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## RISK-INFORMED DEVELOPMENT COOPERATION AND ITS IMPLICATIONS FOR OFFICIAL DEVELOPMENT ASSISTANCE (ODA) USE AND ALLOCATION: LESSONS FOR THE DECADE OF ACTION TO DELIVER THE SDGS

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## Introduction

The COVID-19 pandemic has made clear that effective development cooperation is an essential means for overcoming crises in an interconnected world. Like many other threats posed by diverse risks, viruses freely traverse borders, underlining the importance of strong solidarity among countries, international development cooperation and well-functioning multilateral institutions. Increasingly, all countries are confronted with complex development challenges, although the capacities and resources needed to address them vary considerably.

The pandemic and its consequences have created an unprecedented opportunity for a fundamental shift in international development cooperation towards risk-informed sustainable development. There have been some successes in addressing COVID-19 through development cooperation, but challenges persist as governments are pressed to prioritize addressing the socioeconomic fallout of the crisis in their own countries rather than stepping up multilateral or bilateral efforts.[1] This reflects a short-term approach to risk reduction and management, perspectives and practices, which will need to shift toward long-term sustainable development solutions.

The commitments contained in the 2030 Agenda for Sustainable Development, Addis Ababa Action Agenda, Paris Agreement and Sendai Framework for Disaster Risk Reduction are a collective call to action to go beyond short-term thinking to achieve climate-smart, risk-informed sustainable development. The long-term costs of strategic preparedness for risks are but a tiny fraction of the astronomic costs of episodic, often chaotic responses to sudden, emergent crises driven by unforeseen shocks. This study tries to capture current approaches to risk management practiced by developed and developing countries, based on recent literature, data and practitioners' experience, to identify challenges and showcase potential solutions for effective risk-informed development cooperation.

This study explores the role of development cooperation, specifically official development assistance (ODA), in addressing and responding to an array of known and unknown risks. It also highlights development cooperation policies, practices and tools that could be employed to strengthen national capacities and support long-term resilience, while contributing to a risk-informed recovery to the COVID-19 pandemic and its impacts. There are key challenges and opportunities that the various actors must consider to better incorporate risk considerations into their international development cooperation, and the study reflects lessons learned and recommendations in this regard.

## Risk and International Development Cooperation

Many new and emerging risks share a number of distinct characteristics. Such risks are interconnected and transboundary. They have both transitional and transformative impacts and often occur simultaneously. Additionally, the rate, frequency, intensity, nature (e.g. digital versus natural world) and geographical origin of threats and subsequent risks are fast-evolving and undermining hard-won development gains. Some of the risks arising from these threats could be inter-generational and accumulative, such as climate change risks. Others may be short-term and intense; arise rapidly; and have severe consequences – for example, cyber threats and financial instability.[2]

Risk is often "siloed" (usually by natural hazard), rather than thought of as part of a system in which multiple threats are concurrent.[3] COVID-19 has driven an urgency to understand complex risks and adopt systems thinking when formulating international, regional, national and local development strategies to effectively manage uncertainty. Even before the onset of the pandemic, focus had begun to shift away from individual hazards to more complex, real scenarios where one hazard leads to another (cascading hazard), or multiple hazards crossing in time and/or space create an even larger disaster.

Despite the responsibility of governments in reducing and managing risks for their populations, there is relatively limited risk knowledge and related risk management structures and functions in the public sector.[4] It is only relatively recently that many OECD countries have begun to adopt and mandate that national risk assessments be conducted, indicating a shift towards improved risk management approaches among governments.[5] Although capacities among developing countries remain limited, planning processes in more vulnerable countries may have advanced further in some aspects of risk management, driven by sheer necessity. Addressing complex risks in a more integrated and systematic way in support of sustainable development will require adaptation and strengthening of current risk management practices by governments and public sector institutions, building on insights from countries that have made progress.

