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The Concept of SDG-Sensitive Development Cooperation Implications for OECD-DAC Members

Alexandra Rudolph

The concept of SDG-sensitive development cooperation

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Alexandra Rudolph

Abstract

Since September 2015, the world has had a sustainable development agenda. The 2030 Agenda for Sustainable Development goes beyond a traditional development agenda and represents a multidimensional approach to development, with development cooperation central to the implementation of the values of the Agenda and the 17 Sustainable Development Goals (SDGs). This paper addresses the question of how to shape SDG-sensitive development cooperation in line with the requirements of the 2030 Agenda. The agenda does not extend the discussion on the role of development cooperation and ODA beyond debates of the last decades, and again pushes providers to reach at least a share of 0.7 per cent of their gross national income in ODA, target least developed countries (LDCs) and vulnerable contexts more explicitly, and mobilise additional (domestic and private) financial resources through ODA provision. The paper analyses the agenda in detail and distils the basic principles (universality and indivisibility) in order to recommend how development cooperation might be adjusted to support the implementation of the 2030 Agenda in partner countries (SDG-sensitive development cooperation).

Three main messages come out of this analysis:

1. The basic principles of the 2030 Agenda offer the possibility of reaching a coherent international policy approach for sustainable development through a “whole-of-government approach” with a strong focus on development cooperation.
2. A comparison of the determinants of the processes for allocating ODA with the principles of the 2030 Agenda and the requirements for ODA shows leverage points where providers (members of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD)) should adjust their allocation decisions (aid channel, country, sector, and instrument-mix) to provide SDG-sensitive development cooperation.
3. Since providers’ motivation in development cooperation is based primarily on strategic considerations, they should recognise the 2030 Agenda as an opportunity to use development cooperation as a strategic investment in sustainable development in partner countries, which will ultimately support sustainable development in their own countries.

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Abbreviations

AAAA	Addis Ababa Action Agenda
ADB	Asian Development Bank Institute
BMZ	Federal Ministry for Economic Cooperation and Development
BMF	Federal Ministry of Finance
BRICS	Brazil, Russian Federation, India, China, South Africa
CDM	Clean Development Mechanism
DAC	Development Assistance Committee
DCED	Donor Committee for Enterprise Development
DCF	Development Co-operation Forum
ECOSOC	Economic and Social Council
GAVI	Global Alliance for Vaccines and Immunisation
GBS	general budget support
GEF	Global Environmental Facility
GNI	gross national income
GPG	global public good
GPOBA	Global Partnership for Output Based Aid
HLF	High Level Forum (on Aid Effectiveness)
HLPF	High Level Political Forum
IFI	International Financial Institution
LDC	least developed country
MCC	Millennium Challenge Corporation
MDB	multilateral development bank
MDG	Millennium Development Goal
MOI	means of implementation
NGO	non-governmental organisation
ODA	official development assistance
OECD	Organisation of Economic Cooperation and Development
PBA	programme-based aid
PbR	payment by results
PCD	Policy Coherence for Development
PCSD	Policy Coherence for Sustainable Development
PforR	Program for Results
RCT	randomised control trial
SDG	Sustainable Development Goal
SWAP	sector-wide approach
UK	United Kingdom

UN	United Nations
UN DESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
USA	United States of America
WBG	World Bank Group

1 Introduction

The 2030 Agenda for Sustainable Development will be at the core of international and transnational cooperation for the next 15 years. It combines economic, social and environmental aspects and defines global values for sustainable development. Thus, the agenda is a tool to achieve global mobilisation for the common good, manage global challenges and increase accountability for actions. It formulates classic underlying principles of development policy (the policy field of development cooperation), but also emphasises the indivisibility and universality of the Sustainable Development Goals (SDGs) and the pledge to “leave no one behind” (UN, 2015). In order to reach the ambitious goals of the agenda, a broad mixture of changes will be required, ranging from the adjustment of regulatory policies, consumption and production patterns to the development of new investment strategies. Developing countries will need specific support to reach the SDGs by 2030, and development cooperation therefore needs to be adjusted to achieve that end. The question is how to shape development policy in general and development cooperation in particular, in order to create a central instrument for the implementation of the 2030 Agenda that can be characterised as *SDG-sensitive development cooperation*.

The international community is currently designing ways of implementing the SDGs and the 2030 Agenda through global, regional and national strategies. In 2016, a number of high-level events took place to discuss the role of development cooperation against the background of the 2030 Agenda, starting in January, when OECD members discussed an SDG-based results framework for development cooperation (OECD/DAC, 2016). The OECD is currently developing an Action Agenda that should guide member countries’ strategic response to the SDGs (OECD, 2016a). The Global Partnership Steering committee meeting in Malawi in March featured, among other topics, the effectiveness of development cooperation and the need for monitoring in support of the 2030 Agenda (UN Sustainable Development Knowledge Platform, 2016; ECOSOC, 2016). In a High-level Symposium meeting in Brussels in April, members of the Development Cooperation Forum (DCF) discussed the relevance of the agenda for all countries alike and the fact that development cooperation needs to focus on mutual learning and long-term goals, especially in least developed countries (LDCs) and vulnerable circumstances (Global Partnership for Effective Development and Co-operation, 2016). These meetings informed the High Level Political Forum (HLPF) meeting in New York (July), at which countries (and other entities) reported to the HLPF and committed to the monitoring process of the 2030 Agenda (UN Sustainable Development Knowledge Platform, 2016). The outcome documents of these meetings so far show that representatives of governments agree on the need for the adaptation of development cooperation, but clear strategies are difficult to design, since a business-as-usual approach, although not desirable, seems a possibility.

This paper has two main objectives: first, to add to this debate a detailed analysis of the requirements for the implementation of the 2030 Agenda and the consequences for the policy field of development cooperation (development policy), and, second, to discuss the role of development cooperation in the context of the determinants of the allocation process of official development assistance (ODA).

The 2030 Agenda is much broader than a traditional development agenda, representing a multidimensional approach to development that includes development policy and other external-oriented policy fields (such as foreign and security, environmental and health).

The agenda features a broad range of “means of implementation” (MOI), including development cooperation, but does not provide clear implementation strategies for an SDG-sensitive development cooperation to support the achievement of the SDGs. Its vagueness in this regard will lead to a multitude of implementation strategies by domestic political actors, national governments and international institutions. In order to understand the role of the policy field and development cooperation (including the allocation of ODA) in the implementation of the SDGs, this paper looks in detail at the 2030 Agenda and its MOI. It shows how development policy may be used to reach international policy coherence for sustainable development (PCSD) and to design a whole-of-government approach that includes all policy fields. It then contrasts the principles of the 2030 Agenda and the requirement for development cooperation with the determinants of allocation patterns of providers of the Organisation for Economic Co-operation and Development’s Development Assistance Committee (OECD-DAC), and identifies leverage points for adaptation on the global budget, strategic and operational level.

The paper is structured as follows. Section 2 discusses the value and opportunities of development policy as instrument for policy coherence and the operationalisation of SDG-sensitive development cooperation. The concept of SDG-sensitive development cooperation is then contrasted in Section 3 with the development cooperation providers’ decision processes at the global, strategic and operational level. Section 4 addresses the challenges of achieving SDG-sensitive development cooperation. Section 5 concludes.

