

The End of Development Cooperation?

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Before I begin, I would like to thank Indermit and the World Bank for giving me this opportunity. It's always a pleasure to be back at the Bank, and it's a privilege to provide the opening address at this ABCDE. Especially so, as this year's ABCDE is co-hosted by CGD, so I have a double alumnus affiliation here.

I want to talk about the current crisis in development cooperation—what led up to it, whether we should think of it as a temporary or permanent change, and what that means for the work of people like us who are interested in the well-being of developing countries and in the ideas and actions that can favorably impact their prospects.

Let me start by setting out my bottom line. I do not subscribe to the increasingly fashionable view that the current crisis represents the end of international development cooperation. For want of better terms, traditional donor countries and traditional developing countries will continue to cooperate on a range of issues. First, because they face both old and new shared challenges that can only be solved through collective action. Think of long-standing rules for international trade or the more recent focus on global issues like climate change, biodiversity loss, and pandemic prevention. Second, because, notwithstanding what the tabloids will shout, solidarity remains a widely shared public value. People want to help in humanitarian catastrophes, natural disasters, or when they see other human beings coping with extreme poverty or deprivation. And third, because development assistance continues to be a tool of broader international engagement in support of mutual interest projects for both provider and recipient countries.

So, development cooperation will continue, but I also believe that the way in which this cooperation takes place will be very, very different going forward. The model that has been the dominant framework for development cooperation for over a generation—characterized by North to South aid flows and associated conditionality—has now run its course. It won't disappear all at once or

everywhere at the same pace, but the direction of travel is irreversible, and the sooner we adapt our thinking to recognizing that trend, the more productive and impactful our work will be.

It is useful to remind ourselves that the current development cooperation framework is itself the product of a unique moment in 20th-century history. I think back to the mid-1990s. With the collapse of the Soviet Union, the West had finally won the Cold War; economic conditions were broadly favorable, there was an assumption that liberal economic policies and democratic politics were now the shared destination for organizing all societies—with some countries further along this path than others. As Francis Fukuyama famously declared, it was *The End of History*. In that context, ending extreme poverty and promoting economic development became the global project that attracted both political and popular attention. Aid budgets were increased, new international institutions were set up, development ministries were upgraded in status, and development technicians like us were given a long rein to get on with the job. At the same time, many developing countries embraced sound macroeconomic management and began to remove policy and structural distortions in their economies. And for the next two decades, the results were extraordinary.

You know the numbers better than I. Between 1990 and 2015, the share of households living in extreme poverty fell from roughly 4 in 10 to 1 in 10.¹ Life expectancy in low-income countries, which had gone up by four years in the previous generation, went up by 12.² The percentage of children who died before reaching age 5 was halved.³ The share of children enrolled in primary school in low-income countries nearly doubled.⁴ The scourge of HIV was brought under control. Polio was eradicated except in a few stubborn locations. These improvements came about mainly through the efforts of governments and communities in developing countries, but development cooperation played a key supporting role, especially in the poorest countries, which relied mainly on official financing to supplement their own meager savings.

But by the early part of the last decade, this model was reaching its limits. Economic and social progress slowed across much of the developing world. And faith in the model of liberal economic management was shaken by the Global Financial Crisis, while China's rise offered many developing countries an alternative vision for making faster economic and social progress. In parallel, the number of conflicts—and relatedly, the number of refugees and humanitarian crises—started to increase dramatically, and mainstream development practice had little to offer to deal with fragile states where extreme poverty was increasingly concentrated.

So, development progress slowed, but there was also growing unease with the specific model of development cooperation.

In rich countries, three factors were particularly relevant. First, rising awareness of the risks posed by climate change and the need to dedicate resources and energy to mitigating these risks captured a growing share of popular attention, particularly in Europe. The COVID pandemic extended this

¹ Joe Hasell, Bertha Rohenkohl, Pablo Arriagada, Esteban Ortiz-Ospina, and Max Roser, "Poverty," *Our World in Data*, 2022, <https://ourworldindata.org/poverty>.

² Saloni Dattani, Lucas Rodés-Guirao, Hannah Ritchie, Esteban Ortiz-Ospina, and Max Roser, "Life Expectancy," *Our World in Data*, 2023, <https://ourworldindata.org/life-expectancy>.