Understandings of risk vary according to the context, as different stakeholder groups and sectors use their own definitions and perceptions of risk. A lack of understanding; distinctive – though overlapping – interests; and the dynamic and complex nature of risk and uncertainty can be major challenges to effective development cooperation. Successfully addressing such risks requires the ability to identify or forecast potential threats and, in turn to prevent, reduce or manage them. Therefore, improving development cooperation to be better risk-informed requires a thorough examination of the different risks and their policy implications for diverse partners.

## ODA trends and insights

International development cooperation is a crucial means of implementation of the 2030 Agenda and a major action area of the Addis Agenda, offering new modalities and opportunities for risk considerations to support the achievement of sustainable development. Official development assistance (ODA) is a unique and irreplaceable form of concessional finance, which carries with it the priority of addressing challenges in developing countries, and the specific global commitment of dedicating 0.7 percent of gross national income (GNI) towards these ends.

### *Health risks*

COVID-19 has graphically illustrated the importance of public health systems and the need for development cooperation to continue and further strengthen support to developing countries. A report by the new Global Health System Index warned that countries were not prepared for a globally catastrophic biological event, nor were they fully prepared for epidemics or pandemics.[6] Collectively, international preparedness was weak. It is important that ODA and other forms of international development cooperation deployed to address COVID-19 are delivered in a way that protects and reinforces long-term investment in health systems.

Financing health and health systems is a long-standing development challenge. Since the so-called golden age of development assistance for health between 2000 and 2010, development assistance for health declined almost fourfold in the past decade.[7] Although ODA is being re-channelled to the health sector as part of the immediate COVID-19 response, it is not yet known if this will remain short-term and ad hoc or mark the beginning of a fundamental shift from pre-existing trends.

ODA to health reached USD 26 billion in 2018, accounting for 1.5 percent of health expenditure within all developing countries and up to one-fifth of health expenditure within least developed countries (LDCs). A significant proportion of ODA to the health sector comes from a small number of OECD Development Assistance Committee (DAC) donors.[8] In 2018, the Africa region and countries in the low-income group received the highest amount of health ODA per capita (weighted average) compared to the other regions and income groups.

Significant allocations are made towards combatting disease. Over half of health ODA is focused towards combatting diseases, however this decreased between 2017 and 2018.[9] This focus area is prone to a "panic-neglect cycle", where health donors and national policy-makers rush to allocate emergency funding amidst a health crisis, which soon ebbs out once a disease seems under control, despite risks of resurgence. Long-term approaches to preventing and combatting disease are needed to ensure solutions are sustainable and local capacities are built to address possible resurgences and related risks.

Significant ODA allocations to the health sector flow through multilateral institutions and pooled funds. According to one study, multilateral institutions, such as the World Bank and WHO, disbursed 5.1 percent and 5.8 percent of total development assistance for health, respectively, and pooled funds, such as the Global Fund and Gavi, which disbursed 9.9 percent and 4.9 percent respectively in 2016.[10] Amounts mobilized from the private sector towards health remain quite small, and only a small fraction of the total reaches the LDCs and other countries in greatest need.[11]

Because access to ODA to address health and other risks becomes difficult as developing country economies grow, greater cooperation across development actors, including the private sector, is needed to bolster domestic efforts. While domestic investment is essential to build strong, resilient and sustainably financed health systems, developing countries face challenges to accessing resources and capacity support. The fall in ODA investments in health in response to a rise in per capita income creates a "transition gap" for developing countries; requiring supplementary investment of domestic and private resources.[12] As development cooperation continues to evolve, engaging different stakeholders, such as the private sector as well as scientific and academic actors, can provide important resources (i.e. information, knowledge sharing, technology) and capacity support to help countries make risk-informed decisions and adopt innovations.