2 The 2030 Agenda and SDG-sensitive development cooperation

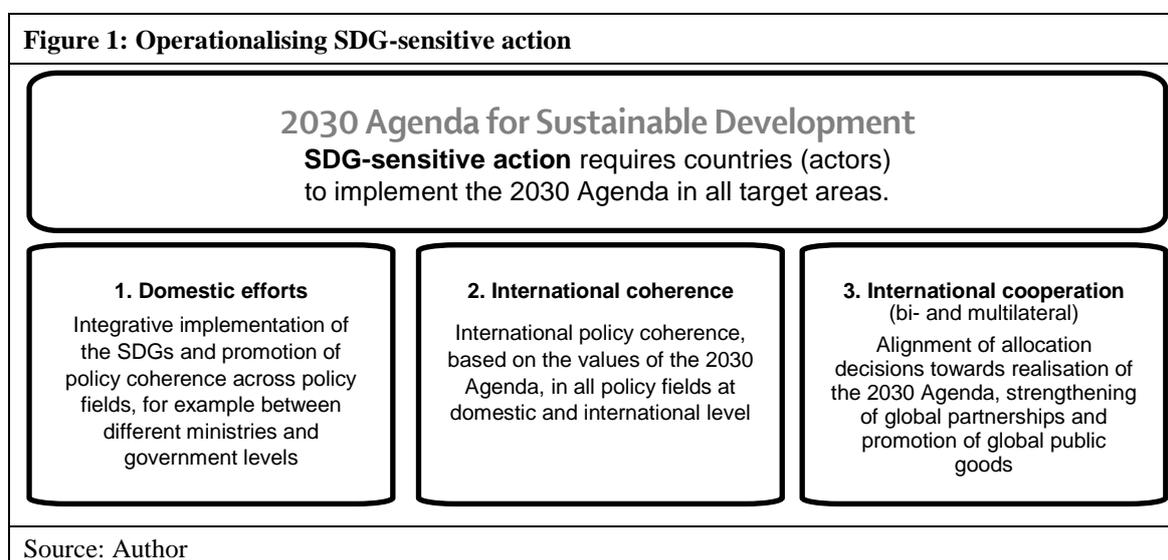
Although the 2030 Agenda does not clearly outline implementation strategies, all strategic considerations, including adjustments in development cooperation, need to be based on the basic paradigm and the core principles of the agenda.

The recognition of the link between human welfare and planetary boundaries is the central paradigm of the agenda and for all action taken with regard to it. The agenda focuses on the so-called “five Ps”: people, planet, prosperity, peace and partnership (common good). The 2030 Agenda promotes the eradication of poverty, economic empowerment and reduction of inequality in order to “leave no one behind” and guarantee a prosperous and fulfilling life for all individuals within the boundaries of the Earth (planet). Based on peaceful societies and functional institutions, the agenda promotes justice, inclusive societies and global solidarity through partnerships for the benefit of sustainable development. Implementation strategies should therefore be integrated approaches that deal with the linkages between these Ps and ultimately between “different goals and policy fields, and related trade-offs” (Scholz, 2015, p. 4).

Furthermore, the 2030 Agenda is transformative in nature, and promotes universality and indivisibility as core principles (or values). It calls for the transformation of our world, based on the ambition of the 17 SDGs to systematically promote change. The signatory nations agreed to systematic rigour around the goal delivery, and defined 169 targets and over 200 indicators to measure each nation’s and region’s progress towards the goals. In this way, the agenda is intended to mobilise all actors, at international, national and local levels, to promote reforms that combine economic, social and environmental standards. Calling on all actors, and considering the interrelation of the three dimensions of

sustainable development (economic, social, environmental), make the agenda universal in scope, and place equal importance on all SDG sectors at all levels (indivisibility).

Based on these observations, the 2030 Agenda calls for an SDG-sensitive cooperation in all target areas (Figure 1). First, on the domestic level, SDG-sensitive action entails integrative implementation of the SDGs and promotion of policy coherence across policy fields between different ministries and government levels. Second, it requires international policy coherence based on the values of the 2030 Agenda in all policy fields at domestic and international level. Third, SDG-sensitive international cooperation (i.e. bi- and multilateral development cooperation) includes the alignment of allocation decisions towards the realisation of the 2030 Agenda, the strengthening of global partnerships and the promotion of global public goods (GPGs) such as climate change, biodiversity, prevention of infectious diseases, peace and security. The focus of the paper is on the adaptation of the allocation of development cooperation (as part of international cooperation) to achieve SDG-sensitive development cooperation which is, however, not independent of domestic efforts and international coherence.



The 2030 Agenda is no traditional development agenda, and shifts the development paradigm towards sustainable development. Yet, the policy field of development cooperation (development policy) will be an important instrument in the implementation of the SDGs. The link between international policy coherence for sustainable development reaching a whole-of-government approach and SDG-sensitive development cooperation are the focus of this chapter.

2.1 Linking policy coherence to the 2030 Agenda

Development policy may assume a central role in the implementation of the 2030 Agenda, using development cooperation as an instrument for achieving international policy coherence on the basis of the SDGs. Yet the role of development policy goes far beyond financing interventions in support of the SDGs and, as reflected in SDG 17.4, has been mandated a key role in adjusting public and private policies in a whole-of-government approach towards the objectives of the 2030 Agenda. This ambition is referred to as Policy

Coherence for Sustainable Development (PCSD), which is featured as a separate target in SDG 17.14 and means the “synergic interaction between foreign aid and all other development-related policy areas” (Carbone & Keijzer, 2016, p. 1), whereby all actors share responsibility (Scholz, Keijzer, & Richerzhagen, 2016).¹ Development policy is not limited to the provision of development aid, but also entails a wide range of development partnerships and practices related to trade, investment and geopolitical interests (Bräutigam, 2009; Mawdsley, 2012; Saïdi & Wolf, 2011; Tan-Mullins, Mohan & Power, 2010). Thus, the key role in adjusting public and private policies is not new. In fact, discussions on how to promote Policy Coherence for Development (PCD) go back to the 1960s (Carbone & Keijzer, 2016), yet the 2030 Agenda reflects the international community’s conviction that a higher level of ambition and results are required in a whole-of-government approach.

SDG 17 affirms that joint development processes are best reached by networks and partnerships that include all stakeholders (UN, 2015). The aim is to increase ownership of the SDG framework as a management tool in order to address global challenges through synergic interactions and shared responsibilities. This will involve governments in all countries addressing the specific needs of each policy field and reaching a coherent policy approach (ECOSOC, 2016). Practices in development cooperation already do this by promoting innovative frameworks for international cooperation, such as multi-stakeholder partnerships, transnational public–private partnerships or tri-party cooperation. These receive increased attention by the 2030 Agenda in order to overcome domestic transformation processes and contribute to global sustainable development (Paulo & Klingebiel, 2016) in line with the SDGs. Thus, establishing development policy as an instrument for policy coherence across policy fields on the basis of SDG-sensitive development cooperation would best guide many implementation strategies in a whole-of-government approach.

However, an analysis of PCD in different EU countries, a tool that the OECD-DAC has promoted for years, and which features in their DAC peer reviews, shows that policy coherence related to development cooperation is problematic, as the policy field is weak compared with other policy fields (such as foreign affairs and security) (Prontera, 2016). It is not only difficult to get other government departments to focus their attention on issues related to external policy actors, but also to keep the focus on (sustainable) development issues in the formation of coalitions between political fields.

In order for development policy to fulfil its role as coherence instrument, development ministries and agencies should consider whether they require a different balance between capacities for project management and policy advice (Prontera, 2016): whether a stronger focus on *policy advice* may be better suited to guiding the integration of different policy fields at home and abroad. The 2030 Agenda offers the opportunity to use its principles and the focus on sustainable development to strengthen development policy and use it as coherence instrument to design a whole-of-government approach where development cooperation is a strong tool to reach the SDGs (SDG-sensitive development cooperation).

1 Scholz et al. (2016) discuss the German development cooperation efforts based on the concept of policy coherence for sustainable development (PCSD) as means to assess a country’s efforts and performance to date in promoting sustainable development and home and beyond its borders.

2.2 Operationalisation of SDG-sensitive development cooperation

The operationalisation of SDG-sensitive development cooperation is based on the debate of the last few decades by experts, practitioners and researchers about the role of development cooperation. Frequent changes in the environment of development cooperation have occurred: through an increasing number of development actors (e.g. non-DAC donors such as China and India), the diversification of development finance because of an increasing number of regional development banks (e.g. BRICS Bank), and the increasing importance of new forms of development cooperation delivery (e.g. through trust funds). These have challenged development cooperation and its role in international relations. The argument goes that, because the traditional concept of ODA distribution, from northern developed to southern developing countries, has changed, opportunities are created either to target development cooperation specifically at a small group of countries most in need, or to pool resources with those of other providers in order to establish, jointly with other policy areas, new forms of international cooperation together (Janus, Klingebiel, & Paulo, 2015).

