Global Trends in 2021:
How COVID-19 is Transforming International Development

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INTRODUCTION

COVID-19, overlaid on existing global challenges, is the biggest stress test that international development cooperation has ever faced. The 2030 Agenda for Sustainable Development was billed as "our common interest to ensure our common survival." That is no longer just an aspirational sentiment. Whilst no one can yet predict whether COVID-19 itself, as against the damage to economies and livelihoods triggered by policy responses to it, will ultimately prove the bigger driver of the intervening excess deaths and other hardships, we can assume the indirect effect will dominate in many low-income countries and poorer communities over the long term.

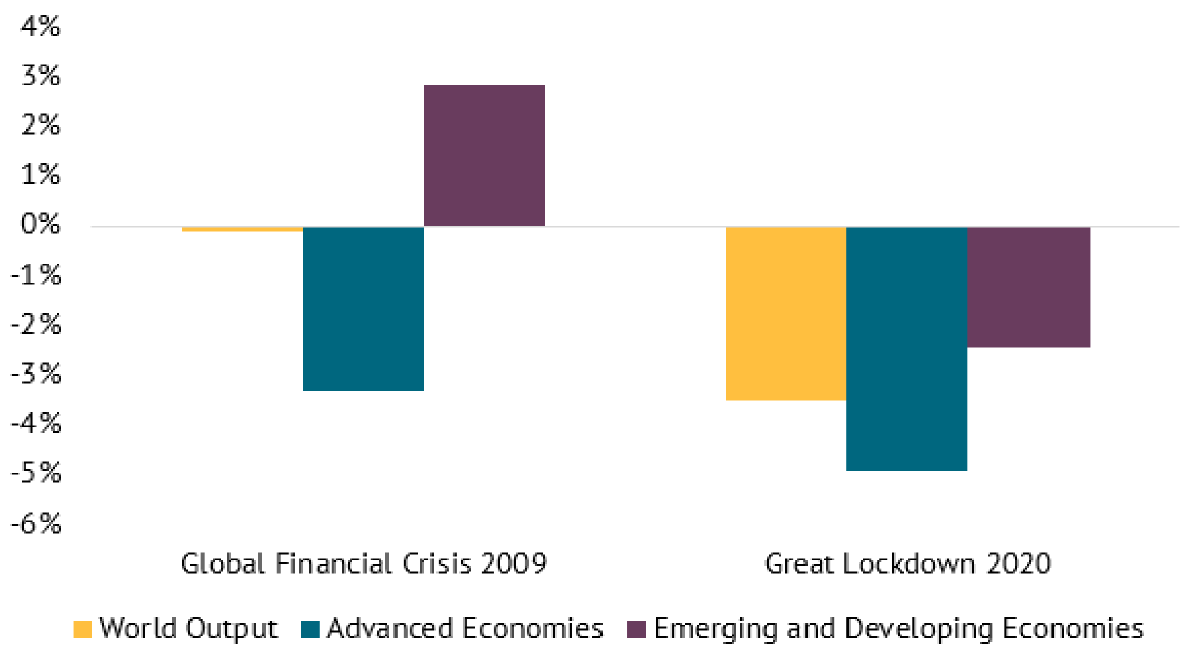
Most of the world is still in the midst of this searing COVID-19 experience, with its multidimensional domino effects. Exceptional uncertainty surrounds what major features of our lives, livelihoods, and the global order will change permanently or indeed already have changed. Yet a few basic contours of the new global context are easier to trace than others, even if their specific consequences are still speculative. In this note, we review and overlay some of the features of the COVID crisis on earlier observed trends and dynamics and explore some of the changes and trends in development agency strategic direction brought about by the pandemic. We end with three fundamental challenges that bilateral development agencies will need to address, and which will define their development cooperation and international partnerships for the foreseeable future.

A NEW GLOBAL CONTEXT

A global economy in crisis with a projected unequal recovery

COVID-19 has, with alarming speed, delivered a global economic shock of enormous magnitude, leading to steep recessions in many countries. It has had devastating effects on women, the young, the poor, people employed informally, and those working in contact-intensive sectors. Per capita incomes in the vast majority of emerging market and developing economies shrunk in 2020, tipping many millions back into poverty. The International Monetary Fund (IMF) estimates a 3.5 percent contraction in global GDP in 2020—the deepest global recession since the Second World War. As a comparison, during the global financial crisis in 2009, world economic output fell by just 0.1 percent, although this number hides large differences between countries. Figure 1 compares the economic contraction as a result of the "Great Lockdown" in 2020 with the Global Financial Crisis in 2009.

Figure 1. Comparative annual growth change, 2009 and 2020



Source: IMF DataMapper Tool (Retrieved on 24th February 2021)

The pandemic has pushed Africa into its first recession in 25 years. In 2020, real GDP per capita is expected to contract by 2.6 percent in sub-Saharan Africa, and by the end of 2021, it is likely to have regressed to its 2008 level. As a consequence, COVID-19 could push as many as 34 million people into extreme poverty in Africa, erasing at least five years of progress in fighting poverty.[1]

With more effective infection control and vaccine deployment, the world economy is expected to recover in 2021. However, the speed and strength of the recovery will largely vary across regions depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spill-overs, and structural characteristics of countries entering the crisis. While China is forecasted to continue its rapid growth in 2021, Latin America and the Eurozone will lag behind.[2]

We have also witnessed unprecedented peacetime surges in public debt during the pandemic. To limit long-term damage to the economy and facilitate the recovery, governments largely chose to pursue expansionist fiscal policies, hence creating budget deficits and increasing public debt. Following on an already-precarious situation before the pandemic, the debt-to-GDP ratio in developing countries

