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Where to Now for Development Policy? Between Niche and Mainstream, Between Charity and Self-Interest

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Summary

The environment in which development policy operates has changed quickly. Some of these changes are longer-term trends to which development policy should adapt: the global economy is in upheaval, while global crises are becoming the norm and are increasing the debt level even further. Moreover, they are exacerbating inequality in our partner countries, which in turn is undermining democratic structures. Public budgets are increasingly coming under pressure and populist forces are calling into question the very principle of development policy. At the same time, the world is becoming more multipolar and developing countries are gaining in self-confidence.

Development policy needs to find structural answers to these challenges:

- It should explicitly see itself as part of overall policy and should systematically contribute to overcoming global challenges;
- It must find new ways to ensure that environmental transformation goes hand in hand with social progress;
- It needs to become even more effective and more political, particularly by systematically integrating bilateral contributions into the policies of the partner countries and into multilateral and European approaches; moreover, policy reforms must be addressed comprehensively, most importantly those related to the green transformation;
- It must profoundly change the way it mobilises private investments, focusing not on subsidising individual investments but on transforming markets;
- Finally, development partners need to team up to find solutions to the acute debt and financial crisis.

This paper will not only outline current trends and formulate principles for a modern development policy. It will also show examples of how these principles could be put into practice through concrete initiatives:

- Socio-ecological fiscal reforms: environmentally harmful subsidies can be repurposed for social security
- A new Sustainable Development Goal (SDG) to reduce intra-country inequality
- Climate programmes that focus on policy reforms.

Elections lie ahead in many countries. The role of development policy is being called into question – what it aims to achieve, its topics and approaches and how it interacts with other policy areas. This paper will address these issues, focusing on structural reform necessities at state level, and will illustrate various points by referring to experience in the context of German development cooperation.

A. Trends

(1) Global crises are the new normal and are putting budgets under increasing pressure

Crises are proliferating. This is not a coincidence – our economic and consumption model is increasingly reaching its limits. It is producing external effects that erupt in crises such as the global financial crisis, the COVID-19 pandemic and extreme weather events. This situation is exacerbated by the insidious, existential impacts of the loss of biodiversity and of climate change. In the years ahead, they will severely affect developing countries in particular and will become one of the major drivers of poverty and conflict. Global collective action is required, with developing countries playing an increasingly important role. Global warming can only be halted if developing countries get more involved. We also need them as a source of raw materials such as lithium, copper, cobalt and hydrogen for the climate transition and to reduce the forecast excess greenhouse gases by protecting and developing carbon sinks.

The development agenda – fighting poverty and supporting economic and social development in our partner countries – is closely intertwined with these global challenges. Integrated development strategies are required: infrastructure, agriculture, transport and energy systems need to become more efficient and at the same time more sustainable. These two challenges cannot be addressed separately. Development budgets are facing pressure on multiple fronts, however, because spending on both crisis preparedness and crisis response is on the rise. In Germany, for example, spending on humanitarian assistance rose more than tenfold in the period from 2012 to 2022 (cf. Statista, 2024; German Federal Foreign Office, 2024). As a result, long-term and structural support for development efforts is coming under increasing pressure.

(2) Crises and the growing social divide are exacerbating fragility and the dismantling of democratic institutions

Conflicts within and between states have increased across the globe. Persistent inequalities within countries are an important driver. In fact, contrary to what economic theory (in particular the Kuznets Curve) predicts, inequality has actually increased in around half of the countries (cf. Makhlouf, 2022; World Bank, 2018). Prosperous groups and the ‘superrich’ have particularly benefited from economic progress. Crises such as the COVID-19 pandemic have exacerbated existing inequalities and social tension. This leads to a vicious circle: crises amplify existing inequalities; conversely, social inequality makes societies more vulnerable to conflict. It is difficult to escape this vicious circle. Moreover, fragility does not stop at national borders, as we can see in the Sahel region.

The last few years have not only been marked by crises and fragility. In many countries, democratic structures have been dismantled. There is evidence that the trend towards autocratic political systems is connected with the increasingly frequent crises. Acemoglu et al. (2021) come to the conclusion that although there is often broad support from the population for democratisation processes, this is linked to the expectation that people’s living situation, particularly basic public services, will improve, but this is especially difficult to achieve during crises.

(3) Strained budgets and populist tendencies are narrowing the scope of domestic policy debate

The role, legitimacy and efficacy of ODA are under intense scrutiny. Populist forces are calling into question the very principle of development policy.