The Agenda 2030 does not extend this debate beyond these two directions, but encourages ODA mobilisation to be more effectively targeted at LDCs, and to be used strategically to generate additional domestic resources and incentivise private investment for sustainable development. Both roles of development cooperation are important in the domestic as well as international implementation strategies for all partner countries. The OECD emphasises that ODA will remain important for sustainable development: first of all as a vehicle to support LDCs and those in other vulnerable contexts², where countries find it hard to attract or raise other resources; second, as a catalyst in high-risk environments to incentivise private investment flows to support sustainable development; and, third, as a mobiliser to support domestic resource generation and policy reform for the implementation of the SDGs (OECD, 2014; Mahn, forthcoming). An SDG-sensitive development cooperation should, thus, be a *multiplier* of development, specifically in LDCs and other vulnerable contexts, which does not exclude emerging countries, where underdeveloped domestic financial systems and inequality are often still prevailing.

The MOIs,³ which are a central part of the 2030 Agenda attached to every individual goal, strongly emphasise the crucial role of development cooperation in three ways (SDG17):

1. Countries are encouraged to mobilise increased ODA volumes and renew the commitment of (most) developed countries to provide 0.7 per cent of gross national income (GNI) as ODA to developing countries (SDG 17.2). In 2015, only six out of 29 OECD-

2 In terms of the 2030 Agenda, vulnerable countries are African countries, least developed countries, small island developing states and landlocked developing countries. Thus, the Agenda highlights the special situation of least developed countries, but extends the categorisation of need beyond income levels and states that “we underscore the special challenges facing the most vulnerable countries and, in particular, African countries, least developed countries, landlocked developing countries and small island developing States, as well as the specific challenges facing the middle income countries. Countries in situations of conflict also need special attention” (UN, 2015, para. 22).

3 Notably, the means of implementation are a broad conception of implementation strategies for the different SDGs, ranging from financial resources including development cooperation, capacity building, data and information to governance efforts (UN, 2015).

DAC countries equalled or exceeded a share of 0.7 ODA/GNI (OECD, 2016b)⁴, so the volume of ODA will rise if more developed countries reach this aspirational target.⁵

2. The 2030 Agenda encourages increased support for LDCs by specifying that at least one-third of ODA spending (0.15–0.2 per cent of ODA/GNI) should be provided to LDCs (UN, 2015).⁶ As a result, countries whose national budget needs funding should explicitly be targeted by development cooperation.
3. ODA is encouraged to perform the role of catalyst for the mobilisation of additional resources, such as private investment flows and additional financial resources from multiple sources (Goal 17.3). Financial implementation, including ODA, should strengthen domestic resource mobilisation via taxation and other revenues (Goal 17.1), establish a regime for promoting investment (Goal 17.5), and assist in attaining long-term debt sustainability (Goal 17.4).⁷

SDG-sensitive development cooperation therefore requires the mobilisation of more ODA resources, emphasises better targeting of ODA at LDCs and other vulnerable and fragile contexts, and requires ODA to act as a catalyst to mobilise additional domestic resources in order to generate and incentivise private investment for sustainable development. SDG-sensitive development cooperation will have to strengthen ODA to fulfil these ambitions and look for innovative instruments and mechanisms to reach the goals by 2030.

SDG-sensitive development cooperation also, of course, means supporting the realisation of the SDGs. All SDG sectors are equally important, which is highlighted by the indivisibility principle in the preamble of the 2030 Agenda. Therefore, focus on a single goal must underscore the importance of and synergies to other sectors. International (financial) cooperation and ODA are specifically highlighted in many of the MOIs of the individual goals as instruments to reach these goals (Figure 2). The diversity of SDG sectors featuring ODA shows, on the one hand, that the 2030 Agenda relies, in its MOIs, to a large extent on traditional instruments to support the implementation of the SDGs, and, in particular, on ODA. On the other hand, it also shows the strong role the 2030 Agenda attaches to development cooperation as a central tool to reach the SDGs in a coherent whole-of-government approach, affecting a diversity of sectors (see Figure 2).

4 These countries are Denmark (0.85), Luxembourg (0.93), the Netherlands (0.76), Norway (1.05), Sweden (1.40), and the United Kingdom (0.71).

5 The target is aspirational, because it has existed since the 1970s, when the United Nations first adopted the 0.7 per cent of GNI target. The target is not binding, cannot be enforced by sanctions and thus is an aspiration to be achieved.

6 The AAAA states the same targets in paragraph 52 of the agreement (UN DESA, 2015).

7 The AAAA also states that international public finance, including ODA, should be used as tool to catalyse additional resource mobilisation, which in terms of the AAAA means that “it can support improved tax collection and help to strengthen domestic enabling environments and build essential public services. It can also be used to unlock additional finance through blended or pooled financing and risk mitigation, notably for infrastructure and other investments that support private sector development” (UN DESA, 2015, para. 54).

Figure 1: Means of Implementation (MOI) featuring development cooperation, international/ financial cooperation, and official development assistance (ODA)

SDG	Text
Goal 1.a: End poverty in all its forms everywhere	Ensure significant mobilisation of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular LDCs, to implement programmes and policies to end poverty in all its dimensions.
Goal 2.a: Hunger and food	Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks in order to enhance agricultural productive capacity in developing countries, in particular LDCs.
Goal 4.c: Education	By 2030, substantially increase the supply of qualified teachers, including through international cooperation for teacher training in developing countries, especially LDCs and small island developing States.
Goal 6.a: Water and Sanitation	By 2030, expand international cooperation and capacity-building support to developing countries in water- and sanitation-related activities and programs, including water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies.
Goal 7.a: Energy	By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology.
Goal 8.a: Growth, employment and decent work	Increasing Aid for Trade support for developing countries, in particular LDCs, including through the Enhanced Integrated Framework for Trade-related Technical Assistance to LDCs.
Goal 10.b: Inequality	Encourage official development assistance and financial flows, including foreign direct investment, to states where need is greatest, in particular LDCs, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programs.
Goal 16.a: Governance	Strengthen relevant national institutions, including through international cooperation, for building capacity at all levels, in particular in developing countries, to prevent violence and combat terrorism and crime.
Goal 17: Implementation/Finance	
Goal 17.1	Strengthen domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue.
Goal 17.2	Developed countries to implement fully their official development assistance commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of gross national income for official development assistance (ODA/GNI) to developing countries and 0.15 to 0.20 per cent of ODA/GNI to LDCs; ODA providers are encouraged to consider setting a target to provide at least 0.20 per cent of ODA/GNI to LDCs.
Goal 17.3	Mobilise additional financial resources for developing countries from multiple sources.
Goal 17.4	Assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress.
Goal 17.5	Adopt and implement investment promotion regimes for LDCs.
Source: UN, 2015.	

The 2030 Agenda highlights the importance of partnerships for sustainable development (SDG 17). To establish partnerships, SDG-sensitive development cooperation thus fosters innovative cooperation patterns, for instance, through cooperation in a triangular aid project, whereby two donors (traditional and non-traditional) cooperate to provide development cooperation to a third country (OECD, 2016c). Triangular cooperation enhances experience-sharing and mutual learning for all partners involved, responds to the demands of partners and capitalises on the comparative advantages of relevant expertise and technology, and cultural proximity (OECD, 2016c). The OCED's survey on triangular development cooperation (2016c) indicates fears about whether aid effectiveness is enhanced by triparty cooperation, and common difficulties such as aligning legal frameworks, budgeting and procurement procedures, sectoral priorities, reporting criteria, management structures, monitoring goals and frameworks, as well as the availability of appropriately trained staff (McEwans & Mawdsley, 2012, and sources therein) to be unfounded. The survey finds, instead, that most providers have clear guidelines and benefit through mutual learning, and highlights triangular cooperation as strategic tool to form partnerships for sustainable development (SDG 17) by the 2030 Agenda.