1 World Bank's Africa's Pulse Report (October 2020).

2 IMF World Economic Outlook (January 2021)

is expected to rise in the years ahead, increasing the threat to debt sustainability. In 2013, only 23 percent of the 69 low-income countries (LICs) analysed by the IMF were in "debt distress" or "at risk of being in debt distress"; the percentage rose to 50 percent in 2019 and will likely be around two-thirds in 2020.[3]

These debt-related strains will add to broader social fractures around the unequal sharing of crisis and recovery burdens, by income group, occupation, region, age, gender, ethnicity, and geography. Exposure to work-related health risks, and conversely, opportunities for distance work and distance learning, are heavily skewed in favour of older, better paid, better educated, and wealthier groups, and vice versa. Precarious gig-economy and informal workers in denser and substandard rented housing, with greater underlying health burdens, are also much more financially exposed to layoffs and less easily reached by public safety nets. This is especially true for internal or international migrant labourers, who can be victims of xenophobia and find no safe routes home.

Steep declines in global trade and financial flows to developing countries

COVID-19 has led to steep declines in global trade. The World Trade Organization (WTO) predicts a 9.2 percent decline in the volume of global trade in 2020. While trade in goods has seen a rapid recovery, trade in services is lagging. Once again, we observe different patterns by region. Although global shipping volumes now exceed pre-pandemic levels, this growth is being led by China.[4]

Services activity remains anaemic, weighed down by a continuing depression in tourism activity and international travel. Tourism arrivals fell by 72 percent in the first 10 months of 2020 and remain far below pre-pandemic levels.

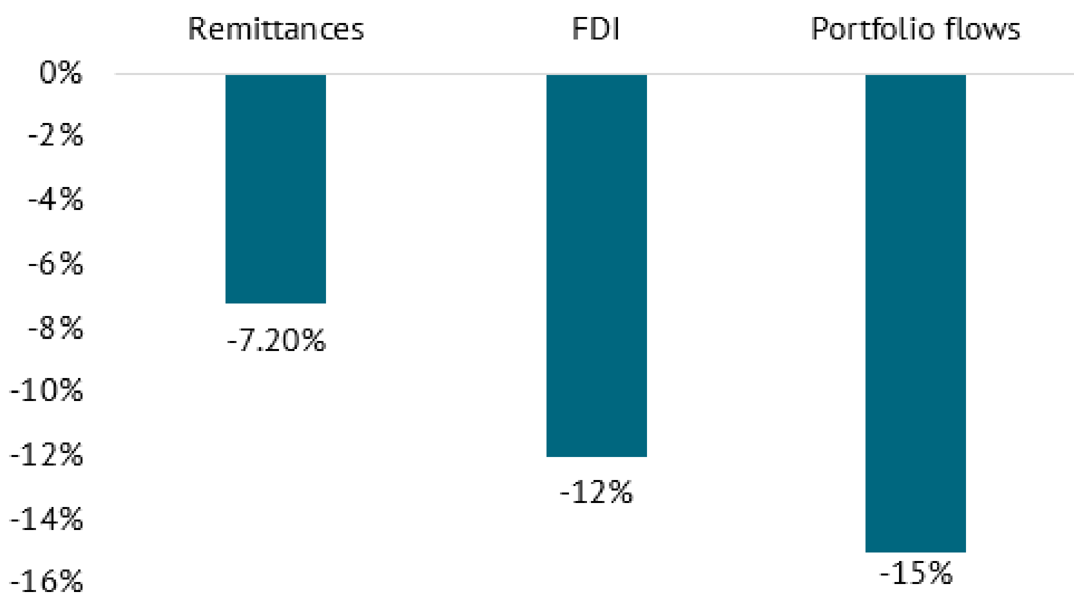
The global health and economic crises have generated a steep contraction in all private financial flows to developing economies. The World Bank estimates remittance flows to low- and middle- income countries are expected to decline by 7.2 percent to $508 billion in 2020, followed by a further decline of 7.5 percent in 2021. The hit has been particularly severe in Central Asia, East Asia and sub-Saharan Africa, with declines between 9 percent and 16 percent in 2020.5 Estimates for the decline in foreign direct investment are even steeper at around 12 percent. And portfolio investment, the most volatile flow, is also forecasted to decline, posing a threat to the financial sustainability of companies in developing countries.

3 See a policy paper by the IMF on the Evolution of Public Debt Vulnerabilities in Lower Income Economies.

4 From WTO Fall 2020 World Trade Forecast.

5 World Bank's Migration and Development Brief 33.

Figure 2. Annual percentage change in private flows to low- and middle-income countries in 2020



Source: Remittances data from the World Bank's Migration and Development brief 33, FDI data from UNCTAD's Investment Trend Monitor (January 2021), and portfolio flows from the Institute for International Finance (IIF). IIF uses the following countries as a sample for emerging markets: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Hong Kong (China), Hungary, India, Indonesia, Israel, Malaysia, Mexico, Poland, the Republic of Korea, the Russian Federation, Saudi Arabia, Singapore, South Africa, Thailand, and Turkey.