The question of how to best promote development is being overshadowed by a debate on whether it should be promoted at all. Political actors are coming under increasing pressure to present simple solutions, for example in the form of highly visible (but ineffectual) projects. In addition, there is a growing risk of development policy being instrumentalised. (Supposedly) national interests, such as supply interests and curbing migration, are being defined in a short-sighted approach. One of the methods adopted in populist narratives involves discrediting multilateral processes and organisations as inefficient. This fundamental attitude is reinforced by the fact that multilateral forums have indeed become less able to present solutions – as a result of geopolitical tensions and not least due to national self-centredness. Yet it would be disastrous to weaken multilateral approaches further, because the worsening global problems can only be solved jointly, above all in these multilateral forums.

(4) The world is becoming more multipolar and partners are gaining in self-confidence

New players are arriving on the scene and others are forming new groups, such as the expanded BRICS club. Developing countries are increasingly assuming an active role, often explicitly as part of the 'Global South'. At the same time, they are asserting their interests more self-confidently (cf. Klingebiel, 2023). There are various reasons for this latter development, one of which is that they are by no means just recipients and are becoming increasingly aware of this fact. Moreover, the geopolitically competing systems of governance mean that there is more choice. Although fewer loans can be expected from China at the moment, other actors such as Arab countries, Russia and Turkey are stepping up their activities in developing countries.

In addition, many partner countries are accusing western countries of double standards (Ukraine, production of natural gas, protection/promotion of their own industries, etc.). The war in Gaza is currently leading to estrangement between the West and the Middle East. Developing countries are denouncing the West for not honouring a number of its financial promises and at the same time for having done little to accommodate their wishes, for example the desire for more hard infrastructure. The European Union (EU) has now drawn lessons from this, particularly in the form of the Global Gateway.

At the same time, many partner countries are overwhelmed. Despite all their efforts, it is becoming increasingly difficult for them to coordinate the growing number of actors and development projects. This fragmentation is undermining joint development efforts. Attempts are currently being made to address this problem by integrating donor measures into the programmes of the partner countries and their processes (alignment) to a greater extent. The Just Energy Transition Partnerships (JET-Ps) are one such attempt.

(5) The global economy is undergoing profound upheaval

The far-reaching changes in the global economy offer new opportunities but also create challenges. The shrinking population both in industrialised nations and in most of the developing countries will put a strain on future economic growth, among other things, and will also change the migration debate.

With the advancements in information technologies and artificial intelligence, the world will continue to become 'flatter'. Knowledge is easy to share. People can offer their services in foreign markets without having a local presence. This particularly offers opportunities for companies in less developed countries. The new technologies further have the potential to increase productivity – from digital agriculture to remote diagnosis in the health sector, from affordable access to international training courses to improved power storage and more reliable weather forecasts. The social and societal impacts of these developments are difficult to predict, however: To what extent will poorer population groups benefit too? Will technology be misappropriated, for example by autocratic regimes? The state is weak and dysfunctional in many countries. Yet efficient rules and policies are required to promote these technologies in the interests of broad sections of the population and to prevent their misuse.

Geopolitical tensions are changing international business relations. Trade and investment flows are stagnating, particularly between the geo-political blocs and above all in 'strategic' sectors. Restructuring of the global economy entails risks for our partner countries, as was shown by the turbulence on the food and energy markets in the wake of Russia's war of aggression against Ukraine. China is Africa's largest trade partner. It is estimated that a slowing of growth by one per cent in China's economy would reduce economic growth in sub-Saharan Africa by 0.25 per cent. Structural change in the global economy also offers opportunities for developing countries, however. In the medium to long term, they can benefit from reshoring, friendshoring and de-risking. A current example here is Vietnam, which is becoming increasingly attractive for western investors withdrawing from China. Moreover, China has largely absorbed its surplus workforce potential from the hinterland regions. Labour-intensive industries are increasingly leaving China and moving to other regions (if they are not being automated). This could also generate economic opportunities for developing countries.

The new raw materials required to decarbonise the energy, transport and industry sectors – rare earth elements, germanium, cobalt, lithium and copper – also play a crucial role. Many poor countries, particularly in Africa, have huge reserves of these raw materials. Our partner countries expect us to support them in extracting and processing these resources. As we know, experience with the exploitation of raw materials has not always been positive ('resource curse'). While associated with risks, however, exploitation of these resources also offers huge opportunities for income and growth, as can be seen in countries like Indonesia, which has integrated the processing of raw materials into a relatively successful industrial strategy.