Development cooperation also offers innovations and lessons learned for future success in managing health risks and pandemics. For example, at the regional level, the African Centre for Disease Control and Prevention (CDC) was launched officially in 2017, with support from the World Bank and the People's Republic of China among others. The African CDC – which successfully contained the Lassa fever outbreak of 2018 – offers a useful financing model where external donors would bear fixed-costs investment, such as setting up institutions, and countries would mobilise domestic resources for recurrent costs; other innovations and good practices are demonstrating how planned infrastructure investments in health and other sectors can advance resilience and sustainability.[13] Future review of the African CDC's role in the COVID-19 context should provide useful insights for development cooperation actors interested in investing in health preparedness.

The contribution of ODA to addressing global health risks should be more explicitly defined and managed. To achieve this, it will be important to improve tracking of financing for health especially in support of SDG 3, target D, which calls for the international community to "prepare for early warning, risk reduction, and management of national and global health risks." A recent OECD study has recommended including pandemic preparedness and strengthening health systems as separate items under the Creditor Reporting System of the OECD. [14] Redefining systems to improve tracking of ODA flows for health would not only facilitate holding members of the DAC accountable for the commitments they make. It would also help to align development cooperation with a "systems" approach that supports prevention of chronic diseases and universal health coverage – both fundamental for reducing vulnerabilities to other health risks, such as pandemics.

## *Environmental change and natural hazards risk*

The increasing upward trend in ODA financing for environmental sustainability and addressing natural hazards shows that this risk category is a priority of DAC donors. Climate-related development finance – which includes public flows such as ODA and mobilized private flows – increased by 10 percent from 2015 to 2018; reaching USD 34.16 billion in 2018, up from USD 31.18 billion in 2015. According to the OECD, public climate finance from developed countries was projected to reach USD 66.8 billion in 2020.[15] Climate-related development finance is slanted towards mitigation compared to adaptation activities, although financing is more balanced in the LDCs and small island developing states (SIDS).[16]

Long-term planning to address risks posed by climate change and natural hazards will enable predictable and long-term (typically 10-15 years) financing and help build a culture of resilience. This will help foster the policy, institutional and behavioural change needed to help build resilience to climate and disaster impacts. Further, investing in pre-emptive, ex-ante measures will enhance climate action. Greater concessional resources for climate and disaster resilience tend to be provided in the wake of major disasters and then progressively fade away, while countries that have not recently experienced large disasters may struggle to attract resilience funding. This low predictability of funding can constrain the ability especially of developing countries to take more comprehensive, forward-looking and cost-effective steps to reduce vulnerabilities and strengthen their national and local capacities to increase resilience over the long term.

Developing countries have expressed concern that their limited administrative and technical capacities constrain their ability to tap multiple special climate funds, each with their complex, variable requirements and procedures. Moreover, climate finance is fragmented across a large number of projects, which leads to high transaction costs and places additional stress on the capacity of developing countries; this impacts the delivery of projects funded through climate-finance resources. For this reason, the Inter-Agency Task Force on Financing for Development has urged for better coordination among DAC countries to enhance allocation and effective use of climate finance. DAC countries can pool resources to reduce developing countries' reliance on a single source of concessional funds and to attract additional finance; however, experience in the climate finance architecture has shown that pooling funds is most helpful when designed to build capacity in developing countries over the long term and where the benefits of pooling – in terms of transparency, accountability, simplified administration, among others – are clear.[17] Further, application and management procedures can be streamlined to promote easier access to global climate funds.

ODA for disaster risk reduction (DRR) remains insufficient, with fragmented approaches to monitoring and evaluation of these flows. A new policy marker for DRR was introduced by OECD in 2015 for tracking DRR mainstreaming in development cooperation.[18] Notably, the DRR marker is classified under "multi-sector cross-cutting" policy objective, while the marker for Disaster Risk Preparedness, a similarly cross-cutting concept and area of effort, is classified under "humanitarian aid." Data on ODA for disasters can be measured across – but is not limited to – four areas: disaster prevention and preparedness, DRR, reconstruction relief and rehabilitation, and emergency response. ODA disbursements for disaster risk reduction have been volatile, ex post and marginal.[19] Most of it has flowed to emergency response. Significant financing gaps exist, making ODA crucial in responding to climate-related disaster recovery needs.