Reversed progress in global poverty reduction and human development

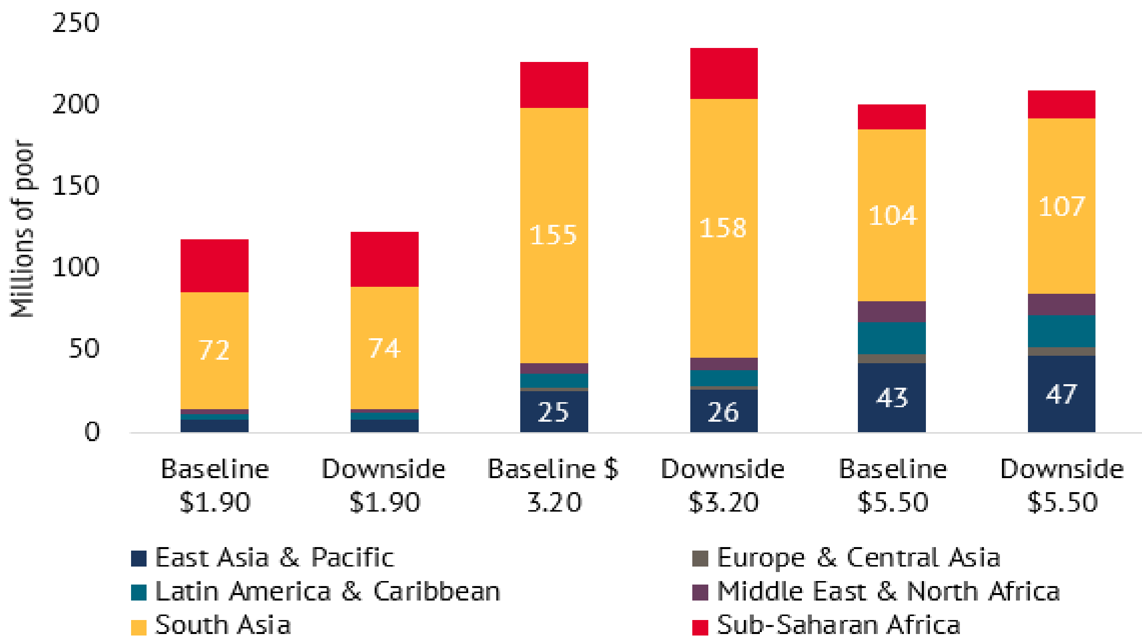
The pandemic has wiped out years of progress in ending extreme poverty. It is likely to push between 119 and 124 million people into extreme poverty in 2020, representing the first increase in extreme poverty since 1998.[6] Some forecasters maintain that we can expect an additional 250 million people in extreme poverty by 2030 and that it will take 10 years of economic growth just to bring extreme poverty numbers back to where they were before the crisis.

Figure 3 shows that most of the new poor at the extreme poverty line, as well as at the higher poverty lines, live in South Asia. The World Bank estimates that 60 percent of people pushed into extreme poor by COVID will be in South Asia. This is followed by sub-Saharan Africa at the $1.90 line and East Asia and Pacific at the $5.50 line. At higher poverty lines, the regional distribution of the added poor changes markedly. Of the 225 million people expected to be pushed into poverty at the $3.20 poverty line under the baseline scenario, two-thirds are in South Asia. Of the 209 million expected to be pushed into poverty at $5.50, many newly poor are in East Asia and the Pacific, and few are in sub-Saharan Africa.[7]

6 Updated estimates of the impact of COVID-19 on global poverty. See: https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty-looking-back-2020-and-outlook-2021.

7 Ibid.

Figure 3. Regional distribution of COVID-induced poor in 2020



Source: Lakner et al. (2021)

2020 also saw the first ever decline in the Human Development Index since it was introduced in 1990. UNESCO estimates that 23.8 million children, adolescents, and youth are at risk of not returning to care centres, schools, or universities in 2020, the majority of whom live in sub-Saharan Africa and Asia.[8]

Amplified inequalities, including in gender and digital accessibility

COVID-19 has amplified existing inequalities, in particular with those groups who are most vulnerable. The results of a recent global survey of entrepreneurs sheds light on some of the gender disparities in the impact of COVID-19. The survey, carried out in May 2020, collected observations from approximately 26,000 business owners and managers in over 50 countries with an active Facebook Business Page. Globally, female-owned businesses were 5.9 percentage points more likely to have closed their businesses than male-owned businesses.[9] In all regions, there is a marked gender gap in business closure rates as women entrepreneurs have been disproportionately affected by the contraction in economic activities as a result of COVID-19. Reasons for this include the fact that female-owned firms are concentrated in consumer-facing sectors (services, hospitality, retail, trade) where the demand shock has hit hardest.

8 See UNESCO COVID-19 Education Response Report.

9 Extracted from the Future of Business survey, a partnership between the World Bank, the OECD and Facebook to collect global views of online small businesses' challenges and expectations.

COVID-19 and the resulting lockdowns have triggered a mass migration from analogue to digital and highlight that access to the Internet is crucial for socioeconomic inclusion. Yet, half of the world's population does not have access to the Internet, either through a mobile device or through fixed line broadband.

Countries in sub-Saharan Africa, followed by many in emerging and developing economies in Asia, are among those with the lowest access to the Internet, despite being world leaders in mobile money transactions. There is also a large variation in Internet connectivity by firms in sub-Saharan Africa—only about 60 percent of businesses use email for business compared to about 85 percent in Europe and Central Asia.[10] This lack of universal and affordable access to the Internet is widening income inequality within and between countries.

The pandemic is also worsening income inequalities within countries. Lower-income workers are less likely to work from home and therefore more at risk of losing their jobs. The IMF predicts that the impact of COVID-19 on income distribution could reverse progress made over the last decade, with the Gini coefficient increasing by 2.6 percentage points in emerging markets and developing economies as a result of the pandemic.[11]

Strengthened forces of rivalry, anti-globalisation, nationalism, and vaccine apartheid

Patterns of de-globalisation and rising self-protection instincts of nation-states are being reflected in tensions between multilateral collaboration versus go-it-alone nationalism. Faith in globalisation had already profoundly eroded, especially among large middle-class cohorts whose real incomes were left behind in the 2010s and who have become more fragile, or vulnerable to the risk of falling back into poverty.[12] COVID-19 materialises this risk[13]—while it is common for recessions in rich countries to disproportionately affect those on lower incomes, the economic repercussions of the pandemic on the bottom two quartiles are profoundly different in scale as compared to the global financial crisis and previous recessions. This disenchantment and growing vulnerability have strongly encouraged illiberal, nation-first counternarratives.[14] They also were fuelled by protracted underinvestment in public services, which partially undermined the social contract and whose corrosive effects have now been laid bare by COVID-19.[15] A side effect of this nation-first pivot is the limitation of the extent to which governments look outside their borders. Outsiders (and migrants) are seen as drains on

10 Ibid.

11 See IMF blog: https://blogs.imf.org/2020/10/29/how-covid-19-will-increase-inequality-in-emerging-markets-and-developing-economies/

12 Analysis from Brookings indicates that while the share of the population in Europe that could be classified as middle class has reached a plateau, the vulnerability of its members to falling back into poverty has increased markedly since the global financial crisis. See: https://www.brookings.edu/blog/future-development/2018/03/22/is-there-a-middle-class-crisis-in-europe/.

