

Economic Transformation in International Development Cooperation

Strategic Pillars, Critical Enablers

Opinion piece

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ABSTRACT

The learnings and emerging policy recommendations under each strategic pillar from the community's regular exchanges provide a first global tapestry of critical enablers for large-scale transformation to ensure that economic activity is beneficial to social well-being and within planetary possibilities. The text was written by Manuel Kuhm (Technical Advisor, GIZ GmbH)¹ (Technical Advisor, GIZ) on behalf of the members² of the Economic Transformation for Development (ET4D) Community of Practice.³ In 2022, we leveraged a momentum and called the readers of the Global Solutions Journal to action on the need for economic transformation in international development cooperation (ET4D, 2022). In this regard, transformation refers to deep changes in predominant systems and related paradigms towards economies that put the common good first and allow economic, social, and ecological prosperity to grow together and not apart (recoupling), thus asking for carbon neutrality and socially just societies.⁴ Our call to action was answered through the foundation of an international community of like-minded experts, practitioners, researchers, and other stakeholders interested in advancing the practice of transformation – **the Economic Transformation for Development (ET4D) Community of Practice**.

Over the last two years, the ET4D Community of Practice has met on a regular basis, while jointly defining and working on three interrelated strategic pillars through a co-creative policy formulation process. This article summarizes critical enablers and policy recommendations under each of the strategic pillars which emerged during our joint discussions and proposes

»Our call to action was answered through the foundation of an international community – the Economic Transformation for Development (ET4D) Community of Practice.«

a way forward for realizing the potential of economic transformation in international development cooperation during the Decade of Action's remaining years.

1. GLOBAL ECO-SOCIAL CONTRACT:

The current multiple crises the global community is facing, such as increasing inequalities, biodiversity loss and the effects of climate change, post-pandemic recovery, as well as conflicts and decreasing levels of trust in governments are symptoms of broken social contracts. For collectively addressing pressing environmental and social challenges on a global scale, nations, communities, and individuals need a shared commitment to and renewed legitimacy of public institutions for guiding collective behavior towards sustainable development, ecological stewardship, and social justice – a new eco-social contract⁵ is required.

What are its Main Principles and Features?

The main principles of a new eco-social contract are social justice⁶, sustainability, and inclusion. In this regard, **social justice** refers to ensuring equity and fair outcomes in societies, which requires implementing redistributive measures and ensuring equal opportunities for all,

»Ecofeminism in Kenya challenges patriarchal domination in the management and preservation of natural resources, while the socio-bioeconomy in Brazil promotes job creation and the conservation of the Amazon rainforest.«

regardless of income level and social identity markers such as ethnicity or gender. Furthermore, social justice requires rectifying historical injustices rooted in discriminatory and continued colonial (economic) practices and beliefs, while

ensuring human rights for all. For example, recognizing and redistributing unpaid care work promotes gender equality, as men and women are encouraged to equally participate in caring for others, while society recognizes the value of care and helps to redistribute care work through greater investments in related services and support schemes. **Sustainability** speaks to climate mitigation and the conservation of nature and biodiversity and is a condition for meeting current economic, social, and ecological needs without compromising the opportunities of future generations. For example, the circular economy ensures that waste is captured as a productive resource through maximizing the life cycles of materials and products with inputs that can be (at best infinitely) re-purposed in future production processes, thus decoupling well-being and material usage over the long term. Additionally, just transition strategies, social and solidarity economies, and market regulation or incentives that curb pollution, excessive resource consumption, and emissions are equally conducive for re-embedding our economies into ecological and social norms. Lastly, **inclusion** speaks to the process of making marginalized voices heard and including them in sustainable economic practices and policy-making, thus effectively empowering vulnerable communities and excluded social groups. In this regard, citizens with so-called “low” socio-economic status would have better access to participatory policy dialogues, more market power and be able to benefit from access to social protection and services, as well as to healthy and sustainable lifestyles, so that well-being, social cohesion, and democracies are

strengthened. For example, indigenous peoples continue to be excluded from economic activities and global decision-making but are disproportionately affected by climate change and environmental degradation induced through extractive economic practices.

How Can All People be Involved In Its Design?