(6) Developing countries continue to suffer from high debt, limited fiscal scope and more difficult access to capital

Debt levels in the developing countries have risen considerably in recent years. The COVID-19 crisis played a major part in this context. The climate crisis, too, is already leaving its mark: climate-related extreme weather events and the gradual impacts of global warming are exacerbating the debt situation in many countries. The increase in interest rates in recent years and the relatively low economic growth have continued to drive up the debt burden and are making refinancing more difficult. In many poor countries, the outflow of capital is now higher than the inflow. Debt relief, particularly as part of the Common Framework, is slow to get underway and is limited to just a very few countries.

There are signs that somewhat less turbulent times lie ahead for middle-income countries in particular. One of the reasons for this is that they built up reserves before the crisis and then quickly increased interest rates dramatically – even at the cost of business and employment. Moreover, interest rate cuts are in sight. The situation looks worse in many low-income countries. According to the International Monetary Fund (IMF), around 60 per cent of this group of countries are 'in debt distress' or 'at high risk of debt distress'. The net resource transfer to these countries dropped to a quarter of the level of 2014 (Ainsworth, 2024). These countries continue to find it difficult to tap into external sources of finance: official development assistance (ODA) is stagnating, private investors are shying away from the risks and China has downscaled its loans to most of the developing countries. Even if some countries now have access to the international credit markets again, the financing costs are considerably higher than before the pandemic.

This has consequences for global transformation and the Paris climate goals. Representatives of developing countries such as the supporters of the Bridgetown Initiative point out that in view of this situation, they cannot afford huge investments in climate action and resilience. They will continue to call for better access to international finance.

B. Principles for development policy

Effective structural responses are needed to address these challenges:

(1) Development policy should explicitly see itself as part of overall policy

It should be open about that fact that it is also pursuing national interests. This is not about supposed short-term advantages such as supply interests. Instead, it is vital to integrate enlightened national concerns into the system of objectives of development policy and to team up with the partner countries to find answers to the great global challenges. In other words, developing countries need support in making a contribution to the delivery of global public goods. Particularly relevant areas include climate action, the conservation of biodiversity and the prevention of conflicts and pandemics.

On the one hand, this creates an opportunity to mobilise more public support in donor countries for development concerns. On the other hand, however, it also runs the risk of development policy being instrumentalised by other policy areas. The concept of co-benefits can be useful here. Co-benefits arise if a measure not only addresses important obstacles to development in the partner country (such as the energy supply), but also benefits the global community (climate mitigation). Measures with co-benefits often entail additional costs for the partner countries, however. It would not be fair to put too much strain on the partner countries or the already limited development budgets with these additional costs. Development budgets should therefore focus on those measures related to global public goods that entail relatively low additional costs and relatively large benefits for the partner countries. Additional financing is needed to cover the increased costs. Cost-benefit analyses can be used to measure positive and negative externalities. An approach of this kind proposed in the World Bank by Germany and the United States is currently being operationalised (World Bank, 2024).

The current reform of the World Bank marks an important first step, with global public goods being included in the World Bank's mandate and integrated into its operational and financial model. The next step should see this reform being extended to cover other development organisations, particularly the regional development banks. This step must also take account of cooperation between the MDBs. The G20 International Expert Group has made very good proposals on the matter. The third step of the reform should focus on how the banks could cooperate more smoothly with the global funds, particularly in the field of the environment and health. Finally, the governments of the donor countries should also integrate the global public goods agenda more effectively into their bilateral development cooperation, for example by systematically producing cost-benefit analyses that also record externalities.

This approach would entail disclosing national interests to partners in developing countries. Even though the partners may have different views in certain cases, this is what a 'partnership of equals' should look like: a good, properly functioning partnership involves recognising that there are interests on both sides. A situation in which one side asserts substantial interests and the other side 'only wants to help' can hardly be called a partnership.

There is presently a debate on how to measure and account for development contributions versus other financial contributions for international development, in particular climate action. The systematic measurement of externalities can be an important element in finding a satisfactory solution to this challenge (see box below).

Accounting for ODA and climate financing: a cost-benefit-based approach

Projects/programmes usually have both development and climate impacts and cannot and should not be put in one basket or the other. According to the approach suggested here, inclusion as ODA or as climate finance is based on a project's national benefit compared with its global benefit. Based on this approach, the multilateral development banks (MDBs) should develop corresponding metrics for the different types of projects, which could then also be used by other donor institutions and by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD/DAC).