³ "Under-five mortality," UNICEF, last modified March 2025, <https://data.unicef.org/topic/child-survival/under-five-mortality/>.

⁴ "School enrollment, primary (% gross) - Low income," World Bank, Last modified April 23, 2024, <https://data.worldbank.org/indicator/SE.PRM.ENRR?end=2015&locations=XM&start=1990>.

awareness to the interdependence around global health security. Second, as fiscal conditions tightened in many rich countries, public resources spent on international development programs became a tempting target for politicians and the public alike. This was linked in some countries to a perception that access to public housing, schools, and health facilities was prioritizing asylum seekers or refugees from developing countries. And third, the backlash against globalization by those who felt left behind by the liberal economic policies of the past two decades extended to include progress in developing countries who were increasingly seen as competitors rather than partners.

Over the same period, voices critical of the prevailing model of development cooperation were also getting more traction in aid-recipient countries and among some elements of civil society in rich countries. These voices ranged from those who had specific complaints about the way development cooperation was being done to those who were against any form of development assistance at all. They voiced concerns about aid dependency, the erosion of agency in partner countries, the imposition of donor priorities on development programs, and the hollowing out of national government capacity as talented staff were lured to work at better financial terms on donor-funded programs. Many developing country policymakers also complained that development cooperation had lost its original purpose and become a global safety net for the poor rather than a mechanism to accelerate the economic transformation of their countries through growth and capacity building. Some of these concerns had been around for many years. But they found a more receptive audience at a time when disillusionment was growing with the existing model of cooperation.

A third major development that disrupted the business of development cooperation was the rise of China both as a trading partner and as a source of finance for developing countries. Just a few decades ago, China was a major recipient of development aid; today, it is the largest bilateral creditor and trade partner for much of the developing world. During the mid-2010s, China's development finance commitments at times surpassed those of the World Bank, and, while lending slowed during COVID, China's activity along its Belt and Road Initiative is experiencing a renewed surge.⁵ As China emerged as a major development actor, it mostly operated outside of and in parallel to the traditional donor system, challenging norms by providing market-rate loans with sometimes opaque conditions.⁶ Other rising donors have followed China's lead in providing alternatives to the Western aid model, with the UAE stepping into a similar role in financing large-scale infrastructure projects in Africa.

Alongside these developments, developing countries' faith in development cooperation was impacted by their disillusionment with the support they received for dealing with the COVID crisis. From being last in line to access vaccines, to only being able to spend a fraction of what the rich world spent to mitigate the impact of the pandemic on their households and firms, developing countries felt that international cooperation no longer meant very much. Their anger was fueled by the very different treatment deployed for addressing the impact of the war on Ukraine and by a perception of double standards with regard to human rights across different conflicts. They also complained about

⁵ Joe Leahy, "China's Belt and Road investment and construction activity hits record," *Financial Times*, July 16, 2025, <https://www.ft.com/content/a2635ba1-198e-4014-8030-7e420edf34be>.

⁶ Scott Morris, Brad Parks, and Alysha Gardner, *Chinese and World Bank Lending Terms: A Systematic Comparison Across 157 Countries and 15 Years*, Center for Global Development, April 2, 2020, <https://www.cgdev.org/publication/chinese-and-world-bank-lending-terms-systematic-comparison>.

the disconnect between lofty rhetoric at global summits and the business-as-usual reality that followed. Official reports detailing financing gaps in the trillions coexisted with the inability to mobilize even hundreds of millions for urgent and life-saving programs.

My purpose in going over these trends is not to lament the past but to explain that while 2025 may well be remembered as the year when the framework for development cooperation dramatically shattered, the cracks that led to this were in the making for some time.⁷ That doesn't make the human and societal consequences of this year's sharp cutbacks in development assistance any less damaging. But it does suggest that we need to think also about how the underlying trends will play out in the years to come.

To that end, I'd like to offer five ideas for your consideration. A shared assumption underpinning them is that there is no going back. The system we had contains useful learning on what works and how to maximize development impact, but we must be careful not to try and navigate the future by looking for guidance in the rear-view mirror.