13 See https://img.washingtonpost.com/wp-apps/imrs.php?src=https://arc-anglerfish-washpost-prod-washpost.s3.amazonaws.com/public/GGUDGWQDOZEMXFQDR25AJTFGZI.png&w=1800.

14 An analysis of the impact of levels of social spending on public support for populist parties in Europe across 187 elections from 1990 to 2017 indicates that where countries spend less on income maintenance and/or have decreased spending from earlier levels, populist vote shares are consistently higher. See: https://ces.fas.harvard.edu/uploads/files/events/FosterFriedenCompensationPopulismDec2019.pdf. See also a related OECD Report, page 27, for more on the political risks of a squeezed middle class: https://www.oecd.org/els/soc/OECD-middle-class-2019-main-findings.pdf.

15 See https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3556473 and https://www.ecb.europa.eu/pub/pdf/other/eb201602_article02.en.pdf.

capacity and economic burdens rather than net contributors, especially by people who themselves are experiencing economic strain.[16]

The pandemic, the quintessential threat that knows no borders and calls for global solutions, appears to have if anything hardened nationalism. While leaders may understand that the pandemic is a global problem that can only be truly defeated globally, they are under intense political pressure to make their own citizens their top priority. And while the richest nations have secured billions of doses of COVID-19 vaccines, developing economies are struggling to access supplies. It is estimated that this vaccine nationalism could slow the global economic recovery, costing high-income countries $119 billion per year.[17]

While COVID-19 did not by itself trigger economic, technological, and political competition between countries, it certainly sharpened this set of rivalries, particularly in a context of mounting geopolitical confrontation between the US and China.

Despite the loss of faith in multilateral action, cross-border challenges and threats had become the focus of increased public concern even before COVID-19. Climate change, fragility and conflict, migration, and infectious disease (e.g. Ebola and SARS) are increasingly frequent with serious flashpoints. Tackling global challenges requires engaging with high- to middle-income countries (MICs) that are major emitters (in the case of climate change) and/or otherwise are well positioned to help mitigate catastrophic risks.

TRENDS IN DEVELOPMENT AGENCY RESPONSES TO THE CRISIS

Five years into Agenda 2030, the SDGs faced strong headwinds even before COVID-19 due to their large intrinsic scope and diversity, undefined sequencing choices, and diffuse leadership and funding responsibilities. There has been, meanwhile, a proliferation of official agencies, bilateral and multilateral, vying for attention and concessional funding from a relatively static pool. Since 1960, there has been a rise from fewer than 20 bilateral donors who reported to the OECD Development Assistance Committee (DAC) to nearly 52 in 2019. All the same, complete numbers on so-called South-South cooperation are hard to source as many of these "new" donors do not report regularly or transparently.

Populist pressures have called for greater visibility of national contributions and stronger articulation of strategic interests served by cooperation. This combines with growing emulation of emerging-country models of assistance, especially their more transparent emphasis on mutual benefit and tied supply, higher speed and flexibility, and at least ostensibly, more "equal" and less conditional partnerships.[18] Strategic interests also encourage greater synergy and leverage between other external policies (e.g., trade, climate, science, security, migration links) and financial cooperation per se.

In terms of financial instruments, market access has increased sharply, including for many previously non-creditworthy states. Creative or "blended" uses of aid-funded subsidies and equity and other

16 A 2015 International Organisation for Migration (IOM) report presenting global Gallup data shows that people who rate their country's economic situation as "fair" or "poor" are almost twice as likely to say that migration should decrease as those who rate it "good" or "excellent". See: https://publications.iom.int/books/how-world-views-migration. For more on public attitudes toward migration, see Public Attitudes towards Immigration and Immigrants: What People Think, Why, and How to Influence Them.

17 See https://www.weforum.org/agenda/2021/01/what-is-vaccine-nationalism-coronavirus-its-affects-covid-19-pandemic/

18 See: ODI Report on "Why do countries become donors?"

public support, such as guarantees as catalysts for private, largely debt-funded sources, have proliferated in the face of spiralling investment needs that continually outstrip constrained grant budgets. In turn, this trend has increased the prominence of externally funded economic infrastructure, which directly generates cash flows to service debt, at the expense of investments in human capital, which typically do not. However, a growing number of low-income countries were judged at moderate to high risk of debt distress even before COVID-19, increasing the likelihood of a new systemic debt crisis.

The COVID-19 crisis has changed the picture. We have seen a partial, medium-term rollback of the recently dominant aid role assigned to economic growth and infrastructure. 2020 saw an increase in commitments to health and social protection.[19] This comes from at least two directions: (1) the absolute imperative of strengthening developing-country public health and social support capacities, including to prevent cross-border reinfection of advanced countries, and (2) the need to tackle unsustainable developing-country debt, which will also constrain, at least for a few years, global financial market access and the scope for leveraged deals.

