The Sustainable Development Goals and development co-operation

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The Sustainable Development Goals which world leaders agreed on in 2015 are focused on people, peace and planet. Achieving goals requires a transformational, integrated, and universal agenda that is based on effective policies, sufficient finance, and true partnerships.

Achieving economic growth is not a miracle according to the Commission on Growth and Development (2008). Impressive progress towards the Millennium Development Goals in countries like Botswana, Brazil, China, Indonesia, Malaysia, Oman, Singapore and Thailand highlights that sustainable economic growth was an essential ingredient to raise the income of all, the poor in particular. The growth models of these countries carried some common flavours: the strategic integration with the world economy; the mobility of resources, particularly labour; the high savings and investment rates; and a capable government committed to growth.

The Sustainable Development Goals envision a new growth model, one that is inclusive, sustainable and resilient. In the face of mounting global challenges, a new approach to growth requires consideration of how the benefits of growth are distributed, the impact on the environment and the stability of the global financial and economic system. A growth strategy incorporating all these elements does not involve a single recipe to follow. This is because no single recipe exists. Timing and circumstance determine how the ingredients should be combined, in what quantities, and in what sequence (Rodrik, 2008). Limited political and financial capital for reform should focus on the most binding constraints to sustainable economic growth and poverty reduction.

More and better public and private resources are needed to promote sustainable development. Official development assistance (ODA) has, until recently, been seen as the main source of funding for development. At the same time, ODA is only one part of the flows targeted to support development. At nearly USD 161 billion in 2013, ODA represented only 18% of all official and private flows from the 29 member countries of the OECD’s Development Assistance Committee (DAC) and the International Financial Institutions. Overall in 2013, developing countries received USD 250 billion in ODA and “other official flows” provided by public bodies at close to market terms; private finance at market terms, such as foreign direct
investment; and private grants from philanthropic foundations and non-governmental organisations (OECD, 2014).

The emerging consensus in the literature is that aid has a positive, if small effect on growth. While aid has eradicated diseases, prevented famines, and done many other good things. Its effects on growth, given the limited and noisy data available, is on the other hand difficult to detect (Roodman, 2007). Arndt et al. (2010) found that it was reasonable to believe that aid worth 1% of a country's gross domestic product (GDP) raised economic growth by 0.1%/year on average during 1970-2000. That is a small, but helpful impact. Clemens et al. (2012) re-examine three of the most influential published aid-growth papers and found that increases in aid have been followed on average by increases in investment and growth. The most plausible explanation is that aid causes some degree of growth in recipient countries, although the magnitude of this relationship is modest, varies greatly across recipients and diminishes at high levels of aid. Tarp et al. (2009), in an extensive review of the aid-growth literature, concluded that the bleak pessimism of much of the recent literature is unjustified and the associated policy implications drawn from this literature are often inappropriate and unhelpful.

In general, ODA has been a success but more is needed. ODA can be beneficial in getting the fundamentals for growth right: supporting government capacities, strengthening governance, and addressing infrastructure deficits. It has also shown beneficial for improving poor education, health and social protection systems. Such assistance is particularly important for low-income countries and especially for fragile and conflict-affected states, where integration with global markets has been severely hampered. While the relative importance of ODA compared to private investments is decreasing in the middle income countries, ODA can continue contributing to their development by mobilising private flows, leveraging private investment and facilitating trade. Southern providers of development co-operation are also increasingly important. China is now a major source of development assistance, particularly in Africa. In addition, it accounts for 20% of all foreign direct investment in developing countries. Based on their own experience, Brazil and Mexico assist Latin American neighbours.
Foundations have also become important actors. For instance, the Bill & Melinda Gates Foundation now donates more to development than many OECD countries.

The policy environment for development has fundamentally shifted. The Third International Conference on Financing for Development and the UN Conference on Climate Change hold great promise, but they also pose a challenge to the way the international development community does business. In response to the changing nature of the world economy and its rising complexity, new analytical approaches are needed to better understand the trade-offs and complementarities between policy objectives – e.g. between growth promoting policies and equity and environmental concerns. Addressing these concerns requires integrated approaches that break down silos between policy communities. Three priorities will be critical in delivering this ambitious global agenda: Firstly: collective policy action to address global challenges, secondly; putting people’s well-being at the centre of development efforts, and thirdly; partnerships to deliver results on the ground.

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