My first point is that the crunch in development funding is here to stay. DAC figures show development assistance was down by 7 percent in 2024, with a further expected cut of between 9-17 percent this year.⁸ The reduction for recipient countries is even greater because a rising share of reduced aid budgets is being spent on hosting refugees and asylum seekers in donor countries, humanitarian crises, and global challenges like climate change. More cuts will certainly follow down the road. European donors are committed to large increases in defense spending, and the US seems to have turned away from development assistance wholesale.

The countries that will be most affected by this cutback are, of course, the ones that depend most heavily on concessional assistance and have limited or no access to financial markets.⁹ Many such countries are trying to limit the human and economic damage of aid cuts by reallocating budgetary resources to cover donor-funded programs (particularly in the health sector).¹⁰ These efforts will help to a degree, but let's not fool ourselves into thinking that there won't be a lasting setback to human development for these countries.

One implication of more scarce concessional funding is that maximizing its impact becomes even more important.¹¹ Grants are already the most precious form of development financing, and they will become scarcer going forward. And yet, we continue to deploy grants in suboptimal ways. Too many grant-based development programs use a dollar-in-dollar-out model (or rather, less than a dollar-

⁷ Masood Ahmed, "Development Cooperation in a Contested Era," keynote address at the Australasian Aid Conference, Australian National University, December 5, 2024, <https://www.cgdev.org/publication/development-cooperation-contested-world>.

⁸ "Cuts in official development assistance," OECD, June 26, 2025, https://www.oecd.org/en/publications/cuts-in-official-development-assistance_8c530629-en.html.

⁹ Justin Sandefur and Charles Kenny, "USAID Cuts: New Estimates at the Country Level," *Center for Global Development*, March 26, 2025, <https://www.cgdev.org/blog/usaaid-cuts-new-estimates-country-level>.

¹⁰ Sanjeev Gupta and Charley Ward, "Bridging the Gap: Financing Social Services After US Aid Cuts," *Center for Global Development*, May 16, 2025, <https://www.cgdev.org/blog/bridging-gap-financing-social-services-after-us-aid-cuts>.

¹¹ Rachel Glennerster and Siddhartha Haria, "Radical Simplification: A Practical Way to Get More Out of Limited Foreign Assistance Budgets," *Center for Global Development*, April 21, 2025, <https://www.cgdev.org/blog/radical-simplification-practical-way-get-more-out-limited-foreign-assistance-budgets>.

out model after admin costs) in situations where concessional loans would be just as effective.¹² That should no longer be acceptable.

Also unacceptable should be deploying scarce grants for projects without a rigorous and explicit analysis of the expected results. Far too many climate mitigation projects are still being done without any explicit emission reduction targets or the expected cost per tonne of emissions averted.¹³ Donors funding these projects need to be far more insistent on the urgency of getting this type of analysis included on a routine basis. And where the results are not quantifiable, rigorous analysis means a thorough and reasoned assessment of the underlying theory of change, including the evidence from both history and comparable projects.

We also need to push harder to change direction and pull back grant funding when the evidence shows that it is not delivering expected results. One example is the use of grant funds to incentivize private finance flows to projects in difficult environments. We would all like to see more private funds go to low-income or fragile countries, and blended finance is a legitimate way to encourage that, but we need to be far more conscious of the opportunity cost in terms of the projects that those grants will no longer be supporting. Donors sometimes don't help by setting unrealistic targets that then require the excessive use of precious grant funds to achieve marginal benefits.

The good news is that there is a large and growing body of evidence on development interventions that do have high returns—high returns on the funds invested and high returns in terms of broader impact in the country.¹⁴ It is important to stress returns to the country: sometimes donor preoccupation with demonstrating quantifiable results for “their aid dollars” has misdirected development flows into short-term wins rather than institutional strengthening that could be more transformative for the country. These “best buys” are not always part of the available option set, but where they are, we need to be drawing upon them much more systematically than is currently the case.