There will be major challenges to find sufficient fiscal space for social spending, including education for dynamic reconstruction, within emergency support packages from international financial institutions (IFIs). The scope of the required humanitarian, sectoral/health, and macroeconomic interventions is vast, as is their geographic coverage. Official development assistance (ODA) is already scarce and is likely to shrink given the fiscal retrenchment, which is starting to bite in many advanced countries, just as needs in developing countries may be exploding.

Below we explore some of the changes and trends in development agency strategic direction brought about by the pandemic. The key question is whether these are temporary changes or whether they are harbingers of long-term change. What is clear is that a strategic reset is occurring, with some fundamental questions around the role and use of ODA challenging official development agencies.

Constrained bilateral aid budgets and the rise of the international financial institutions

As demand for assistance increases and supply depletes, development agencies are having to do more with less. Analysis by Development Initiatives in 2021 based on data from the International Aid Transparency Initiative (IATI) reveals that total bilateral aid commitments fell by 19 percent in 2020 compared to 2019.[20] Conversely, aid from the IFIs grew significantly in 2020 (see Figure 4).[21] Between January and November 2020, the four IFIs reviewed in the analysis committed $103 billion compared to $74 billion for the same period in 2019. As a result, ODA made up over half of IFI commitments in the first seven months of 2020, up from 28 percent in 2019. Commitments from multilateral organisations remained relatively stable between 2019 and 2020 at around $15 billion.[22]

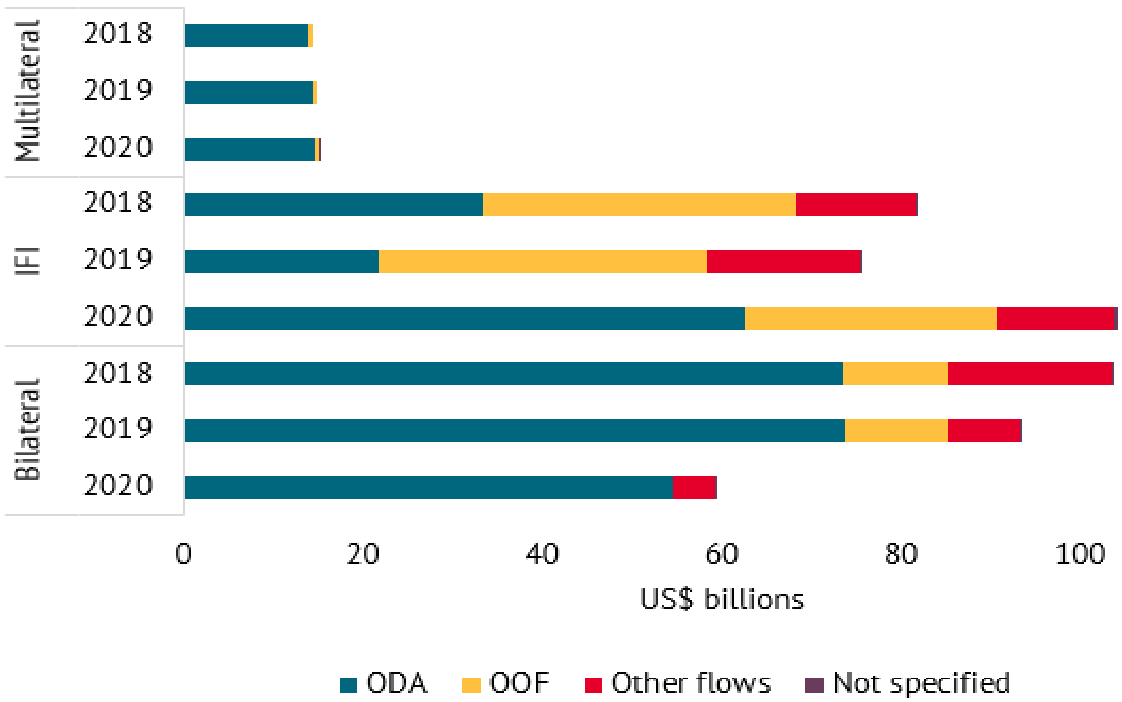
19 See: Tracking Aid Flows in Light of the COVID-19 Crisis.

20 Bilateral providers included in the analysis are Belgium, Canada, Denmark, European Commission, Germany, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

21 IFIs providers included in the analysis are the African Development Bank Group, the Asian Development Bank, the Inter-American Development Bank, and the World Bank.

22 The multilateral institutions included in the analysis are the Global Fund, UNICEF, and the World Food Programme.

Figure 4. Aid commitments January to November 2018, 2019, and 2020



Source: Dodd et al. (2021)

The increasing reliance on IFIs means that a growing share of loans are in the mix. This has important implications for the kind of aid that will be available to developing countries, as well as raising concerns about debt sustainability.

Furthermore, pre-pandemic, bilateral agencies were vying for greater control over their multilateral spending through earmarking funds for specific development purposes, including regions, countries, themes, or sectors—"multilateralism à la carte."[23] This trend, which has important implications for the system as a whole, has been reinforced by COVID-19. The continued rise of earmarking has fuelled concerns that it is contributing to the fragmentation of the multilateral system, diverting the focus away from core mandates towards more narrowly defined donor-specific priorities.