A resilience marker for DAC countries might be the impetus needed both to boost ODA resources towards resilience efforts across various sectors and provide a more comprehensive gauge on what resources are going towards resilience, given the fragmentation of application of the DRR markers to date. The OECD/DAC experience with the gender marker thus far offers important lessons here.[20]

## *Economic and financial risks*

The COVID-19 pandemic has unleashed a historic financial crisis in most developing economies. Saddled with chronic fiscal deficits and already high levels of public debt, domestic responses to the health threats are reducing tax revenues and leaving insufficient resources to fill the subsequent gap. International public finance will play an important role in supporting the COVID-19 response and eventual recovery. This applies in particular to LDCs and the most vulnerable countries, which require more concessional grant finance to confront the challenges of the current crisis. Significantly, the COVID-19 outbreak has already put a brake on other sources of external financing, notably private finance, foreign direct investment (FDI) and remittances. In 2017 remittances, FDI and tourism were the largest sources of international finance to LDCs, revealing the significant financing constraints many of the poorest countries will face in the immediate future. [21]

Many of the most advanced economies will significantly contract as a result, which raises questions about sustaining, let alone increasing, ODA levels at a time of increased need in developing countries. A recent survey of developing countries reflected concern among participants as to whether bilateral international development cooperation partners, with their own economies under severe strain as the result of the pandemic, would be able to meet their commitments in the coming years.[22] Indeed, some donors have already announced cuts to their development cooperation budgets.[23] Meanwhile, the IMF predicts that developing countries will require an additional USD 2.5 trillion to address the pandemic. Totalling just under USD 153 billion in 2019, ODA levels are clearly only one important piece of the overall financing puzzle for the COVID-19 response and recovery; however, the vast financing needs of developing countries should underscore the importance of ODA providers reinforcing their ODA commitments and pushing for increases in additional concessional finance.

Donors may also consider stepping up ODA towards building the capacities of developing countries to reduce economic and financial risks and reduce vulnerabilities to future crises. This includes directing ODA to national capacities and institutions in developing countries that can support domestic resource mobilization, public financial management and data and statistical systems.

In 2018, ODA in support of domestic resource mobilization increased 23 percent year on year, reaching USD 261 million and 0.22 percent of ODA. This was still less than the peak of USD 329 million in this area in 2016, which coincided with the launch of the multi-stakeholder Addis Tax Initiative to enhance domestic resource mobilization in developing countries.[24]

Although many donors have gradually reduced budget support as a modality of their ODA, recent evidence shows that budget support has a variety of benefits in supporting the development of the financial management capacity of the public sector which, in turn, can promote national resilience.[25] A meta-synthesis of budget support showed that it was associated with improving the quality of public financial management of developing countries; strengthening their existing macroeconomic stability; and increasing public spending in critical social sectors, like health and education, among others.[26]

With respect to building data and statistical capacities, ODA in this sector rose by 11 percent, from USD 623 million to USD 690 million, from 2016 to 2017, representing only 0.34 percent of total ODA. Yet, international funding for data and statistics is about half the level it needs to be. As of 2019, only 89 national strategies for the development of statistics were fully funded, and these were mainly in high-income and upper-middle-income countries.[27] Continued and increased technical and financial support is needed to ensure that countries in developing regions are better equipped to monitor progress of their national development agendas, including in the midst of crises and in preparation for future risks.[28]

## Placing a spotlight on debt distress in LDCs, LICs and SIDS

Under the current circumstances, external debt[29] of developing countries and economies in transition has grown to a record high, reaching 29 percent of their GDP in 2019, with worsening risk profiles of debt contracts, variable interest rates and more volatile financing costs, as well as sudden reversals of private capital inflows.[30] Rising external debt burdens along with increased risk profiles of such debt translate into increased servicing costs. Consequently, debt service is posing serious economic risk to all developing country regions.[31]

The current debt crises have made visible the newer modalities of development cooperation, as non-DAC lenders and private creditors have lent higher volumes and at less concessional terms. By comparison, most DAC members receive little debt service, since the focus of their development cooperation budget is on grants.