The second broad observation I'd like to make is that national interest as a motive for development cooperation has become respectable again. To be clear, development assistance has always been driven by a mixture of national interest and altruism, but, over the past 25 years, much of the rhetoric and quite a bit of the reality have been based on the latter. Now national interest is clearly in the driver's seat. Some donors, like the European Union, are very explicit about the change in focus;¹⁵ others less so. But the general direction is unambiguously to link development flows to programs that promote donor country (or “shared”) interests and to prioritize countries that cooperate on a

¹² Clemence Landers, Janeen Madan Keller, Rosie Eldridge, and Nico Martinez, “The Concessional Funds Need a Major Overhaul: Action Items for FfD4,” *Center for Global Development*, June 26, 2025, <https://www.cgdev.org/blog/concessional-funds-need-major-overhaul-what-meeting-moment-ffd4-could-look>.

¹³ Matt Juden and Ian Mitchell, *Cost-Effectiveness and Synergies for Emissions Mitigation Projects in Developing Countries*, Center for Global Development, March 5, 2021, <https://www.cgdev.org/publication/cost-effectiveness-and-synergies-emissions-mitigation-projects-developing-countries>.

¹⁴ “Value for Money in Aid,” Center for Global Development, last modified March 13, 2025, <https://www.cgdev.org/topics/value-money-aid>.

¹⁵ Mikaela Gavvas and Laura Granito, “The EU's Ambition to Tie Its Development Aid Will Undermine Economic Development,” *Center for Global Development*, July 1, 2025, <https://www.cgdev.org/blog/eus-ambition-tie-its-development-aid-will-undermine-economic-development>.

range of sometimes only tangentially related issues, such as controlling migration or the flow of drugs.

I want to clarify that the national interest I am talking about is different from programs that are based on shared priorities and where both sides benefit. Call that “mutual interest” if you like. The problem is that in its current guise, mutual interest is often just a cover for getting the partner country to agree that it shares the donor’s priorities. And even when there is genuine sharing of benefits, using mutual interest to guide project selection does not necessarily lead to the highest priority programs for the developing country in question.

Using development assistance as an instrument of foreign policy is not new. During the Cold War, both the Soviet Union and the West used foreign assistance to reward or support political allies. Tied aid and other “aid for trade” schemes were used to promote exports or secure commercial contracts. With geopolitics becoming contested once again, there is a renewed emphasis on linking aid to national security or commercial interests. At a recent gathering of donor agency leaders, I was surprised to hear a suggestion that bringing back tied aid—where aid disbursement is limited to goods and services produced by the donor country—might not be such a bad idea after all. And at any similar gathering in Washington, I would be surprised if the goal of competing with China for influence or strategic access did not come up.

Some politicians seem to believe that justifying development assistance as being in the interest of the donor country will help to sustain popular support for it. Unfortunately, the evidence from survey data doesn’t support that. Most surveys show that solidarity or financing responses to shared global challenges like climate change are likely to command much greater support from the broader public.^{16, 17} The sorry history of some failed aid-for-trade projects in the 1970s still lingers in the collective mind.

On the other side, too often politicians claim that something is being done to promote development in the partner country when the motivation and design clearly say otherwise: that is a recipe for eroding credibility and trust. It would be far better to be honest and upfront about the real purpose of a project that is driven by a non-developmental goal and to judge its effectiveness against that goal. If public funds are being used to win a commercial contract that will create jobs in the donor country, it is important for taxpayers to know that and to be aware of the cost for each job created. Counting that expenditure as development assistance is neither appropriate nor helpful.

My third proposition is that going forward, developing countries and their partners will need to get more adept at navigating multiple partnership frameworks. The world of development cooperation is replete with sectoral, national, global, and partnership frameworks. Traditional development practitioners love frameworks. We love designing them, refining them, applying them, and complaining about the tendency of newer development partners to operate without reference to

¹⁶ Terence Wood, Chris Hoy, and Jonathan Pryke, “The Effect of Geostrategic Competition on Public Attitudes to Aid,” *Journal of Experimental Political Science* 8, no. 3 (2020): 285-295.

¹⁷ Damian Carrington, “‘Spiral of silence’: climate action is very popular, so why don’t people realise it?” *The Guardian*, April 22, 2025, <https://www.theguardian.com/environment/2025/apr/22/spiral-of-silence-climate-action-very-popular-why-dont-people-realise>.

these frameworks. Mind you, while we want everyone to operate within a unified framework, we also want this to be the framework that we subscribe to.