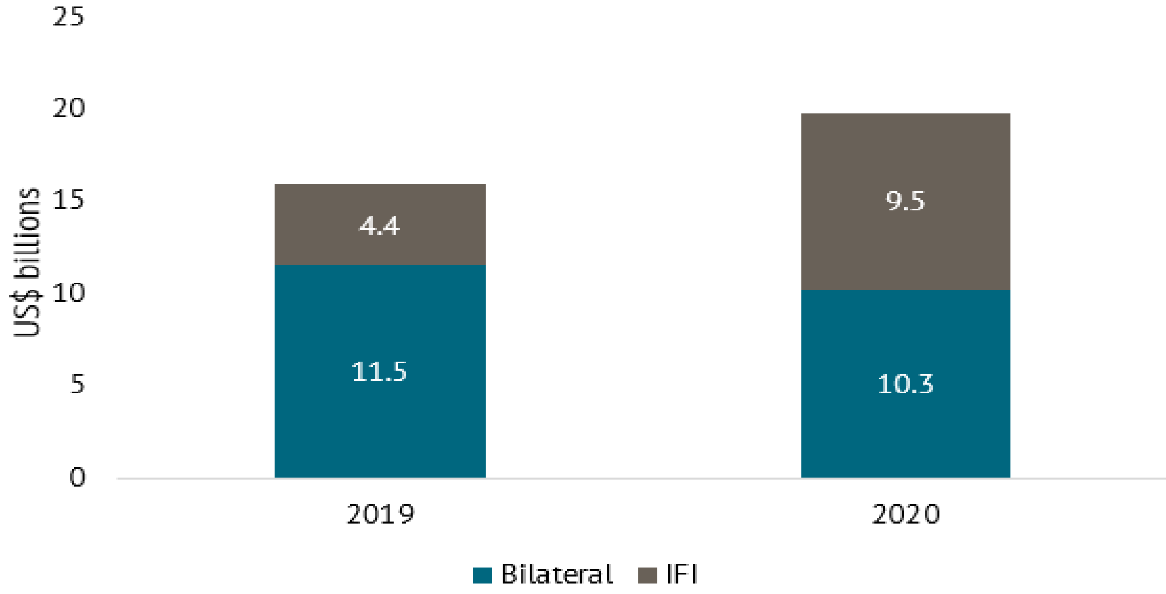
A zero-sum funding competition between sectors

Indicative analysis from Development Initiatives shows an increase in commitments for social sectors, including health, education, and social protection, mainly led by the IFIs. While bilateral aid commitments to health saw a slight dip in 2020, commitments to health from IFIs rose from around $4 billion in 2019 to nearly $9.5 billion in 2020 (see Figure 5). The scale of these increases (mostly in the form of loans) comes at a time when bilateral aid is falling in other sectors. Almost all other sectors (with the exception of small increases for education and trade and tourism) have seen lower bilateral aid commitments, with notable declines in economic sectors and governance, peace, and security

23 See OECD Multilateral Development Finance Report 2020

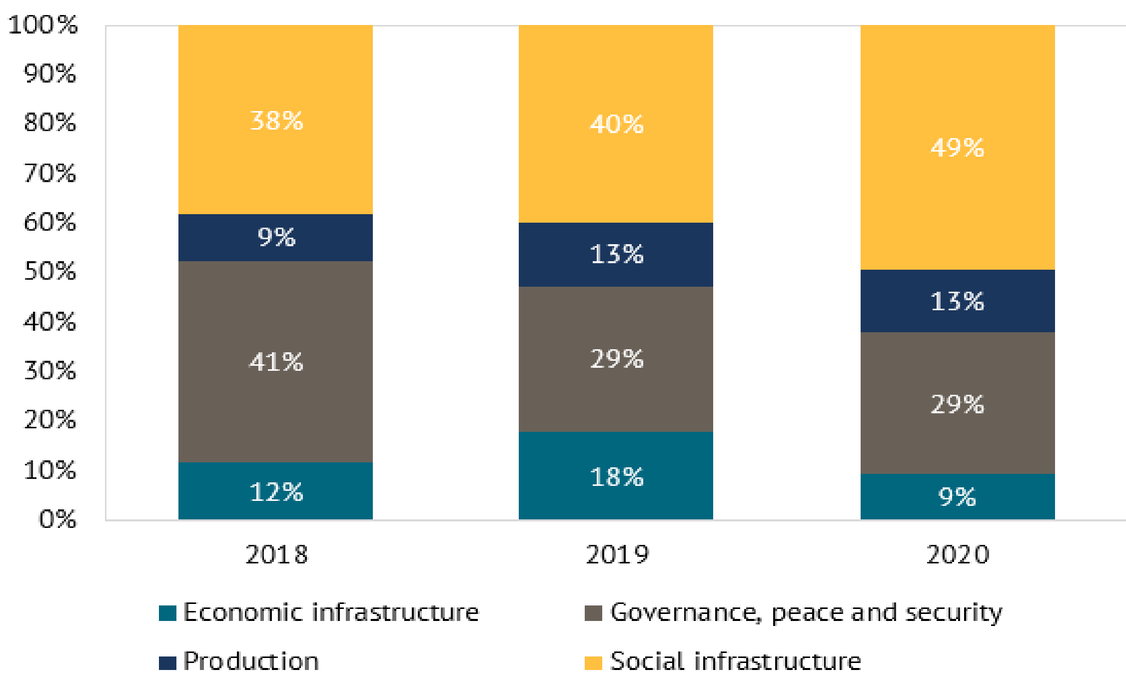
(see Figure 6). This may start to shift the nature of financing used to support human development and human capital, including in the poorest countries (Gavas & Pleeck, forthcoming).