The legitimacy of a new eco-social contract ultimately depends on the involvement of a diverse range of stakeholders in its design which are deemed representative of local, national, and global communities. In this process, no voice should be left unheard, and no community left behind. This requires a change in governance structures at all levels through challenging existing power imbalances so that the needs of all stakeholders can be addressed. Such shifts in power dynamics will pave the way for the necessary legitimacy for (economic) transformation at a global scale. Additionally, activist groups and civil society organizations already occupying the space of climate advocacy and social justice claims need to play a pivotal role in the design process of a new eco-social contract as well.

Under our first pillar, we would like to bring the following selected policy recommendations to the attention of the global community:

- Create a dedicated program space or platform for testing and refining promising ideas (e.g., universal social protection floors, just transition strategies, green industrial policies, integrated care systems, common good matrix for companies, ecological human rights) related to a new eco-social contract.

Such a program will provide a supportive environment for experimentation and innovation, enabling the identification and scaling-up of effective strategies and solutions. Development agencies could become facilitating agents of change in this space.

- Advocate for the reform of global governance institutions, more specifically the G20 and its engagement groups, to foster inclusivity, participation, and transparency. This advocacy aims to ensure that decision-making processes at the global level align with the principles of new eco-social contracts, amplifying the voices of previously marginalized stakeholders and promoting economic, social, and environmental justice.

2. SHARED GREEN DEAL:

Green deals typically focus on transitioning towards low- or zero-carbon economies, enhancing energy efficiency, and promoting the use of green technologies aiming at decoupling wellbeing and resource usage over the mid-to-long term. However, the international proliferation of “green deals”, such as China’s integration of ambitious emission-reduction targets in its five-year plans, the European Green Deal, as well as the United States’ Inflation Reduction Act, might imply a risk of becoming competitive strategies for the sole purpose of promoting economic benefits nationally or regionally without considering their hidden costs and social effects on other communities, nations, and regions of the world. Thus, momentum seems to be emerging for harmonizing these strategies more strongly while protecting the interests of low and middle-income countries

simultaneously – a shared green deal is required.

How can the Benefits and Costs of the Green Transition be Shared Equally?

Currently, the benefits and costs of the green transition are not yet shared equally because green deals operate in silos and are ignorant of unintended spillover effects. The establishment of a multiple knowledge system that combines scientific, practical, and local/traditional knowledge, and facilitates the identification of common ground and conflicts between green deals can help in paving the way towards a more just distribution of benefits and costs. The following three priorities for producing more knowledge and evidence through such systems can be defined. First, new **socially viable and just transformation pathways** from carbon-intensive to low-carbon economies need to be identified for countries which will continue to play a role in the provision of raw materials and fossil fuels, as well as manufacturing of carbon-intensive products and services. Second, **mechanisms for a fair distribution of green technologies** will have to be developed to mitigate the risk of a dependent relationship in which low-carbon technologies are solely owned by middle to high-income countries (“technology gap”). Third, more **investments in renewable energy infrastructure** are needed and should guarantee resilient access to affordable energy for all. Lastly, there remains a reasonable degree of **uncertainty over the positive effects of carbon-related trade measures**, such as the Carbon Border Adjustment Mechanism (CBAM), especially for low-income countries.

Under our second pillar, we would like to bring the following selected policy recommendations to the attention of the global community:

- Propose the creation of an Ecological Impact Fund (EIF) which invites innovators to exchange their monopoly privileges on green technologies in low-income countries for financial impact rewards based on actual emission reductions achieved, thus creating an artificial market for green innovations. Under this fund, synergetic cooperation between complementary green innovations could be explored as well, which might induce a system of “profit sharing” between companies from allocated financial impact rewards.
- Focus on the hidden environmental costs and social effects of current economic practices in high-income countries (i.e., spillover effects and carbon leakage) which affect other communities and nations in their green transition pathways. Through holistically assessing the socio-ecological impacts of green deals, it can be guaranteed that local development needs are not jeopardized by harmful economic practices elsewhere.

3. INVESTING IN LOCAL ENGAGEMENT:

Transformation, integrating the principles of social justice, sustainability, and inclusion in economic activities, already happens through countless local initiatives across different communities worldwide. Alternatives to an extractive, carbon-intensive economy, environmental degradation, and social injustice do exist and are being promoted by local engagement and activism. For example,

ecofeminism in Kenya challenges patriarchal domination in the management and preservation of natural resources, while the socio-bioeconomy in Brazil promotes job creation and the conservation of the Amazon rainforest. Many more such initiatives already exist worldwide. However, the allocation of financial resources from donors does not seem to be efficient and directed enough to sufficiently empower local governments and businesses, civil society organizations, and other social groups that generate scalable initiatives, knowledge, and evidence on economic transformation. It can be said that development finance and technical cooperation still tend to have “blind spots” for locally emerging solutions while procuring outputs that were planned top-down in ways that are mostly detached from local realities – more investment in local engagement is required.