In 2018, ODA to LDCs, SIDS and landlocked developing countries (LLDCs) was largely in the form of grants; however, there has been a decline in concessionality for LDCs and LLDCs since 2015. For LDCs, concessionality fell across all sectors and was particularly pronounced in the economic sectors.[32] Further, loan conditions – a composite of grace period, maturity and interest rate – vary widely among DAC members.[33]

Multilateral development banks (MDBs) are important providers of concessional and non-concessional loans. Total lending by MDBs in 2018 rose 4.7 percent to USD 71.9 billion, with concessional loans – primarily from the International Development Association (IDA) – covering roughly 18 per cent of the total. The majority of the recipients were LDCs (67 percent).[34] An early assessment of ODA in 2020 recently estimated that the majority of new development cooperation commitments made since the onset of the pandemic had been made by MDBs in the form of concessional loans.[35]

In order to address the current debt crisis, the G20 bilateral debt service suspension initiative (DSSI) is a welcome – though temporary – measure. The initiative temporarily suspends "official sector" debt until June 2021, with a repayment period of five years, followed by a one-year grace period. However, some vulnerable countries, including some SIDS, are still excluded because they are not eligible for support from the IDA of the World Bank; the UN Secretary-General has called for them to be covered by the DSSI. Despite calls upon private creditors and multilateral development banks to participate in the G20 initiative on comparable terms, their absence has been conspicuous and requires further thinking about initiatives that effectively reflect the changing debt landscape.

Moving forward, a bolder, large-scale, multi-stakeholder, global debt recovery response should go beyond temporary assistance and debt relief. Such a debt relief initiative could bring to the forefront the newer modalities for development cooperation – by involving non-DAC countries and the private sector – helmed by the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24). Such demand-driven measures could take into account concerns of countries facing liquidity and solvency issues due to the crisis. The terms and conditions could be agreeable to both debtors and creditors, incorporating well-defined funding and institutional mechanisms and rigorous independent oversight. These public investment initiatives could possibly also take into account a Systems Return on Investment, provided in part by an Independent Commission on Development Impact Assessment. The initiative could include establishing a fiscal monitoring framework to strengthen the quality of debt data and improve debt disclosure.

Such a comprehensive international approach could be based on vulnerability – not level of income – and combine temporary standstills with sovereign debt reprofiling and restructuring; this is essential not only to address immediate liquidity pressures, but also to restore long-term external debt sustainability in many developing countries.[36] This strategy could go a long way in bringing about the "concerted fiscal push," which could spur structural transformation and ensure that resources made available are aligned with sustainable finance, eliminate perverse incentives and shift available public finance towards effective funding mechanisms for sustainable development. Moreover, the design and application of such a measure could drive innovation by raising finance for both health and climate crisis management.

Critically, official contributions to finance write-downs of debt should not impede other ODA spending.[37] ODA flows must remain predictable, particularly for countries in special situations who are navigating both existing development challenges and those imposed and exacerbated due to the pandemic.[38]

## Strengthening national capacities and systems to manage and reduce risk

States bear the primary responsibility to prevent and reduce risks, and countries have made some progress on bringing risk considerations into their planning documents and sustainable development policies. As the overarching framework for guiding national sustainable development objectives and related development cooperation efforts, national sustainable development strategies (NSDS) and policies can ensure policy coherence across diverse risks. This, in turn, will facilitate better linking of a country's institutional arrangements, budgetary resources and programmes needed to address risk. In a recent survey, 64 percent of participating developing countries had high-quality national development strategies in place.[39] More firmly embedding risk considerations into national sustainable development strategies could help to more effectively manage current and emerging risks.