Figure 5. Aid commitments to health, 2019 and 2020 compared



Source: Dodd et al. (2021)

Figure 6. Annual change in ODA sector allocation (2019-2020)

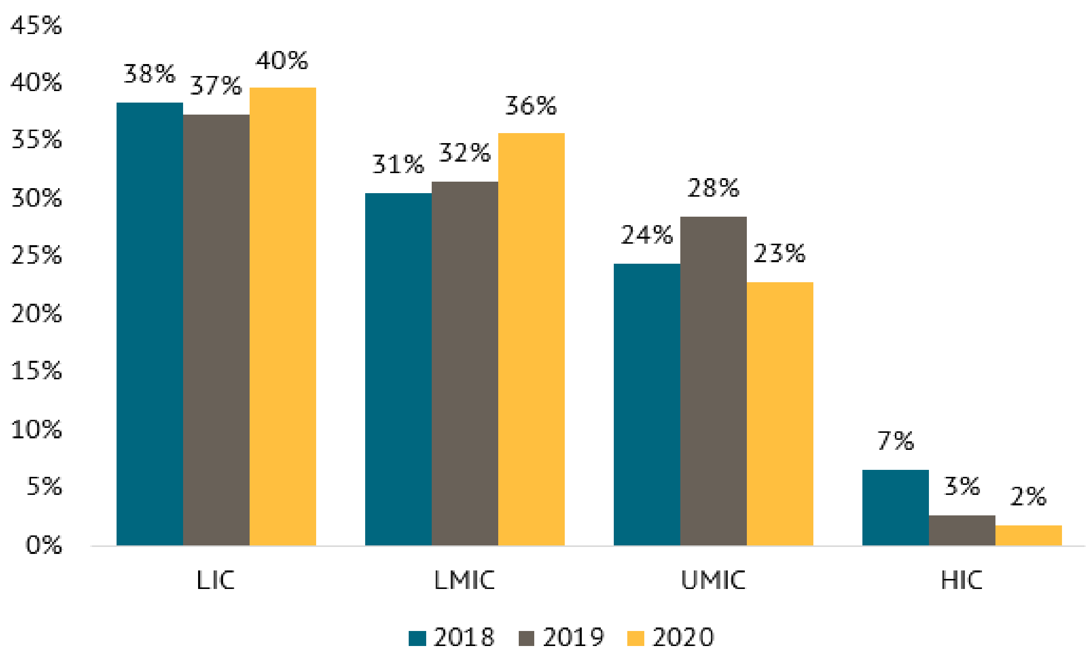


Source: Dodd et al. (2021)

The low-income vs middle-income trade-off

COVID-19 is reversing the progress made regarding the number of countries graduating from low-income to middle-income status. This risk is particularly severe for small islands and developing states (SIDS) largely dependent on revenues from tourism. As previously outlined, the overwhelming majority of the "new poor" induced by COVID-19 will be in MICs. Development agencies now face a dilemma between the short-term response to the crisis in MICs and long-term challenges in LICs and fragile states. Figure 7 shows the distribution of aid commitments from DAC donors to the different income groups. While aid to LICs has slightly increased, almost 60 percent is still being allocated to MICs.

Figure 7. Aid commitments by country income groups, 2018, 2019, and 2020 compared



Source: Dodd et al. (2021)

Dealing with cross-border challenges and threats and the provision of global public goods (GPGs) have become the focus of increased concern. This was true before COVID-19 in the climate change, fragility and conflict, migration, and infectious disease nexus, with increasingly frequent and serious flashpoints. Tackling global challenges also requires sophisticated foreign policy approaches, including engaging with high- to middle-income, often no longer aid-receiving, countries that are major emitters and/or otherwise are well positioned to help mitigate catastrophic risks. There is an increasingly stronger case being made for assisting MICs as conduits for global and regional responses to climate change, fragility, and migration challenges, as well as pandemics, however, with the trade-off being the inevitable dilution of the once-claimed cooperation priority of reducing poverty in LICs.

The cross-border vs poverty dilemma

The crisis has amplified the tension between protecting the global commons and fighting extreme poverty. There are powerful built-in pressures to progressively broaden the ODA basket (at a time when the overall basket is shrinking) to accommodate spending on GPGs, in particular on climate, one way or another. In 2019, total climate-related bilateral ODA disbursements were valued at almost $27 billion (commitments were just over $34 billion).24 This is equivalent to about 20 percent of total bilateral disbursements from DAC providers (including EU institutions) in 2019, or around 23 percent of commitments, up from the previous couple of years. Just over 60 percent of this is going towards climate mitigation mainly in MICs.

Aid budgets will need to be seen to contribute to massively expanded global health pandemic security, especially health R&D spending and COVID vaccine distribution, even if that displaces other development goals and perhaps even some other health spends. ODA definitions are arguably sufficiently flexible on this point, but they may simultaneously come under pressure in other ways, such as generous scoring of official debt relief.

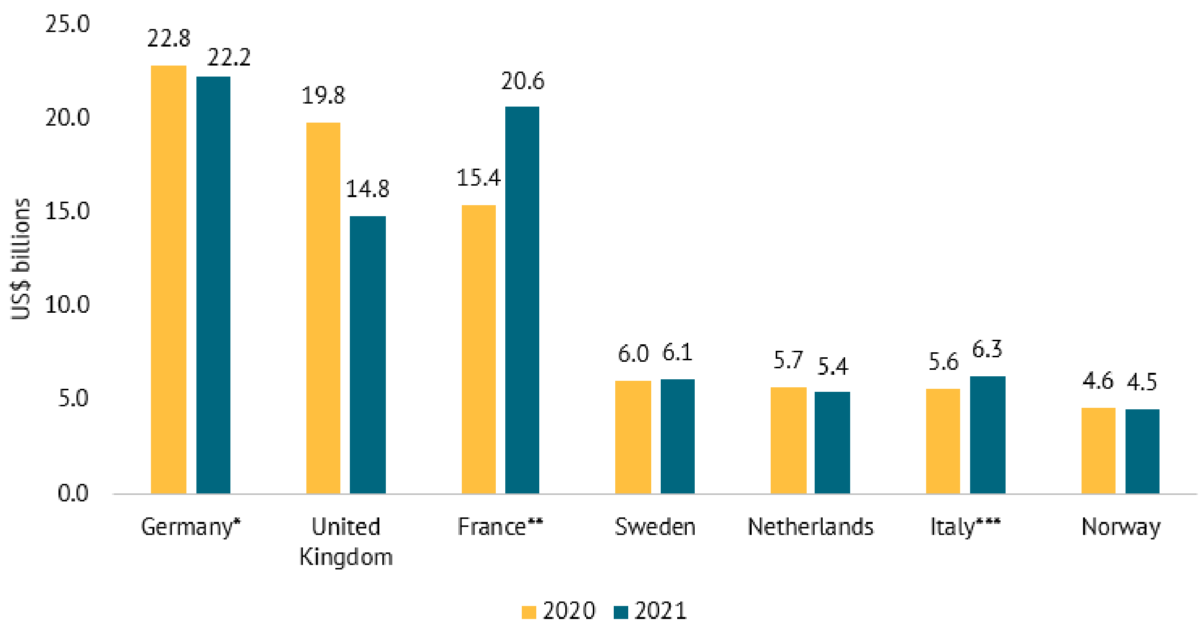
There have been a number of proposals put forward to deal with this. The first approach has been to identify some broader “beyond ODA” spending basket, the proposal being Total Official Support for Sustainable Development (TOSSD), offered in exchange for sticking to a more rigorously shielded, core ODA definition. The second approach is to try to show subsets of ODA spent for globally relevant purposes through “markers,” such as the existing climate-change “Rio” markers, or even a new COVID-19 marker, to help flag displacement of previous development priorities by new GPG-related ones. A third approach might be to follow Luxembourg’s lead in excluding climate change and in-donor refugee funding, at least, from their reported development assistance. However, efforts at refining development finance metrics have repeatedly been tried over extended periods of time, with little success.

