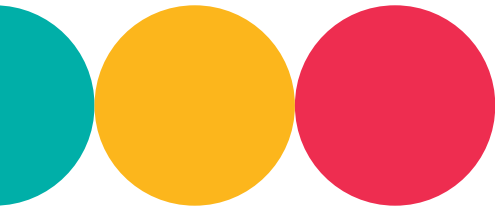


THE IMPACT OF INNOVATIONS ON SLOVAK DEVELOPMENT COOPERATION: its financing and implementation

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INTRODUCTION

The Covid-19 pandemic and the Russian invasion of Ukraine have changed the world profoundly. It seems that history has begun¹ again in this decade. These events have made the words “interconnectedness” and “complexity” much more tangible.

The Covid-19 pandemic has caused² 15 million (direct and indirect) deaths and reversed 25 years of progress in the endeavor to reduce extreme poverty. An additional 75-95 million people could fall into extreme poverty in 2022. With rising inflation and food prices, low-income countries are projected³ to lose \$718 billion by 2024.

If the conflict in Ukraine continues, an additional 47 million⁴ people may face acute hunger, the majority of them in Sub-Saharan Africa. This represents a 17% annual increase. At the beginning of 2022, the number of people facing acute hunger was almost double, compared to pre-pandemic levels, increasing by 126 million to a record high of 276 million. The estimated⁵ annual cost of hosting 4.7 million⁶ Ukrainian refugees in Europe is \$30-35 billion dollars. This is more⁷ than the total bilateral ODA to Africa in 2020 and represents 17-20% of global ODA in 2021.

We have learned how the lack of health or security can shut down whole economies, creating supply chain disruptions and rising inflation across the globe. Together with climate change and the loss of biodiversity, this poly crisis exposes the fragility of our globalized world and the limitations of our planet. In 2023, it is likely that we are facing a deep global recession which will impact frontier

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markets. It will hit LDCs harder than high-income countries. ODA providers need to step up and play their counter-cyclical role in this environment, especially in supporting countries that have insufficient social protection nets and are not able to finance their own recovery due to high indebtedness and an inability to mobilize domestic resources.

Slovakia was among six EU countries that, in 2020, had inflated⁸ aid above 15%. In 2021, the overall share of inflated aid dropped, while 75% of inflated aid stemmed from vaccine donations. Slovakia ranks 23rd in the Commitment to Development Index⁹ 2021, with the lowest components being migration (38th in rank) and technology (35th in rank). Next year we will celebrate 20 years of SlovakAid and our 10-year anniversary as an OECD DAC. Bearing in mind that the Good Idea Slovakia brand is also about social innovations and tech progress, Slovakia could and should do better in financing, implementing, and reporting Slovak official development assistance (ODA).

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1. THE CURRENT STATE OF SLOVAK ODA

The EU remains the biggest ODA contributor with a 43% share of global official development assistance. In 2021, the EU's collective ODA rose¹⁰ by 4.3% to €70.2 billion, up from €67.3 billion in 2020. In 2021, only five OECD DAC countries met the 0.7% GNI target, all from Europe: Denmark, Germany, Luxembourg, Norway and Sweden.

In 2021, the Slovak ODA spend was €131.1 million¹¹ (0.14% of GNI). The bilateral aid component decreased from €32.8m in 2020 to €30.9m in 2021. According to the OECD¹², these contributions to the European Union constituted 88% of multilateral ODA, and 65% of total ODA in 2020.

1.1 Incorporating OECD DAC recommendations

According to the OECD DAC Mid-Term Review¹³ in 2022, Slovakia has incorporated several prior recommendations and has strengthened the focus of bilateral aid by reducing the number of ODA partner countries, by adopting country strategies and by developing guidance on cross-cutting issues (SDG5 - Gender Equality and SDG13 - Climate Action). The delisting of LDCs as priority ODA partner countries is an issue, according to OECD, as well as the Ambrella Platform.

The OECD DAC also notes¹⁴ that the SAIDC, after being successfully pillar-assessed by the EU in 2020, signed their first project of delegated cooperation in Moldova in November 2021, focused on strengthening local media capacity. SlovakAid and USAID also renewed their partnership in 2022 to promote the joint implementation of projects.