With respect to national fiscal and financial planning and decision-making, many developing countries lack the capacities, data and accessible tools to sufficiently integrate risks. As called for in the Addis Agenda, integrated national financing frameworks (INFFs) can help to strengthen the connection and contribution of short- to medium-term policies with long-term sustainable development aspirations, as reflected in national sustainable development strategies (NSDS). By laying out the full range of financing sources for sustainable development – public, private, domestic and international – the INFF allows countries to develop a strategy to increase investment, manage risks and advance their NSDS.[40] Risk assessment is an important aspect of the design of an INFF – ensuring that policymakers are cognisant of, and can prepare for, risks to the financing needed to meet development goals. To do so effectively, States need data and information on the nature, likelihood and impact of known or potential risks that could affect financing for sustainable development.

Few countries have prepared holistic, long-term risk management strategies, with risks often siloed from broader development and sector planning. Moreover, process and capacity limitations in many developing countries constrain the integration of risk-informed decision-making into all levels of development planning and delivery processes. In response to these challenges, the study proposes the following action areas for consideration by both developing countries and their international development cooperation partners:

Policies should be harmonized across diverse risk fields (i.e. disaster risk reduction, climate change adaptation, SDGs) by integrating systemic risk management approaches into national sustainable development strategies. Development cooperation has a role to play in strengthening such strategies in the first instance, as well as in supporting their implementation, monitoring and review. This will enable a shift in not only paradigm but also practice: from managing disasters to managing and reducing risks and from 'short-term mode' of risk management to long-term sustainable development planning.

Strengthened and redesigned National Development Cooperation Policies (NDCPs) and country results frameworks – rooted in developing countries' national sustainable development strategies – can better reflect the country's vision, priorities and activities and encourage more risk-informed development cooperation. This allows ODA, external finance and capacity support from the various development cooperation partners to be better aligned with and effectively mobilized around common objectives, with more sustainable impact.

Developing countries' capacities for the design, implementation and review of fiscal, financial and related policies that reduce risk and build resilience should be strengthened. The COVID-19 crisis has revealed the importance of financing for sustainable development in addressing short-term challenges in ways that sustain the achievement of long-term objectives. Risk considerations should be embedded in country-led strengthening of public financial management systems and tools such as Risk Sensitive Budget Reviews. The pandemic is an opportunity to put in place more effective fiscal, financial and related policies and reforms – including through Integrated National Financing Frameworks – that accelerate the achievement of the SDGs and build resilience in the face of current and emerging risks.

Agile and responsive public institutions and platforms, driven by relevant and timely data, should help integrate risk information into policy and planning.[41] An effective centralised body for risk management can unify different line ministries and improve risk governance. Correspondingly, strengthened national data and information systems at all spatial and temporal scales are a critical priority for development cooperation, including through improved production and use of administrative data sources for statistical purposes and drawing on the range of innovations in geographic information systems, climate systems and related initiatives, such as the Global Risk Assessment Framework.

Development Cooperation Information Systems

(DCIS) can improve budget allocation and accountability necessary for effective risk management, which will require significant capacity support from development cooperation partners. This is especially critical and will need to be stepped up given the increasing complexity of risk – and simultaneously, of data – both of which could challenge the analysis of data and information in informing risk management and preparedness.[42]

Multi-stakeholder partnerships involving businesses and civil society should be further leveraged to mobilize the needed resources and expertise for building resilience. In developing countries, these development cooperation actors are highly exposed to risks and shocks, and thus have strong incentives to contribute to risk mitigation and adaptation efforts. It will be very difficult to achieve long-term resilience without their collaboration in strengthening risk management within developing countries. Multi-stakeholder peer-learning exchange platforms, such as National Development Cooperation Forums, can review information and identify opportunities to harmonize policy, catalyse finance and strengthen monitoring and evaluation frameworks and address capacity gaps.

## Key messages and recommendations

### *Risk and International Development Cooperation*

The COVID-19 pandemic has thrown open a new challenge to the global society – to improve understanding of the dynamic and systemic nature of risks and to strengthen and overhaul risk management approaches accordingly. Crucially, the pandemic has created an opportunity for a fundamental shift in international development cooperation towards a more risk-informed sustainable development pathway.