In order to discuss leverage points to realise SDG-sensitive development cooperation, in the next section I contrast the operationalisation of the concept to the political economy determinants of donors' allocation patterns in the provision of development aid.

3 Contrasting SDG-sensitive aid allocation with determinants of allocation patterns

OECD-DAC donors' decisions about development cooperation funds are made on three levels (Clist, Isopi, & Morrissey, 2012; De Geoffroy, Léon, & Beuret, 2015):⁸

1. a global decision about the total envelope of how much money the country is willing to spend, considering all strategic aspects, which is usually decided upon in parliament or by the government,⁹
2. a strategic cycle, which includes annual and multi-annual programming of how much aid goes where (core multilateral promises, allocation for ongoing crises or for thematic issues to countries and sectors, and reserves for sudden onset crises), and
3. a decision at the operational level on which type of aid and instrument to use (program or project support, technical or financial support, humanitarian aid, etc.).

8 Note that in reality a clear distinction between all three levels is not always possible since a country may decide the operational strategy in parallel to the strategic country or sector decision and choice of instrument, based on previous cooperation, experience or contractual agreement.

9 In Germany, the Budget Committee suggests the volume and the general structure of the budget allocated to the Federal Ministry for Economic Cooperation and Development (BMZ). The final decision is taken in parliament, based on recommendations by the Budget Committee. It has been announced by the German Cabinet that the "ODA envelope" (OECD, 2015a, p. 46) will increase by EUR 8.3 billion from 2015 to 2019 (BMF, 2015).

3.1 Development cooperation providers' total aid budgets (global decision)

The global envelope of development cooperation funds is decided by governments and reflects what resources they are willing to provide to development policy in the overall national strategy. Determinants of the size of aid budgets are primarily attributed the political economy (characteristics and preferences) of donor countries. Empirical findings suggest that donor generosity is path dependent, meaning that it is dependent on earlier aid disbursements (Fuchs, Dreher, & Nunnenkamp, 2014) and suggesting that aid providers do not make large changes to their existing commitments. Aid budgets are also subject to the economic size of the providing countries, whereby richer countries and countries with independent aid agencies have larger development cooperation budgets and are thus more willing to provide development aid. The amount of money provided by these countries decreases with the increasing efforts of their DAC peers, which is attributed to the notion that “*ODA appears to be viewed as an international public good*” (Fuchs et al., 2014, p. 181), where free riding on others' efforts is opportune. However, a co-movement has been observed, with budgets decreasing after the end of the Cold War and starting to increase again with the War on Terror and an increasing number of terror attacks in DAC countries. Development cooperation providers tend to react to common shocks and eventually provide larger budgets to mitigate risks to their national sovereignty.

It remains open whether providers of development cooperation are willing and able to increase aid levels to reach the ODA mobilisation required by the 2030 Agenda. Governments face demands by their electorate to justify their decisions, and the changed international setting, with the emergence of new donor countries, may call the financial support of these emerging powers into question. Additionally, past experiences show that development aid budgets are prone to cyclical fluctuations and to decreases in times of crises in particular. However, given that six out of 29 OECD development cooperation providers reached, or exceeded, a share of 0.7 per cent ODA/GNI in 2015, there seems to be high potential for an overall budget increase. Insights from the literature allow three conclusions:

- 1 Countries will extend their development cooperation budgets as their income increases, and the overall budget of development cooperation will increase with an increasing number of providers (including non-DAC donors).
- 2 Providers of development cooperation jointly react to common shocks (such as terror attacks, climate change, migration pressure¹⁰) and may thus increase their aid budgets.
- 3 The path-dependency of aid budgets, however, indicates that a large or rapid extension of aid volumes is not to be expected.

Since the 2030 Agenda combines many aspects that are common to all countries, it is a tool to mobilise political willingness and additional resources to address the common challenges of sustainable development. However, the window of opportunity the 2030 Agenda provides will not be open for ever, and countries need to adapt their development cooperation budgets over the next few years in order to support the implementation of the SDGs.

¹⁰ In 2015 the rise in ODA in many donor countries was due to refugee costs that are spent internally (OECD, 2016b).

3.2 Strategic cycle

The strategic cycle includes annual and multi-annual programming of the overall budget into aid channels, countries and sectors. Leverage points to adjust development cooperation flows are primarily the donors' motivation and strategic interests (e.g. geopolitical or commercial). These have been shown to influence the selection of recipient countries and the allocation of resources as well as to be crucial to the effectiveness of development cooperation in terms of its primary goal of economic development and the reduction of poverty. In their evaluation of the importance of different motives for the provision of ODA, Höffler and Outram (2011) find that donor self-interest explains most of the variation in aid budgets. Research on the consequences of donors' self-interest, for instance, shows that politicised bilateral aid targeting leads to lower effectiveness (Dreher & Kilby, 2010; Dreher, Gould, Rablen, & Vreeland, 2014; Girod, 2008). Effective support of development issues is, in fact, only achieved in partner countries that are not strategically important to donors (Girod, 2012).¹¹

Understanding the motivational background of donors' allocation decisions may thus reveal leverage points to establish development policy as coherence instrument and to adjust development cooperation spending in line with requirements of the 2030 Agenda to increasingly support vulnerable contexts and/or support aid investments that mobilise additional (public and private) resources.

3.2.1 Choice of channel

The choice of aid channel is the first leverage point to implement SDG-sensitive development cooperation. Donor countries may choose between bilateral and multilateral cooperation and increasingly channel aid through trust fund (multi-bi, earmarked) aid.¹² In recent years, the share of development cooperation spending that is bilateral has increased. With regard to multilateral aid, the share of aid delivered through trust funds increased, whereas core-funding of multilateral institutions remained stable (OECD, 2014). Traditionally, donors prefer bilateral over multilateral cooperation, due to the fact that it gives them more discretionary spending power, in direct cooperation with partner governments. Some considerations should guide development partners in their choice of aid channel.

Studies on the choice between channels suggest that multilateral support (including trust funds) is chosen if the interests of the organisation are close to the provider's interests, and in order to signal the (humanitarian) effectiveness of development cooperation budgets (Eichenauer & Hug, 2016; Milner, 2006; Milner & Tingley, 2013; Schneider & Tobin, 2013). Multilateral channels are better conduits to advance global concerns (such as GPGs) and to trigger collective approaches (Milner & Tingley, 2013). Empirical evidence shows that multilateral channels are less politicised, more needs oriented and fill gaps in

11 While a large body of quantitative literature on the macroeconomic effects of development cooperation finds rather disappointing results (e.g., Doucouliagos & Paldam, 2009; Rajan & Subramanian, 2008, Roodman, 2007), there are also studies that find an overall positive effect over last decades (e.g., Mekasha & Tarp, 2013).

12 The United Nations Development Programme (UNDP) distinguishes between five funding channels: 1. Core resources, 2. Thematic funds, 3. Earmarked funds, 4. UN pooled funds, and 5. Vertical funds. For a detailed description of funding channels see UNDP (2016).

terms of country coverage (e.g., in fragile contexts) where bilateral support falls short and joint effort is needed (Gulrajani, 2016, p. 15).

The last point is a strong argument, which has led development providers to increasingly invest in trust funds, joining forces without losing discretion over the funds, to address public goods of global concern (such as the Global Fund to fight against malaria, tuberculosis and HIV/AIDS or the Global Environmental Facility (GEF) with a focus on global environmental issues). Another reason may be to bypass weak partner-country governments in post-conflict and fragile states (as was the case with the Afghanistan Reconstruction Fund) (Eichenauer & Reinsberg, 2016).¹³ The multilateral development banks (MDBs) acknowledge trust funds as a central vehicle to achieving the SDGs, because the funds are an effective means of leveraging the financial resources of international financial institutions (IFIs) by coordinating several donors and mobilising additional resources (WBG, 2015).