An important objective of the ongoing MDB reform process is to integrate global public goods into their operational and financial policies. To this end, systematic measurement of cross-country externalities through cost-benefit analysis is envisaged. The next step would be to establish metrics for different types of projects/programmes. These metrics could then be used to allocate financial contributions to ODA versus climate finance.

This can be illustrated by the example of a solar investment project. Let us assume that this project has an investment cost of €1 million and generates the same national benefits (€1 million) plus global benefits of €250,000. The ratio between national and additional global benefits is therefore 4 to 1. On this basis, we can calculate the respective amounts to be counted as ODA and climate finance: we take the above ratio (4:1) and allocate the investment costs of €1 million accordingly. As a result, 4/5 of the investment costs of €1 million (€800,000) would be counted as ODA and 1/5 (€200,000) as climate finance.

This approach is in line with the idea put forward by Koch/Aleksandrova (2023) of greater differentiation in the Rio markers. The same is true of the proposal by Mélonio, Naudet and Rioux (2022) of introducing separate reporting for development and climate finance. The cost-benefit-based approach also offers the advantage of measuring not only the financial efforts undertaken by the donors concerned, but also the benefit provided by a measure. This addresses one of the main problems of ODA, which is based solely on financial efforts.

(2) Transformation must go hand in hand with social progress

Decarbonising the global economy must not be achieved at the expense of the poor – because it would be unfair and in many cases politically unfeasible. All economic transformation measures must therefore consider which groups might be adversely affected and to what extent they have the capacity to adapt to the new situation (just transition).

In addition, vulnerable individuals and countries need better protection against crises. Pre-structured crisis instruments are necessary that can be scaled up when an emergency occurs. Examples include contingent debt clauses (at macro level) and climate insurance schemes (at micro level). The most important instrument are adaptive social safety nets, which have already proved useful in a number of countries. These social security systems provide benefits (health advice, food or money) to vulnerable groups (such as mothers or the inhabitants of arid regions) in return for particular actions (for example if they visit a health centre or take part in a reforestation campaign). This system of benefits can be scaled up in an acute crisis situation such as a drought, thus partly obviating the need for conventional emergency aid. In the long term, it is much more cost-effective to set up pre-structured crisis instruments of this kind than to provide conventional emergency aid. Systematic efforts should therefore be made to push ahead with this approach.

As already mentioned, democratisation processes are often unsuccessful because they fail to produce visible social progress. This is another reason why it is important to establish and develop basic social services and social security systems that can be adapted to crisis situations. This is of particular importance for countries undergoing a process of democratisation.

(3) Development policy must become more partnership-based, more effective and more political

Development policy is quite rightly subject to intense public and parliamentary scrutiny. In Germany, conservative governments in particular have been relatively successful in acquiring additional budget funds for development policy in the past. Part of this strategy involved focusing on relatively prominent bilateral development cooperation projects and publicly advertising them. However, this approach did not always do justice to the complex challenges and added to the fragmentation of development activities.

The current German government has taken up the concept of *Globale Strukturpolitik* ('global structural policy') devised when former Development Minister Heidemarie Wieczorek-Zeul was in office (1998–2009). Focusing on the following four elements, this concept should be refined:

- Alignment. – The number of development actors has rapidly increased, while the size of the individual projects has steadily decreased. Partner organisations have sometimes been unable to cope with this and project ideas that seem good hence often contribute little to solving problems. Development cooperation activities should therefore be integrated into partner structures and policies as much as possible.
- Concerted approach with other donors. – This can take the form of country platforms, for example, where various donors coordinate their activities led by the partner government. Approaches of this kind have already been implemented, for example the Just Energy Transition Partnerships (JET-Ps) mentioned above.
- Orchestration by multilateral institutions and the EU. – The EU and multilateral institutions play a key role in this approach. They usually have greater financial power and in some cases more expertise and legitimacy or convening power. If possible, support should therefore be orchestrated by multilateral forums and the EU and individual donors' contributions should be integrated into them. This must not result in national donors sitting back and just letting things happen, however. Instead, they need to join in these concerted efforts. They must make a contribution of their own and, where appropriate, must take the lead in individual cases in consultation with the partners.
- Addressing policy reforms. – Global transformation, for example of energy and transport systems, is essentially about institutional issues and policy reforms. In particular, the green energy transformation is being held up by insufficient policy frameworks for green private investments. The focus must therefore be on policy-based programmes, such as sectoral budget support or results-based financing. This enhances the responsibility of the partner governments.