International development cooperation must better respond to and prepare for current and emerging risks to sustainable development. The COVID-19 response and recovery should be used as an opportunity to learn lessons that can be incorporated into new, more risk-informed development cooperation policies and practices. More effective development cooperation will always be country-led, with States bearing the primary responsibility for preventing and reducing risks against a backdrop in which many risks are systemic and require bilateral and multilateral cooperation. Development cooperation actors should fully embed and practice risk-informed approaches to development cooperation, including through enhanced risk management that better reflects a shared understanding of the challenges and opportunities faced by Governments and public sector entities in diverse country contexts.

Although countries have made progress in designing and implementing national sustainable development strategies to achieve the 2030 Agenda, many of these do not sufficiently account for multiple, complex threats and dynamic risks, nor are they resilient to them. Not adequately addressing these risks has the potential to undermine development gains and the effective pursuit of the 2030 and Addis Agendas, Paris Agreement and Sendai Framework at the national level.

- Countries should better amount for systemic risks, opportunities and uncertainties in national planning processes, such as National Sustainable Development Strategies (NSDS) and Integrated National Financing Frameworks (INFFs), capitalizing on existing capacities and building on relevant, existing DRR and climate change adaptation planning processes.
- Building on risk-informed NSDS, developing countries should strengthen and redesign National Development Cooperation Policies (NDCPs) to contribute to better understanding of the risk landscape and alignment of development cooperation resources.
- NDCPs should employ a risk-based decision framework, using risk appraisals and monitoring and evaluation tools. The sharing of lessons learned and evidence of the benefits of risk-informed approaches to sustainable development should inform these efforts.

### *Allocation and use of official development assistance*

Official development assistance (ODA) will be pivotal in driving risk-informed sustainable development pathways and building resilience, especially in countries in special situations. A key finding of this study is that the current ODA policies and practices do not sufficiently consider systemic risks. Consequently, policy markers for risk fields are restricted to disasters and climate change; even these are not well defined or applied consistently. For this reason, this study recommends the introduction of a "resilience" marker to enable explicit assessment and monitoring of ODA's contribution towards addressing global risks.

The proportion of ODA supporting environmental and natural hazard risks has increased over time. However, evidence suggests that its effectiveness is challenged by donor-driven approaches and weak capacities in developing countries. At the same time, COVID-19 has resulted in a "fire-fighting" mode on the part of some governments and development cooperation partners. Further, the use of ODA towards managing risks is often ad-hoc, unpredictable and short-term.

- ODA should be safeguarded for the poorest countries (LDCs, SIDS, low-income countries), as well as those in debt distress and in fragile contexts.
- ODA sectoral allocations should be rebalanced by investing in preparedness – such as crisis prevention and planning, climate change adaptation, epidemic and pandemic prevention – driven by country needs and priorities.
- A "resilience" marker could be established by DAC members to boost ODA allocation for all risk fields and enable explicit assessment and monitoring of ODA's contribution towards addressing global risks.
- The contribution of ODA to addressing global health risks, especially in support of SDG 3, target D, could be redefined by including pandemic preparedness[43] and strengthening health systems as separate items under the Creditor Reporting System of the OECD.
- The design of an innovative debt measure – a large scale, multi-stakeholder fiscal push – could be championed, highlighting the newer development cooperation modalities, South-South and triangular co-operation and principles of effectiveness and ownership, and potentially helmed by the G-24.
- ODA should be enhanced in support of strengthening developing countries' core financial and fiscal capacities in areas such as domestic resource mobilization, public financial management, data and statistical systems and debt management, which are fundamental for building long-term resilience to potential risks and shocks.
- Development cooperation partners and relevant stakeholders should work to streamline and simplify application and management procedures for climate finance to promote easy access to global climate funds by developing countries.
- International development cooperation actors could share best practices, lessons learned and evidence of the benefits of risk-informed approaches to development cooperation by establishing communities of practice with actors from across the relevant policy, technical, operational and quality control entities.