The OECD mentions that strategic partnerships also contribute towards more long-term projects and the area of managing for sustainable development results. Another positive sign is the Country Strategy Papers for program countries of Slovak ODA, Kenya¹⁵, Moldova¹⁶ and Georgia¹⁷, that were approved in 2021 and include clearly defined objectives.

The OECD was pleased to see the launch of a new modality of strategic partnerships (framework agreements) with more sizeable support through CSOs, with up to 1 million euros for 5-year projects in Kenya, after an initial postponement in 2020 due to Covid-19. This is an important milestone after long-term advocacy from CSOs, which indicates an appetite for innovations in Slovak ODA, as strategic partnerships don't easily fit within the standard structure of subsidies for 2-year projects.

On the other side, OECD was disappointed that progress in ODA growth has stalled despite an informal plan from 2019 for its rise up to 0.33% of GNI in 2030. What is making the situation even worse is that major parts of bilateral aid are non-systematic and include a large one-off debt relief operations or vaccines donations.

OECD also stressed the importance of government's strong support to CSOs. Reliable and flexible funding is critical for these organizations in order to maintain their strong implementation capacity, respond to crises, and play their role as independent development actors.

1.2 SlovakAid at 20 could and should do better

In 2023, SlovakAid will celebrate 20 years of its existence, and a 10-year anniversary as an OECD DAC member. Next year we need to redouble our efforts to raise ODA levels and get closer to the 0.33% of GNI target for new DAC members.

Without inflated aid and vaccine donations, the bilateral aid component in 2021 was only 13% of total ODA¹⁸. The reasons might be lack of political will or lack of capacity across various Slovak ODA

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actors. This perpetuates a vicious cycle of under-investment and under-developed capacity, making Slovakia a rather symbolic ODA player, without the appetite for delivering social impact and social innovations on a much larger scale.

How can Slovakia become a significant ODA provider? How can we turn this vicious cycle into a victorious cycle? A positive feedback loop of increasing state and civil society capacity, funding, innovation, effectiveness (cost-benefit) and equitable distribution of Slovak ODA (dedicated to the most pressing problems and the most neglected localities).

According to SFPA¹⁹, the most advantageous use of Slovak humanitarian aid could be in rapid response, flexibility in project implementation and filling the gaps in a larger stakeholder environment.

1.3 Core support for CSOs versus red tape

Due to Slovak legal constraints, core support for CSOs (a metric followed by OECD DAC) in partner countries can be implemented only through financial contributions, although even this capability is eroding due to bureaucratization. It is not possible to provide core support for Slovak CSOs within our current SlovakAid modalities.

All modalities (except financial contributions) are subsidies and thus require a defined project period with detailed financial reporting. For very small grant amounts, this becomes counter-productive, and could be replaced by scholarships, with a much lower administrative overhead, without changing any laws. This situation also prevents core support for CSOs - financing not earmarked for specific projects that could be used for operational grants and venture philanthropy to scale the institutional capacities of CSOs.

Core support for new CSOs in partner countries could also be provided through sub-granting within strategic partnerships (framework agreements) with established Slovak CSOs, which could organize competitions, award prizes, scholarships and even fund startups in form of convertible grants (in the case of commercial success, an R&D grant converts into equity).

It is important to rethink scholarships, as they are exempt from detailed financial reporting. All other ODA modalities need to be reported in detail (with the partial exception of financial contributions and sending SlovakAid volunteers abroad). Scholarships could reduce bureaucratization and allow for cash-based funding, trust-based funding and direct cash transfers.

1.4 How can we grow Slovak ODA's capacity amid rising inflation?

In 2020, inflation in the EU was 0.7%. It rose sharply to 2.9% in 2021²⁰. In October 2022, inflation in the EU was at 10.7%²¹. For physical goods, inflation is rising, while the digital economy is deflationary in nature. The mobile phone has become a convergence device, combining dozens of previously expensive gadgets, from video cameras to PCs. It is now many orders of magnitude faster and cheaper to organize online events. Physical products and meetings became luxuries after Covid-19. In 2020, the internet truly began as digital meetings became the primary platform.

This means we need to rethink our Slovak ODA modalities and make them digital-first. Volunteering can be partly done remotely; travel can be optional or contingent on results (paying for results). The internet is global. Our ODA should also be global. Students from partner countries don't need to come to Slovakia to study. We can support them in their home countries. SlovakAid volunteers don't need to be Slovak citizens. We can rethink micro-grants and financial contributions, as these are relatively less bureaucratic and cheaper to administer.