Implementing a strategy of this kind is demanding and complex. The approach should therefore be proactively and explicitly mainstreamed in the public and parliamentary spheres. In addition, an effectiveness check could be introduced to ensure that the four aforementioned elements are examined at the start of all programme proposals and initiatives. When projects are evaluated, a broader approach should be systematically taken by including structural impacts more effectively.

Finally, this approach requires the national departments in charge of development to position themselves differently. To start with, they need to have a better grasp of the sectoral context of individual projects, particularly macro-economic and regulatory constraints, the policies of the partner governments and the efforts undertaken by the other donors. On that basis, sectoral policy dialogue in particular must play a key role here. In Germany, deep sectoral policy dialogue is largely undertaken by the state-backed development bank KfW. Yet this is not enough, particularly in cases that call for political clout. In general, the traditional development cooperation formats should be reviewed and adapted to a new, modern understanding of partnerships.

(4) Driving the transformation of markets

The catchy slogan ‘From millions to trillions’ has been used for some time now to call for more investment from the private sector. These calls have become louder as the public coffers have become emptier. The results have been disappointing so far, however. Less than US$20 billion of the climate financing pledges worth US$100 billion have been mobilised from private investors. The trend is stagnating at best. This is problematic, because large-scale private investment is needed to decarbonise the energy and transport sectors, agriculture and industry. It is vital that private and public actors cooperate closely in this context. The promotion of private investment (for example by providing guarantees, assuming risks and using concessionary funding) must be integrated into an overall strategy of sectoral transformation. This approach mirrors what is currently being attempted in Germany and the EU: regulatory provisions (e.g. emissions standards) are being implemented to complement public investment (for example in electric vehicle charging infrastructure) and subsidies in an effort to decarbonise the transport sector, for example. Focusing too heavily on subsidies while neglecting other areas is problematic. This could be one of the reasons why efforts to mobilise private investment have been so unsuccessful to date. Besides, an approach focused on sweetening private investments by providing subsidies and covering risks would not be financially feasible. The IMF (2023) has calculated that this would increase the debt ratio of an average middle-income country by around 50 per cent. Private sector promotion thus needs to be upended.

(5) Improving financing conditions, particularly for low-income countries

The topic is of almost existential importance for our partners. The international community has two basic starting points to improve the financing situation of heavily indebted countries. Firstly, development institutions can offer more funding on favourable conditions. Secondly, the international community can grant debt relief. There are a number of proposals for both alternatives (e.g. Berensmann et al., 2024; Zucker-Marquéz & Volz, 2023).

With regard to debt relief, most suggestions would put considerable pressure on the national budgets, so policy-makers are only likely to take them up if the corresponding dynamics were to be created. There are no indications of this happening at the moment, but the situation certainly might change if the debt situation were to worsen again. Any comprehensive debt regulation should be designed such that it also promotes the green transformation, e.g. debt cancellation could be linked to a transformation programme by the partner countries geared towards decarbonisation and climate adaptation. Like the Poverty Reduction Strategy Papers as part of the Heavily Indebted Poor Countries (HIPC) Initiative, for example, debt relief could be based on ‘Just Transition Strategy Papers’ to be drafted by debtor governments.

If the debt situation does not worsen, less ambitious approaches that can be combined with one another would be conceivable:

- *Reform of the Common Framework*. – The Common Framework for debt treatments supported by the G20 and the Paris Club has the big advantage that it includes China. It is cumbersome, however, and has not generated the anticipated results so far. The rules need to be refined. There are a variety of ways in which that could be done: formalising the various steps that need to be worked through with clear deadlines and specification of the particular debt categories to be included; automatic suspension of debt service payments once the debtor country has reached a staff level agreement with the IMF; a clear definition of what ‘comparability of treatment’ means for the private creditors as well as their early involvement in negotiations; suspension of further IMF loans if the debtor country makes debt service payments to uncooperative creditors; obligation by all creditors, including China, to disclose the terms of their loans; and consideration of whether to extend the group of eligible countries.

- Steps to encourage legal regulation of bankruptcy proceedings for sovereign default. – It is currently not looking likely that negotiations will be initiated within the IMF on bankruptcy proceedings for sovereign default in the near future. However, it is conceivable that individual countries might review their national legal provisions with a view to placing greater obligations on private creditors in the event of sovereign default. This issue could be taken up by the G7 with the aim of encouraging those jurisdictions under whose law most debt contracts are governed, notably English and New York law, to enact such legislation.