### *Strengthening national capacities and systems for risk management and reduction through development cooperation*

In a context of heightened global economic and financial uncertainty, both financial and non-financial innovations for risk and resilience can support developing countries. Innovative debt instruments can create fiscal space to ringfence investments for risk-informed development. SDG-aligned bonds and risk financing and insurance can also generate funding for risk-informed sustainable recovery with the appropriate financial regulations and safeguards in place. Development cooperation in the area of science, technology and innovation hold lessons for development cooperation partners, including ODA providers, on how to support risk-informed sustainable development in developing countries. Stronger engagement of different stakeholders, such as the private sector as well as scientific and academic actors, can provide important resources (i.e. information, technology) to help countries make better risk-informed decisions and adopt innovative solutions.

Although innovative tools for risk-informed development cooperation are showing results, they can also be complex for developing countries with limited capacities and uncoordinated in their use. Stronger developing country capacities to employ such innovations and absorb financial investments will lower the barrier to fully integrating risk management dimensions into policy planning and implementation, as well as increase the impact of these tools on sustainable development.

Given the context of the pandemic and the climate crisis and the need to adapt development cooperation urgently, the study proposes a big push in building the national capacities of developing countries to adopt effective policies to prepare for anticipated and unanticipated risks, and lock-in sustainable development gains. The 2030 and Addis Agendas, Paris Agreement and Sendai Framework together provide a set of normative and policy frameworks in which such capacity support can be scaled up.

- Linking nationally determined contributions to long-term mitigation strategies could ensure efficient use of resources and is crucial for responding to climate change amidst, and following, the COVID-19 crisis.

- Policies could be harmonized across diverse risk fields (i.e. DRR, climate change adaptation, SDGs) by integrating systemic risk management approaches into national sustainable development strategies (NSDS). Development cooperation has a role to play in strengthening such strategies in the first instance, and in their implementation, monitoring and review.

- In support of new/updated NSDS, strengthened and redesigned National Development Cooperation Policies (NDCPs) and country results frameworks will better reflect the country's vision, priorities and activities and encourage more risk-informed development cooperation. This will help to align ODA, external finance and capacity support from the various development cooperation partners with the systemic risk management approaches, and broader development objectives, of developing countries.

- Development cooperation partners should assist in building developing countries' capacities for the design, implementation and review of fiscal, financial and related policies that reduce risk and build resilience. The pandemic presents an opportunity to embed risk management into fiscal and financial policies – including through INFFs.

- Strengthened national data and information systems and capacities should be prioritized within risk-informed development cooperation, leveraging the use of administrative data for statistical purposes and drawing on the range of innovations in different data and statistical sources and tools, which can help fill gaps in the data available to policy and decision makers and help to address emerging risks and challenges.

- In strengthening Development Cooperation Information Systems (DCIS), focus not only on improving the quality of data but also the quality of risk analysis to enable proper evaluation of potential development cooperation policies, programmes and activities to reduce risks (and capitalise on opportunities) and avoid risk creation.

- By increasing efforts to increase stakeholder engagement in national development cooperation forums, developing countries could facilitate greater cohesion among diverse development actors in support of more risk-informed development cooperation. This requires reinforcing efforts to engage all relevant ministries, domestic actors, beneficiaries, as well as the various international development cooperation partners.

The wide-ranging impact of COVID-19 and systemic risks, such as climate change, have underlined the importance of risk management for national sustainable development and the means of implementation. If governments fail to account and plan for such risks, the consequences of future shocks will continue to undermine progress on the SDGs. Given the increasingly complex risk landscape and the scope of resources and expertise required, international development cooperation will need to become more risk-informed too. Strengthening the national capacities of developing countries to manage and reduce risks and supporting their progress on the SDGs are important drivers of resilience. As a unique resource targeting the poorest and most vulnerable countries, ODA should more effectively foster the policy, institutional and behavioural change to help build resilience.

## *Endnotes*


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