Varied trajectories of ODA spending in 2021

As countries focus available and scarce public resources on domestic priorities and economic recovery, one would expect a fall in aid levels with a potential for real cuts in aggregate ODA. The impact of the economic downturn on global development budgets is at the centre of the debate particularly in those countries which have structurally tied ODA volumes to gross national income (GNI), such as the UK, Norway, and Sweden. However, forecasted aid spending in 2021 shows multiple trajectories (see Figure 8). The UK has announced a reduction in its ODA- to-GNI levels from 0.7 percent to 0.5 percent. Germany, the Netherlands, and Norway have projected slight decreases in ODA in 2021. On the other hand, France and Italy have committed to increasing their ODA commitments. Furthermore, the French government has recently passed a law committing the country to reach the 0.7 percent target by 2025.

24 OECD Creditor Reporting System

Figure 8. European donors' ODA budget projections, 2020 and 2021



* Sum of BMZ and AA budget
** Including €4 billion increase in debt rescheduling/cancellation
*** Based on three-year spending plan 2020-2022
Source: CGD estimates based on 2020 spending reviews and 2021 budget proposals

Increased pressure for rapid and flexible funding

The crisis has reinforced the need for a more flexible approach to funding, with much higher shares of aid to take the form of cash transfers at the micro level and budget support at the macro level. This runs against the recent grain of increasing the earmarking of assistance to specific projects. However, sluggish ODA disbursement rates have been a real problem, due to lengthy procedures around ODA reprogramming and complicated procedures for project assessment and approval. One year into the pandemic, there continue to be large discrepancies between commitments and disbursements. In July 2020, the World Bank's disbursement rate was on pace to reach only 50 percent of the announced goal.[25] This might be explained by the bank's limited use of "Development Policy Lending," a rapid budget support instrument. Development Policy Lending contributed to almost half of the World Bank's response to the 2009 financial crisis but has remained stable as a share of new commitments during the present crisis. Similarly, in October 2020, Team Europe (EU Member States, the EU institutions, and the European IFIs) had disbursed only half of its COVID response commitments.[26]

25 See CGD analysis on World Bank disbursement rate throughout the crisis.

26 See EU Global COVID response.

THREE FUNDAMENTAL CHALLENGES FACING DEVELOPMENT AGENCIES

Development agencies have some hard choices ahead. With alarming speed, COVID-19 has delivered a global economic and development shock of enormous magnitude. Development challenges are set against a backdrop of dwindling resources and domestic priorities. The need to provide GPGs is increasing, due to the scope and complexity of transnational development challenges as well as the practical and political overlap between spending on GPGs and traditional development priorities.

Yet, as demand for assistance increases and supply of assistance depletes, many development agencies are being asked to do more with less. For bilateral development agencies, financing GPGs remains a significant challenge—in real terms, global ODA has remained largely unchanged over the past 15 years, but the funds have been charged with additional objectives on climate mitigation and adaptation, hosting refugees, research and development, COVID vaccine development and distribution, as well as pressures in some countries to more directly support the national interest. Often, these objectives also imply spending and action in emerging economies, reducing resources for spending on poverty-alleviation in the lowest income settings, and have created pressure on the definition of ODA.

The above trends point to three fundamental challenges that all bilateral development agencies face in the foreseeable future. The first and arguably most serious is the increasingly blurred boundary between development assistance and spending to tackle global challenges. The mitigation and suppression of these challenges are of benefit to humanity, thus also to donor countries themselves. So, aid, (likely anyway to be less) comes under intense political pressure to accommodate spending on GPGs one way or another, further diluting its direct development impact.

In this context, understanding the new and expanding role of ODA is a necessary precursor to re-thinking the development effectiveness agenda to ensure that any new principles are tailored to the perspectives and realities of doing development in the 2020s and in a post-pandemic world. There are fundamental trade-offs that agencies will need to manage between the rules and norms of what constitutes effective development and development impact with national interest imperatives.

Finally, while resilience is the most prized characteristic of governments and public services, it is increasingly clear that development agencies have not always cultured it. Resilience implies an ability to absorb shocks, to adapt to shocks, and to recover from shocks. Yet, COVID-19 has brought to the fore fundamental weaknesses of development agencies' operating models, approaches, and use of instruments.

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