There has also been broad debate on the issue of how the international financial system can provide more funds for developing countries. The G20 has produced extensive proposals, focusing on the ongoing process to reform the MDBs. The aims include better use of the existing capital, the provision of additional funding through shareholders (primarily in the form of callable capital and guarantees) and ambitious replenishments of the ‘soft windows’ of the MDBs and in the medium to long term general capital increases. The international community should consistently push ahead with these reforms.

In addition, attention is turning to the IMF. The IMF has increased its financial power and created new facilities designed, among other things, to support developing countries facing structural challenges. However, the IMF does not have the expertise or the mandate to design complex reforms and implement them with the member states, for example in the field of climate action, climate adaptation and pandemic prevention and control. The MDBs and the IMF must therefore step up their cooperation. IMF funding, particularly from the Resilience and Sustainability Trust, must be dovetailed more closely with the MDBs. The proposal currently being discussed that industrialised nations should re-channel ‘their’ special drawing rights to MDBs in the form of hybrid capital instruments should thus be further pursued.

C. Examples of structural policy initiatives

Concrete initiatives should be based on the aforementioned principles. Three proposals will be outlined as examples below. In view of the difficult budget situation in most countries, the focus is on proposals that do not place undue pressure on budgets.

(1) Socio-ecological fiscal reforms – repurposing environmentally harmful subsidies for social security

As outlined above, the scaling up of social security systems is key in preventing and responding to crises as well as in countering the rise of autocracies. The question here is how to finance these efforts. This could partly be done by repurposing funding that is currently allocated to emergency aid, which would be considerably cheaper. Yet basic funding by the partner governments is also needed, which is not easy in view of tight budgets, low levels of tax revenue and the difficulty of generating new revenue. One option would be to combine the scaling up of social security systems and steps towards environmental fiscal reform. Repurposing fossil fuel subsidies (which currently amount to around six per cent of the global gross domestic product, GDP) or introducing carbon pricing would solve the funding problem and at the same time drive environmental transformation. Donor countries could support this approach by providing expertise and funding. EU Member States should team up with the European Commission to push ahead by redesigning and co-financing the budget support administered by the Commission.

(2) A new SDG to reduce intra-country inequality

In response to pressure from Germany, among others, the World Bank has now revised its second overarching goal of promoting shared prosperity. Up to now, this goal has been measured against income development in the 'bottom' 40 per cent, while neglecting how income in the other groups develops, particularly the top earners. This is unsatisfactory, above all because in most countries the income of the 'top' ten, one or 0.1 per cent of the population has grown very considerably. In future, the shared prosperity goal is to be measured using the Gini coefficient, which also includes income development among higher earners. As defined by the new World Bank indicator, inequality is deemed to be high if the Gini coefficient is 0.4 or higher. This is the case in around a third of countries. By adopting the new goal, the World Bank has set itself the task of supporting the partner governments in the relevant countries in their efforts to reduce the Gini coefficient by reforming the tax systems or the education and health sectors. This represents significant progress.

SDG 10 also focuses on income development among the 'bottom' 40 per cent. The SDG Review next year offers a good opportunity to discuss the various aspects of inequality and the reasons for the unsatisfactory development in most countries. The aim should be to modify SDG 10 too and to replace it by the Gini coefficient. Here, change could go further than the World Bank was able to implement. For example, it would be important to measure not only the current Gini coefficient but also its trend. This would have the advantage that countermeasures could be taken at an early stage in countries in which inequality is rapidly increasing. The national governments could take up this matter with the United Nations – for example during the current G20 Presidency (Brazil), which seems to be very interested in the issue.

(3) Policy-focused climate programmes

Reform of the macro, sectoral and fiscal policies of the partner countries is urgently required to drive their climate transformation. One example is the transition to sustainable energy: renewables are already an economically attractive option in most countries. Yet private investors are still reticent, not least because the framework conditions are inadequate. In addition to regulatory conditions, there is also a lack of climate-friendly fiscal policy and high-performing energy utilities. These reforms should be driven at both bilateral and multilateral level, focusing on policy-based programmes (sectoral budget support, Programmes for Results, debt relief and allocation of special drawing rights). It is important in this context that such programmes take account of social, inclusive, gender-specific aspects of climate-related transformation. Ideally, there should be closer cooperation between the IMF and the MDBs.

These are just three possible initiatives. There is no lack of other ideas, such as the proposal of re-channelling special drawing rights to MDBs (Zattler, 2024). It is important for development policy to set transformational levers in motion to meet the challenges facing our partner countries and the world as a whole.

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