How Can Development Cooperation Invest More Locally?

Reducing procurement rationales and bureaucracy will not be enough to ensure that investments reach local engagement sufficiently. Instead, the whole process of resource distribution needs to start on local terms: investment decisions and the allocation of international funds should reflect local development priorities defined through **ongoing participatory action and policy dialogue at all levels**, rather than being allocated to specific economic sectors or geographic areas based on “outside” interests – as a member of our community expressed: *“everybody needs trees, but local people should decide which ones.”*

As a result, economic transformation would not be imposed top-down, but rather

» **Everybody needs trees, but local people should decide which ones.**«

er co-created by local actors who understand and share the same goals and values as the targeted community. Therefore, it becomes crucial to address institutionalized inequality and exclusion in decision-making about development finance at all levels. This will ultimately lead to more local ownership and intrinsic motivation needed for transformative change. More broadly, international cooperation needs to shift from a focus on bilateral interaction and linear knowledge transfer to **networks of multiple interactions (or multilateralism)** with an emphasis on triangular cooperation models and transformation partnerships, thereby enhancing mutual learning between actors and mutual accountability.

Under our third pillar, we would like to bring the following selected policy recommendations to the attention of the global community:

- Rethink the conditionalities and modes of development finance through common taxonomies and a fair distribution of risk. Concessional finance is not suitable for absorbing sufficient risk; thus, donors should focus on the provision of grants and shared funds for local investment in transformative initiatives based on joint accountability mechanisms.

- Pilot efforts to re-distribute financial resources locally through careful consideration of evidence and robust comparisons of the effectiveness of private capital, philanthropy, and Official Development Assistance (ODA) across initiatives focusing on economic transformation as brought forward by local communities and stakeholders.
- Advocate for changes in planning processes of technical cooperation which induce more iterative and adaptive commissioning procedures, as well as systematic screenings for locally emerging solutions that could be invested in, for example by applying the Positive Deviance (PD) approach.

A Way Forward for Economic Transformation

Realizing the potential of economic transformation during the Decade of Action's remaining years will not be an easy task, especially during times of social fragmentation and contested global governance. However, our ET4D Community of Practice demonstrates that there is strong interest in advancing the knowledge of and practice of economic transformation and that the global community can come together to turn abstract ideas into practical recommendations. We propose the following way forward for economic transformation in international development cooperation:

- The current consecutive G20 presidencies of Indonesia (2022), India (2023), Brazil (2024), and South Africa (2025) represent a unique opportunity for "starting the process on local terms". These G20 presidencies should leverage the momentum for making previously marginalized voices on economic

transformation heard at all levels and strengthening the role of countries in the "Global South" within the G20.

- Global stocktaking on progress regarding the Sustainable Development Goals (SDGs) is already happening across the globe also as part of this year's high-level 2030 Agenda conference, the so-called Summit of the Future (2024). It aims to create an action-oriented outcome document called the Pact for the Future. We advocate for economic transformation, realized through new eco-social contracts, a shared green deal, and investing in local engagement, to be an integral part of this action-oriented outcome document.
- Leveraging the potential of economic transformation needs more partnerships and communities built on mutual trust and respect, in which stakeholders can speak openly and with a strong sense of being heard. Thus, we recommend more communities of practice on economic transformation to be formed within the global community and hope to engage with many more in the future.

We, the ET4D Community of Practice, will do our part and continue our advocacy work within the G20.

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- ¹ This opinion piece mainly summarizes views expressed by the ET4D community members. They are not necessarily representative of the position of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.
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- ³ The Economic Transformation for Development (ET4D) Community of Practice is an open group of experts, practitioners, researchers, and other stakeholders from leading think tanks, development institutions and initiatives who are interested in leveraging the potential of transformative approaches and models for use in economic development cooperation. Please reach out to us, should you be interested in joining our discussions.
- ⁴ See also in German "Sozial-ökologische Wirtschaftstransformation."
- ⁵ Eco-social contracts are forged at national levels but need to be supported by an enabling global governance system fit-for-purpose ("global eco-social contract").
- ⁶ Including "environmental and climate justice."