effective policy models.

On what basis is their selection to be made? Given the development landscape, this paper has described three main options for development agencies.

The first is to concentrate of being an efficient disbursing of ODA, facing reduced demand on the one hand and, on the other, increased competition from new kinds of business models and new forms of finance.

The second option is to become a broker and manager of ODA and ODA-like funds, concentrating on financial issues, but with a stronger focus on partnerships with the private sector and with non-traditional donors, and on expanding the share of funds being used for regional and global public goods.

The third option is to become a deal-maker and broker across government and internationally, providing a unique perspective and resources (financial and non-financial) on the issues that shape global well-being.

A set of questions for further discussion emerge from this paper.

- What are the strengths and weaknesses of these three models?
- What are their operational implications? What attributes would a development ministry or agency require to be able to carry out each of these types of activities? These could include, for example:

domestic political landscape: development focus, cabinet seats

structure and staffing: country presence, type of technical expertise

partnerships: stakeholders and relationships in the domestic, international and country landscape

- What are the implications for the overall development 'ecosystem' if ministries and agencies gravitate towards one model? If adopted by a large number, for example:

would each model lead to greater or less multilateralism? Would it lead to improved global collective action capacity?

what would it look like on the ground? Would it change the sector focus, or would it go so far as to change the country focus?

- What perspectives would recipient governments and people bring to the choice of model?

ODI is working with a range of partners on the issues raised in this paper and in the preceding paper by Andrew Norton. As the international community moves towards the 2015 deadline for the achievement of the Millennium Development Goals, the policies and partnerships that are needed to ensure sustainable development must come to the fore. These papers aim to add momentum to this debate and are a contribution to the creation of an effective post-2015 development paradigm.

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Danida is the term used for Denmark's development cooperation which is an area of activity under the Ministry of Foreign Affairs of Denmark. Denmark's development policy aims to combat fighting poverty through promotion of human rights and economic growth. Danida has responsibility for the planning implementation and quality assurance of Denmark's development cooperation. There are local and posted staff at Danish embassies and missions abroad who are responsible for the administration and management of Denmark's development cooperation with the individual country.

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