However, the use of trust funds to address developmental issues may also be problematic. Research shows that development cooperation through trust funds does not combine the advantages of bi- and multilateral aid and is not, therefore, a perfect alternative. Rather, trust funds seem to increase selectivity and fragmentation as well as administrative budgets (Gulrajani, 2016). Although multi-bi flows may enhance collaboration, evidence to date suggests it can also give individual donors licence to influence the daily operations of IFIs, skew priorities and reduce the neutrality of multilateral institutions (Gulrajani, 2016). Such “*bilateralisation*” of multilateral institutions comes at the cost of diverting core funding to non-core activities, increasing internal fragmentation and building independently financed units within organisations. The danger is that funding through trust funds, driven mainly by some development cooperation providers, allows the evasion of core institutional priorities and accountability structures (Reinsberg, Michaelowa, & Eichenauer, 2014). Until a detailed examination of the operational and institutional consequences of all multilaterals is conducted, including the overall development cooperation system that derives from multi-bi funding, and consequently the efficiency of this form of support, development cooperation providers should be aware of unintended side effects of multi-bi channelling.

SDG-sensitive development cooperation strengthens a multilateral approach to foster sustainable development. In particular, the focus of the 2030 Agenda on partnerships and networking highlights joint approaches rather than fragmented actions guided by one-sided interests. It is important to use the legitimacy of many multilateral development organisations (such as the UN organisations and IFIs) by strengthening the core-funding and aligning bilateral strategies to reinforce a multilateral approach that increases provider coordination and decreases fragmentation of projects and programmes. For that to be feasible, a reform of the UN development system is of utmost importance (Baumann, 2016) in order to establish strong multilateral actors whom countries are willing to support financially and whom they will turn to in their efforts to implement the 2030 Agenda.

13 Eichenauer (2016) also finds that delegation to trust funds managed by a third party (e.g., the World Bank) has the potential to avoid wasteful spending at the end of the fiscal year, which could enhance aid effectiveness.

3.2.2 Bilateral aid giving

The largest share of donors' aid budgets is spent through bilateral cooperation. Evidence shows that ODA providers prefer to have influence over their aid flows and to reduce the risk of failure by serving well-governed countries with a lower probability of inefficiency and higher probability of providing their domestic public with value for money (Gulrajani, 2016). Development cooperation providers decide on their partner countries (selectivity stage) and the amount of aid resources they will provide (allocation stage).¹⁴ These decisions are based on the internal characteristics of the donor country and the donors' motivations, based on political priorities (Anwar & Michaelowa, 2006; Dreher, Schmaljohann, & Nunnenkamp, 2015b; Kilby & Fleck, 2006; Tingley, 2010). Two strategic explanations are primarily advanced for donors' motivation to provide aid: satisfying recipient needs and/or pursuing providers' political and commercial interests.

In terms of the reforms needed to improve targeting of aid to vulnerable contexts (recipient need), astonishingly, it depends on the indicator used as to whether vulnerability is shown to be of relevance in the decision-making process of the provider. Indicators of human need, such as caloric intake, life expectancy or other measures of persistent poverty, do not appear to have an indisputable impact on providers' decisions (Boschini & Olofsgård, 2007; Fuchs et al., 2014; Schraeder, Hook, & Taylor, 1998). Yet, using per capita income of recipients as an indicator of economic need instead, aid levels increase with decreasing income levels, and smaller partner countries receive more ODA in per capita terms (e.g., Berthélemy, 2006a; Clist, 2011; Doucouliagos & Paldam, 2009; Hoeffler & Outram, 2011). Generally, development aid providers did not focus on LDCs in the two decades before the end of the Cold War (Alesina & Dollar, 2000). After the end of the Cold War, investigators observed a gradual trend towards more development-friendly allocation, based on countries' economic neediness and the institutional quality of these governments (Claessens, Cassimon, & Van Campenhout, 2009; Dollar & Levin, 2006). Low levels of resources to vulnerable contexts are also attributed to the impaired financial capacity of LDCs to absorb funds (Herbst & Mills, 2009; Prunier, 2009).

Strategic political considerations have been shown to be major determinants of development cooperation transfers (Clist, 2011). In the 1970s and 1980s, research already showed that bilateral donors pursue their own strategic interest when allocating development aid across recipients (McGillivray, 2003). Later studies have highlighted (geo-) political and commercial interests as important allocation criteria compared to economic need and policy performance (e.g., Alesina & Dollar, 2000; Hoeffler & Outram, 2011; Nunnenkamp & Thiele, 2006; Schraeder et al., 1998; Sippel & Neuhoff, 2009).¹⁵ In terms of geo-strategic interests, aid is not only a substitute for colonial history (Bertoli, Cornia, & Manaresi, 2008), but donor countries also provide larger volumes to former

14 In recent years Germany, for instance, adjusted its partner country list several times: from 92 in 2005 to 57 in 2010 and to 50 in 2012. Partner countries benefit from a full programme of bilateral cooperation, with up to three priority sectors per country. Additionally, Germany engages in cooperation activities in a further 29 countries under a thematic or regional programme and one priority area per country (OECD, 2015b).

15 Addressing some of the econometric problems of several of the aid allocation models, Berthélemy and Tichit (2004) and Berthélemy (2006a, 2006b) allow for both sample selection and time-invariant unobservable heterogeneity, and confirm that donor preferences are an important determinant of the allocation of development cooperation.

colonies (e.g., Alesina & Dollar, 2000) and strategic partners in international fora such as the United Nations General Assembly or the United Nations Security Council (Alesina & Dollar, 2000; Anderson, Harr, & Tarp, 2006; Dreher & Sturm, 2010; Dreher, Eichenauer, & Gehring, forthcoming; Höffler & Outram, 2011). Additionally, economic and commercial motives have been shown to shape trade-related aid (e.g., Höffler & Outram, 2011; Younas, 2008). The pattern is not homogenous across DAC countries and time (Berthélemy & Tichit, 2004) but, on average, development cooperation providers give more aid to their trading partners (Höffler & Outram, 2011).

In sum, a provider's motivation shapes the allocation of development aid across countries, whereby strategic considerations matter to a larger extent than need factors and economic development. Large amounts of ODA flow to (perceived) strategically important countries such as former colonies, politically close countries and geo-strategic allies. This underlines the role of ODA as an important tool to influence recipient policies (Buena de Mesquita & Smith, 2009; Faye & Niehaus, 2012). However, as Werker notes,

even as aid disbursement is driven by political goals in the donor countries, these goals frequently coincide with the needs of populations in recipient countries. For a variety of reasons, most donors now view the reduction of poverty and suffering in far-flung countries as consistent with their national interest. Whether from an ethos of responsibility or a calculated decision to reduce terrorist activity, multiple political justifications currently align most donor countries around a common development and humanitarian agenda. But that has not freed aid from political interference. (Werker, 2012, p. 48)

In general, comparing donors' rhetoric and (bi- and multilateral) provision of development cooperation resources shows that countries have not been able to adjust selectivity and aid allocation to the ambitions of improving aid effectiveness (Easterly & Williams, 2011). Policy makers choose the (in many cases rhetorical) governance focus to justify their allocation decision to taxpayers, who may be unwilling to see limited financial resources spent on corrupt and autocratic regimes. Some donors (such as the USA, the Netherlands and the World Bank) have explicitly declared basing their country selection and allocation decision on the policy of the recipients (Hout, 2007). Since development cooperation is a form of international policy and diplomacy, it might be naïve to expect it to be simply altruistic and not in pursuit of strategic goals.

Nevertheless, this must not be in contrast (as Werker rightly notes) to the goals of the 2030 Agenda. Combining the strategic interests of providers of development cooperation with aspects of sustainable development is at the heart of the agenda. If strategic considerations shape the provision of development cooperation, then allocation patterns can be reshaped in the future by focusing on projects and programmes with a strong focus on sustainability and the interlinkages between economic, environmental and social aspects. Cooperation with emerging economies that is arguably strategically important has to be based on sustainability considerations in Aid for Trade as well as in the fight against poverty and inequality in all its forms. In parallel, in vulnerable contexts such as the LDCs or other fragile countries, development cooperation needs to be based on strong sustainability standards and investments in renewable energy and resources. Consequently, providers of development cooperation who follow sustainability paths may gain long-term strategic partners because of sustainable support to partner institutions and economic, social and environmental systems.