Going forward, with development funding from traditional donors declining and with a greater share driven by programs of “mutual interest,” we will have to accept that the traditional donor partnership framework will be one among several that the recipient country has to manage. Other development partners will be operating with different rules and norms that they agree with the country, or sometimes simply opportunistically to fund a project of mutual interest. Hard though it may be to accept, the absence of frameworks does not automatically translate into an absence of progress. Perhaps future development progress will come about as much through good deals as through comprehensive frameworks. As an aside, I do question whether our current faith in country platforms will turn out to be exaggerated in a world of increased fragmentation.

My fourth observation relates to the respective roles of multilateral and bilateral development agencies. The drive to link development assistance more closely to donor country interests will lead to a prioritization of bilateral programs to channel development assistance. So too will the desire to sustain popular support for humanitarian assistance and other solidarity-driven programs. So, my current view on this, and I offer this with only moderate confidence, is that over the next decade we will see some shift from multilateral to bilateral assistance in development cooperation. This will apply particularly to those multilateral organizations that compete directly with bilateral programs for contributions from national development budgets. A lot of UN agencies and INGOs fall into this category, and you can already see some of them trimming their sails for the adverse winds to come.

MDBs will not be exempt from the cutback in development funding but, fortunately, they are already—and have the potential to become even more—self-financing. And in a world of tightly constrained national development assistance budgets, being a shareholder of a multilateral organization that can operate without calling for budgetary support becomes very attractive.

In their current business model, the MDBs rely on periodic budgetary contributions to sustain their concessional lending windows and less frequently, for capital injections into their non-concessional lending arms. My view is that going forward, MDBs will need to think creatively about how to sustain their lending volumes with less budgetary funding from shareholders.

How they go about achieving this is the topic for a separate talk, but I’d like to signal two points today. First, I do question whether these organizations need to rely as often on making grants rather than concessional loans. If an IDA country cannot sustain a 40-year loan at near-zero interest rates, what does that say about our confidence in underwriting that country’s development strategy? Another route for reducing dependence on donor funding for concessional loans is to expand IBRD-type operations in more creditworthy countries and transfer part of the resulting operating surplus to build equity capital and to support concessional lending to less creditworthy countries. You could also imagine IBRD-type windows taking on a bit more risk by expanding their lending in the less creditworthy blend countries. These specific ideas may run into objections, but my broader point is that MDBs need to start exploring options for sustaining their business in a world where donor contributions will be more constrained. I am a committed believer in the genius of the MDB financial model and want to make sure that it can thrive in the adverse times to come.

I have talked so far mainly from a development practitioner perspective, but let me end with a fifth reflection on what I hear from colleagues and friends who are policymakers in the Global South. Three things have struck me about their reactions to the current crisis in development cooperation. First, without minimizing the human cost of recent cutbacks, these policymakers have largely moved on to focus on what comes next. And they are determined that what comes next should address the shortcomings of the previous system. They see the shift to a mutual interest paradigm in donor countries as an opportunity for an honest dialogue that starts from both sides laying out their respective priorities and finding common ground. As one policymaker put it, it's time to move beyond the polite pretense that we all have the same priorities, which is really a cover for getting us to accept your priorities.

Second, within the frame of development cooperation, Global South policymakers want the pendulum to shift back to programs that support sustained growth and the accumulation of human and physical capital. For that reason, Global South policymakers want to discuss cooperation on development assistance but also on a whole range of international policies that affect their ability to engage with the global economy. This includes trade and investment but also migration, technology transfer and intellectual property rights, and financial regulations.

And third, I have been struck by the resurgence of the view that the progress of their countries will depend primarily on their own actions. They want international institutions to be partners who support them but also leave space for national policymakers to exercise policy choices and take ownership and to build regional and other alliances in support of their choices. They value the cross-country experience and technical expertise that development institutions can bring but they reject this being presented as prescriptions that don't start with the ground reality of their country. The challenge for us development practitioners is to see how we can meet these expectations and be constructive partners for progress in the new era of development cooperation that lies ahead. Thank you.

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