For that to be successful, researchers also have to question existing categorisations in analysing the motivation of development cooperation providers. Bagchi et al. (2016) show that disconnecting the debate from the relevance of global public goods may lead to biased results and a focus on donors' self-interest rather than on an underlying motivation to support GPGs. Shaping research accordingly, and making providers accountable, against their motivation, for supporting common global concerns, will foster the understanding of inter-relations between different SDGs and national strategic interests. An understanding of the inter-relations between SDGs will support the implementation of the goals and enable evidence-based policy making. Evidence-based policy making is an important lever of the adjustment of the operational level.

3.3 Operational level

At the operational level, donors choose aid instruments and modalities. Development providers face two challenges to reach sustainable development cooperation on the operational level. These are, essentially, which delivery mechanism supports partner countries' efforts most effectively and which reduces fragmentation to enhance coordination? Modalities are distinguished between government-to-government aid and transfers through non-state development actors such as non-governmental organisations (NGOs), public-private partnerships, private contractors and also multinationals (Dietrich, 2013). Different types of aid, instruments and modalities, such as programme-, project-, performance- or results-based aid, directly influence outcomes in developing countries.

Aid types and delivery mechanism have changed over the years to avoid unintended side-effects in developing partner countries, such as Dutch disease effects, weakening of policy formulation and planning processes due to high volatility of aid flows, and negative effects on political and institutional frameworks in recipient countries (Leiderer, 2012). The choice of delivery mechanism and a donor's use of partner-country systems are sensitive to the quality of recipient-country systems (Knack, 2014). Evidence suggests that providers adjust the delivery mechanism as well as the composition or type of aid in order to reward good governance, reduce capture, grant greater control to recipient governments and eventually increase effectiveness (Bermeo, 2008; Clist et al., 2012; Dietrich, 2013; Nordveit, 2014). In this way, the choice of delivery mechanism is decisive in the support of local efforts and in the facilitation of national development strategies by partner countries. Thus, the operational level is an important leverage platform to combine donors' and developing partners' strategies to implement the SDGs and reach sustainable development.

3.3.1 Programme- and project-based aid

Programme-based (PBA)¹⁶ and project-based aid are two aid approaches distinguished, according to their intended use, by the level of control and supervision a donor keeps or grants to a recipient country (Janus, 2012). Development projects leave more discretionary power in the hands of the donor, who uses her own expertise and technology for

¹⁶ Programme-based approaches (PBAs) “are a way of engaging in development co-operation based on the principles of co-ordinated support for a locally-owned programme of development, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organisation” (OECD/DAC, 2008, p. 2).

implementation, bypassing the recipient's allocation process (Leiderer, 2012; Klingebiel, 2014). PBA, by contrast, is delivered through sector or general budget support (GBS), directly transferred to the recipient government's discretionary power (Klingebiel, 2014).¹⁷ The choice between PBA (e.g. budget aid) and project-based aid is determined by the level of control the provider is willing to grant to the partner country, and is thus closely related to the capability of the partner country to use financial resources in line with the donor country's interests. A substitution of PBA for technical assistance and project aid in a well-governed country (Winter & Martinez, 2015), indicates that a provider values strategic interests over a partner country's development needs. Even so, not-so-well-governed countries might also not be able to absorb PBA, due to lower quality institutions.

Programme aid, as a form of government-to-government transfer that increases the level of control and ownership in receiving partner countries, became more popular immediately after the Paris Declaration on Aid Effectiveness in 2005 (OECD, 2008). However, over the last decade, development cooperation providers have reduced programme aid (such as budget support) significantly, because they are less willing to delegate control over development cooperation money to partner-country governments. This supports findings that huge amounts of aid projects are structured in such a way that they avoid working directly with perceived corrupt or incompetent governments; resources are still channelled to crisis-affected countries, but they bypass these governments (Dietrich, 2013).

In terms of lessons for the implementation of the SDGs, these findings reveal two insights:

1. The operational level is also susceptible to strategic considerations of development providers in terms of their concern not to lose control over funds, which is partly due to aid fungibility¹⁸ (Leiderer, 2012).
2. Strategies to bypass recipient government institutions are a common mechanism to channel development cooperation funds to non-state actors (e.g. NGOs) in countries with low governance performance and/or civil conflict (Dietrich, 2013).¹⁹

SDG-sensitive development cooperation targets vulnerable contexts, which are more likely faced with weak governance structures. Additionally, an SDG-sensitive cooperation requires the respect of national circumstances and domestic approaches, giving credit to national ownership. Consequently, channelling ODA to non-governmental actors and bypassing national institutions contradicts the SDG requirements if the motive of bypassing is the provider's unwillingness to lose control over their funds. Development

17 Further modalities may range from the support of reform programmes to joint sector-wide approaches (SWAPs). General budget support has been expected to be "the most consequential instrument to implement the principals of the new aid effectiveness agenda in practise" (Leiderer, 2012, p. 2), since national development strategies may be supported by supporting the recipient governments' treasury.

18 The concept of aid fungibility refers to the possibility that a recipient country's government may divert resources targeted at a specific development purpose to other sectors (e.g. military expenditures), making ODA indirectly responsible for increased non-developmental expenditures. See Leiderer (2012, Box 1) for a detailed discussion of the concept and empirical foundation of fungibility.

19 This realisation is based on the assumption that bypass tactics already incorporate information about the quality of recipient governance in the aid-receiving country, thus shielding valuable resources from waste by corrupt governments and weak states (Dietrich, 2013, p. 48).

effectiveness principles should not be side-stepped, and government-to-government support remains an important tool to align aid allocation with national strategies and subsequently to reach the ambitious goals of the 2030 Agenda.

3.3.2 Aid delivery based on evidence

The 2030 Agenda puts strong emphasis on the generation of results and measurable outcomes, the learning process, coordination and mutual accountability, as well as the peer-review process at the HLPF meetings. Given that providers are at the same time pressured to provide value for money and to demonstrate the effectiveness of their support, innovative delivery mechanisms are required that combine evidence on performance and results with disbursements. Therefore, evidence-based approaches in ODA delivery will gain further importance in the implementation of the SDGs. “Evidence-based approach” is not a well-defined term, and the variety of instruments and mechanisms range from cost-benefit analyses, monitoring and evaluations, for example through the application of randomised control trials (RCTs), to approaches that focus the disbursement of development cooperation resources on results or the performance of the intervention (performance- or results-based approaches).

Performance- or results-based aid approaches are an innovative development cooperation instrument to support the 2030 Agenda (Janus & Klingebiel, 2016). They are delivery mechanisms based on measurable evidence of pre-agreed results (Birdsall, Ayha, & Savedoff, 2010, p. 2; Klingebiel, 2012, p. 7), which rest upon contractual relationships between providers and partners, also sometimes called aid-on-delivery approaches, and are increasingly used by providers to guarantee value for money (Leiderer, 2012; Klingebiel, 2014).²⁰ Advocates (providers and academics) emphasise results-based approaches as a way to increase aid effectiveness by resolving incentive issues inherent in aid relationships (Birdsall et al., 2010; Pearson, 2011). Results-based aid is used by several initiatives and providers, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, some windows of the Global Alliance for Vaccines and Immunisation (GAVI), the Millennium Challenge Corporation (MCC), the European Commission through its GBS, the Millennium Development Goals Contract, and the Global Partnership on Output-Based Aid (GPOBA) (Pearson, 2011; Pereira & Villota, 2012). The World Bank’s Program-for-Results (PforR) and the UK’s Payment by Results (PbR) are two additional institutionalised approaches that provide initial insights into whether aid delivery based on results achieves targeted goals and is ultimately more effective. An important advantage is that outcomes are easily presentable, and accountability of partners is strengthened (Janus & Klingebiel, 2016). Consequently, results-based approaches are a high-potential instrument for the implementation of the SDGs (Janus & Klingebiel, 2016).

Open questions remain as to whether results-based delivery mechanisms enhance the effectiveness of development cooperation rather than posing new challenges to providers and partners alike, increase side effects and divert resources to well-performing sectors

20 Different forms of results-based approaches include results-based aid, which is an agreement between two governments, results-based finance, which is between a providing government and a service provider (e.g. civil society group) in the partner country that provides a certain service (e.g. health service), and development-impact bonds that are a special type of results-based finance (Janus & Holzapfel, 2016).

rather than low-capacity sectors in order to guarantee results and ultimately payment (Paul, 2015).²¹ Two major challenges lie in the choice of appropriate indicators to measure results on which payments depend, and in the choice of an independent evaluator of the results.

In sum, since SDG-sensitive development cooperation respects partner countries' circumstances, the choice of delivery mechanism is driven by effectiveness considerations, the aim being to reach sustainable development and to reduce negative side-effects. In that way, the operational level is an important lever to implement the 2030 Agenda. Development cooperation providers may use different instruments and mechanisms in different contexts and adapt the allocation to partner countries' circumstances. Implementing ODA through instruments that bypass direct government support and, therefore, recipient governments' national development strategies, decreasing their ownership as a consequence, cannot be a sustainable way to allocate resources. Instead, innovative instruments and adaptive solutions, where the decision is based on evidence such as results-based approaches, show a high potential to deliver on the SDGs. Measurable evidence of development outcomes is a central demand of the 2030 Agenda, and innovative evidence-based aid allocation can support the understanding of context-specific development outcomes, and increase transparency, accountability and mutual learning.

So far, systematic research on the effectiveness of different allocation mechanisms does not provide sufficient guidance to decision makers. This guidance needs to be based more prominently on evidence, and rigorous impact assessments generate evidence on which decisions should then be based.

4 Challenges to achieve SDG-sensitive development cooperation

This section discusses five challenges OECD-DAC countries face when implementing SDG-sensitive development cooperation.

The broad spending targets in terms of ODA present a challenge to the clear formulation and implementation of SDG-sensitive development cooperation by provider countries. Developed countries will be made accountable in 2030 by the international community for their commitments to provide 0.7 per cent ODA/GNI and spend one-third of this share in LDCs, which are the only tangible targets for all ODA providers. Donor countries are responsible for providing detailed concepts of SDG-sensitive development cooperation within the overall framework of values for sustainable development (universality and indivisibility in economic, social and environmental issues). This will result in different (donor) country strategies and different combinations of instruments in development cooperation and may have two interesting implications. First, the diversity of resulting strategies among provider countries may facilitate learning processes in the design of SDG-sensitive development cooperation. Second, it will become clear that the notion of

21 A recent assessment of the World Bank's Program-for-Results argues that it is still too early to show its impact on development outcomes. However, "in terms of program design, strengthening results frameworks, ensuring borrower ownership, capacity building, partnering with other donors, and improving upfront program preparation quality, PforR programs compare favorably against the World Bank's other instruments" (Heider & Arslan, 2016).

the indivisibility of the SDGs is disputable (since in reality donors may favour some areas over others), emphasising the role of collective responsibility in ensuring that the entire agenda is addressed, and highlighting the relevance of discussions about the international division of labour in determining how to finance and support the SDGs.

The three targets (increased volume, better targeting and catalysing additional resources) may, however, be seen as weak innovative thinking and indicate that few countries have faith in aid as an important financial instrument in future development processes (Engberg-Pedersen, 2016). For instance, the continued existence of the 0.7 per cent target, which few countries have reached since it was first proposed in the 1970s, could reflect the declining role the international community attaches to ODA flows. In contrast, UN Secretary-General Ban Ki-moon stresses the importance of development aid, because “[it] will continue to be a critical source of development finance after 2015”, and because “ODA can be better targeted than other sources to help ensure inclusive access to public services; leverage other sources of development finance or improve their targeting; and put the world on a sustainable pathway” (Office of the Secretary General, 2014, p. 4). In a similar vein, the DAC countries insist that aid is an important tool to assist those countries with no, or limited, access to financial markets and other financial resources needed for economic development, because ODA promotes, strengthens and encourages additional domestic resources and private sector investment for development (OECD/DAC, 2016). Thus, although the targets may be non-binding, development partners agree that ODA remains an important instrument in achieving the SDGs.

The adaptation of ODA spending to implement SDG-sensitive development cooperation remains very complex, because the requirements of the 2030 Agenda go beyond the three spending targets. There is thus the danger that instead of a mobilisation to adapt allocation decisions according to the SDGs, existing development cooperation processes will be re-labelled without any further adjustments. Re-labelling may occur because the implementation is left to each country, resulting in strategies that are not comparable with one another, and providing no means by which to judge the depth of the adaptation process. But responsibility at national level could also be advantageous for two reasons. First, the agenda very strongly supports respect for national circumstances and ownership. Therefore, it refrains from providing a one-size-fits-all solution to the shape and scope of development cooperation or a simple template for capacity building, which would conflict with this principle of ownership. It could be argued that the differing implementation strategies may actually enhance the learning process. Second, both the support of LDCs and catalytic aid are concepts that stand for a broad number of measures and instruments, such as investment in infrastructure, national tax systems, and public–private partnerships, among others. Different measures and mechanisms are relevant in different partner countries’ national contexts, and donors may, through “division of labour”, provide a diverse set of resources because they are able to design strategies according to their comparative advantage, with the ultimate goal of effectively providing aid.

Another challenge lies in the implementation of catalytic aid. Up until now, there has been no general agreement on the specific characteristics of catalytic aid (e.g. support for private investment without subsidising private business and crowding-out of investments at market rate) and no systematic hard evidence exists that ODA spending leads to the

mobilisation of additional resources (Spratt & Ryan Collins, 2012).²² It is even problematic that the term “catalytic aid” has been used broadly since the 1960s (Rogerson, 2011), because this extensive use suggests that a resource mobilisation is to be expected by development cooperation spending. In reality, we still do not know under what circumstances development cooperation spending leads to a catalytic mobilising effect of additional resources. The idea behind catalytic aid is that ODA resources are an initial source of financial resources initiating change, which can then be used to leverage other finance, such as domestic resources or private investment.²³ The assumption is that aid crowds in other resources and is mutually beneficial for both development partner countries, as well as being a tool to enable graduation from development cooperation dependence to self-sustained growth (Rogerson, 2011). A systematic impact of aid on resource mobilisation, however, is difficult to identify because, due to the fungibility of aid, and consequently the potential free-riding of actors, the *additionality of aid*²⁴ is not easily assessable (Heinrich, 2014). Further research is needed to feed into the debate on the catalytic role of ODA and enable a duplication of existing initiatives.²⁵ Besides the methodological constraints just described, the values of the 2030 Agenda need to be fully implemented and accepted by all actors (public and private) in order for ODA to fulfil a sustainable catalytic role.

An additional challenge is that all SDG-sectors are interlinked. Thereby, researchers, policy makers and practitioners are encouraged to think about interrelations within and across SDGs to reduce trade-offs, promote synergies and establish the full potential of the 2030 Agenda. A single provider of development cooperation will not be able to address all SDG-sectors at the same time without overstressing its capacity. This poses challenges in terms of the coordination of focus areas and the division of labour between donors. The relevance of global public goods to aspects of sustainable development, such as climate change, biodiversity, prevention of infectious diseases, peace and security, even stimulates the identification of a compatibility between objectives previously considered to be in opposition to one another, for example between growth and sustainability. In order to address GPGs, the project location may be different to that where benefits accrue,

22 One example for where aid has had a catalysing role in mobilising other resources, for example through risk sharing and governmental liabilities, is initiatives such as Global Alliance for Vaccines and Immunisation (GAVI). Resources are borrowed on the international financial market and used to finance vaccination programmes in developing countries, backed by donor countries’ aid budgets. Another example is the investment in innovative projects such as the Clean Development Mechanism (CDM), supported by the Prototype Carbon Fund under the World Bank, in which the capacity of project developers has been advanced through the fund, which enabled early projects to be successfully implemented and led to an increase in the number of projects under the CDM and the participation of developing countries (ADBI, 2015).

23 The “participation of bi- or multilateral donors may have a great impact in terms of risk sharing and enabling access to developing countries’ governments. This can facilitate public–private partnerships which allow the public sector to benefit from private companies’ strengths, such as efficient project management, and private companies to generate profit. International cooperation can assist such partnerships by providing public finance and participating in the project, strengthening collaboration between public and private sectors” (ADBI, 2015, p. 327).

24 “Additionality of aid” is a demonstration that private investment and its associated impact would not have happened without public engagement (Heinrich, 2013).

25 Most difficult to prove is the additionality of public and other national or private funds. It is methodologically challenging to convincingly distinguish between already-planned investment and investments associated with a catalytic effect (Griffiths, 2012).

challenging traditional classifications of development cooperation as measures of accountability with which to argue for effective support and measure success (Bagchi, Castro, & Michaelowa, 2016).²⁶ An increasing number of areas and sectors that are interlinked (such as GPGs) need to be identified and consequently included in a mutual accountability and measurement framework (comparable to the Rio markers in the creditor reporting system of the OECD-DAC (Mahn, forthcoming)) to show providers' efforts in these areas, independent of a sectoral focus in their aid portfolio.

In sum, it is certainly possible that, even though respecting each country's national circumstance in the design of implementation strategies is important in itself, and because the concept and characteristics of catalytic aid and the interlinkages between SDG-sectors are not well developed, countries may use the SDG label for existing development cooperation patterns (aid allocation decisions) and not adapt allocation decisions in accordance with the 2030 Agenda to reach SDG-sensitive development cooperation. Signatory countries have accepted these challenges and included an accountability and review framework in the 2030 Agenda. Thus, countries learned from the experience of the Millennium Declaration, in which no such framework was included in the Millennium Development Goals (MDGs). What is more, there is only limited evidence that ODA allocation has been adjusted to achieve the MDGs. Comparing, for example, sectoral aid allocation of donors with regard to their prioritisation towards the MDGs, development cooperation was not sufficiently targeted to the necessary sectors, and a gap between donor rhetoric and actual aid allocation was evident (Thiele, Nunnenkamp, & Dreher, 2007).²⁷ One exception is the focus on gender equality (MDG 3). Larger gender gaps in sectors such as education and health led to larger aid volumes to the affected countries and into these sectors (Dreher, Gehring, & Klasen, 2015a). Over the years, MDG-sensitive aid distribution (i.e., the allocation of aid to MDG-relevant sectors) has increased (Hailu & Tsukada, 2012), but towards 2015 the pressure to find positive results may have led to investment in outputs that were rapidly visible, rather than long-term structural change projects, which is against sustainability considerations.

This experience makes inevitable an early consideration and design of SDG-sensitive development cooperation for all development cooperation partners (providers and receivers). Consequently, a mere increase in the amount of development aid is not enough to reach (sustainable) development goals. Adjustments have to be more fundamental and include the way countries provide bi- or multilateral aid, allocate resources and select countries and sectors, as well as the choice of delivery mechanism to guarantee that development cooperation is also targeted more effectively to vulnerable contexts and used as a catalyst to mobilise domestic and private resources. Since providers' motivation in development cooperation is based primarily on strategic considerations, providers should realise that the 2030 Agenda is an opportunity to use development cooperation as a strategic

26 For example, to combat malaria in poor Sahel countries, it may be more effective to support an existing centre of medical research in Thailand's capital Bangkok than to establish a new centre in rural Burkina Faso or Mali. These two countries will benefit most when a cure is developed fast, no matter where this occurs. Similarly, a country like Bangladesh that is in urgent need of climate change mitigation to preserve the most fertile and populated of its land will benefit most if available funding is invested efficiently (i.e., where it will achieve the greatest emission reductions), which may be in China rather than in Bangladesh itself." (Bagchi et al., 2016, p. 3).

27 In addition, the authors find that, besides better targeting, resource capture is an important barrier to aid effectiveness in terms of MDG achievement.

investment in sustainable development in partner countries that will ultimately support sustainable development in their own countries.

5 Conclusions

Since September 2015, the 2030 Agenda has shaped the understanding of sustainable development and encouraged all countries, developing and developed alike, to design strategies to achieve the ambitious SDGs. The core principles of the agenda of universal coverage, indivisibility of goals and mutual accountability to address the whole population will guide the implementation processes. Fundamental changes are needed in the design of a whole-of-government approach, including internal and external policies, which can be achieved by understanding the connections between the economic, social and environmental aspects of sustainable development. Development policy combines synergic interactions and shared responsibilities between actors and should thus be the central instrument for policy coherence in the implementation of the 2030 Agenda. This implies adapting development cooperation (the allocation of development aid funds) to make it a central tool of development policy, as required by the agenda.

At first sight, the agenda does not extend the debate on the role of development cooperation and ODA beyond existing suggestions by spelling out well-known requirements for development cooperation: an increase in volume and the fulfilment of the 0.7 per cent ODA/GNI goal, an improved targeting of LDCs and vulnerable contexts, and for ODA to have a catalytic role in mobilising additional domestic and private funds. These are the only tangible goals regarding development cooperation spending donors will be made accountable for by the international community in 2030. However, the agenda also implies changes to the allocation of development cooperation in light of the broad priority areas that the goals cover, suggesting that, for instance, “environmental needs” will have to be merged with “economic and poverty reduction needs” to a greater extent in influencing how donors take the agenda forward. Development partners will not be able to address all goals at the same time, which is why the agenda propagates shared responsibility and division of labour to define comprehensive approaches to implementation.

What we know from the literature is that donors base their decisions on development cooperation to a large extent on strategic motivation and self-interest, despite a different narrative and rhetoric. Development cooperation is a tool of foreign relations and thus it would be naive to think altruistic considerations are the sole reason for the provision of aid funds. Sadly, the aid-effectiveness agenda has lost momentum at the moment, and providers are increasingly unwilling to give programme-based aid that leaves resource spending at the discretion of partner countries. However, leverage points to adjust decision-making processes according to the 2030 Agenda can be identified on all levels.

On the global level, adjustments are slow, and only a few countries reach the 0.7 per cent goal. It is up to political willingness to increase the share of ODA in national budgets and align aid spending to their commitments. Furthermore, the strategic considerations of developed countries are increasingly compatible with the development goals of developing countries. For better targeting at vulnerable contexts, it may be relevant to delegate resources to non-governmental actors (such as NGOs, multinationals or private actors), because many of these vulnerable contexts are characterised by fragile

governments and lack of governance institutions. However, providers' motivation to keep control over financial resources should not be a guiding principle in this decision. Finally, on the operational level, an adjustment of instruments and modalities may enhance the effectiveness of resource spending. Evidence-based instruments, such as results-based approaches, combine not only past experiences with future goals but also link disbursement to results, and may be able to enhance the accountability of both development partners. Learning processes implemented in the 2030 Agenda through its accountability and measurement framework should guide the use of instruments to provide a flexible mix in the application of SDG-sensitive development cooperation.

The shift in the development paradigm towards sustainable development by jointly including economic, social and environmental issues in the 2030 Agenda should not lead any country to follow a business-as-usual approach and re-label their activity, but rather to use this window of opportunity to adapt priorities and instruments. Strategic motivations in the provision of SDG-sensitive development cooperation will have to include the understanding that aid spending is a strategic investment in sustainable development, independent of the status of provider or partner. Only the support of sustainable development guarantees decent living conditions and leaves no one behind. The alternative will have consequences in all countries, as can be seen by migration flows to prosperous European countries in recent years.

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