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2. HIGH IMPACT INNOVATIONS FOR SLOVAK ODA PRACTITIONERS

Both pandemics and war accelerate the adoption of new technology. Operation Warp Speed in the US, and COVAX, globally, accelerated the approval and rollout of new mRNA vaccines. Still, the vaccine rollout could have been done in weeks instead of months, using challenge trials.

2.1 Trust-based philanthropy enabled by trustless technology

Cash transfers can be seen as a benchmark of efficiency. Only projects that provide a higher cost/benefit ratio should be supported. If it is cheaper to donate cash to achieve the same humanitarian and development results, ODA providers should do that. This is the logic behind experiments in direct and unconditional cash transfers. “It is often cheaper to transfer money than a fish.”

Trust-based philanthropy²² is one related trend that seeks to shift the balance of power between donors and grantees to create mutual accountability and predictability of cash flow, with less reporting requirements and overhead. As discussed above, the trend towards trust-based philanthropy is severely limited within Slovak ODA modalities. Due to present legal restrictions Only financial contributions, scholarships and sending volunteers abroad would partially qualify.

Fast grants²³ for Covid research are an example of a trend towards extremely fast decision-making during pandemics with some grants approved and processed within 48 hours of submission.

Another trend is trustless technology in the form of web3 that can enable both the powerless and powerful²⁴. It can also provide much needed transparency in real-time, as payments, transfers and withdrawals are immediately visible on-chain and activities can be reported on-chain. As with M-Pesa scaling, ODA actors, including CSOs, can play vital roles as catalysts of these innovations and providers of quality on-chain reporting.

This web3 and Decentralized Finance (DeFi) trend is in its infancy, just as the internet was in the 2000s. It is important to beware the hype-cycle while acknowledging that this “financial internet”, and decentralization of everything digital will play a greater role as trust in centralized institutions and centralized finance has been challenged since the Global Financial Crisis with regular scandals, such as the FTX collapse in November 2022 that also reduced trust in the Effective Altruism movement²⁵.

2.2 Paying for results and social impact

The trend of paying for results may seem like the opposite of trust-based philanthropy, but a productive synthesis of both concepts is possible. There are prior examples of both approaches working together; social scholarships combined with performance scholarships.

Tools like social impact bonds and social impact incentives (SIINC²⁶) can be combined with direct unconditional transfers and the rising trend of trust-based philanthropy. Slovakia, in collaboration with the UNDP has supported the piloting of a social impact bond in Armenia and has also supported a UNDP ODA Learning Series webinar²⁷ where both tools, social impact bonds and SIINCs, were presented.

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2.3 The Ecosystem approach - harmonization versus innovation at the edges

Premature centralization may harm innovations. While it is important to standardize and harmonize established technologies in their commodity/utility stage of development (see Wardley Mapping²⁸) like USB cables or vacuum cleaners, it would be a mistake to prematurely standardize emerging technologies like web3. The same can be said about social innovations that happen on the edges of ecosystems.

Considering the Cynefin framework, if the system is complex and there are many competing hypotheses, it is important to conduct bottom-up, safe-to-fail and small-scale experiments in parallel to determine which hypothesis is correct. A related concept is the vector theory of change²⁹, focused on shifting micro-narratives to achieve development results in complex environments through “more (positive) stories like these, and less (negative) stories like those”.

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This approach can be applied to designing Team Europe Initiatives and piloting social innovations in ODA. They should be done through small parallel experiments instead of large top-down initiatives.

2.4 Grants are better than loans, but equity is better than grants

CONCORD recommends that the EU should prefer grant modalities to loans³⁰, but the use of equity and (patient) venture capital is underutilized in ODA and it has advantages over grants and loans.

When comparing VC to ODA, even big DAC providers allocate amounts to a particular country similar to the funding round of a tech startup. In 2020 Britain provided around £50m to India, through former DFID and FCO³¹. In the last decade, India has created over 100 tech unicorns³² (tech companies with over \$1B in value). India overtook the UK and ranks third in the world in the number of tech unicorns, after the US and China.

Loans produce asymmetries in downside risk, where the lenders are more protected than the debtors. Equity is more symmetrical and aligns all parties into win-win or lose-lose scenarios. (Patient) venture capital provides high levels of additionality, as it funds very early-stage companies and innovations that don't yet have product-market fit and are not yet bankable.

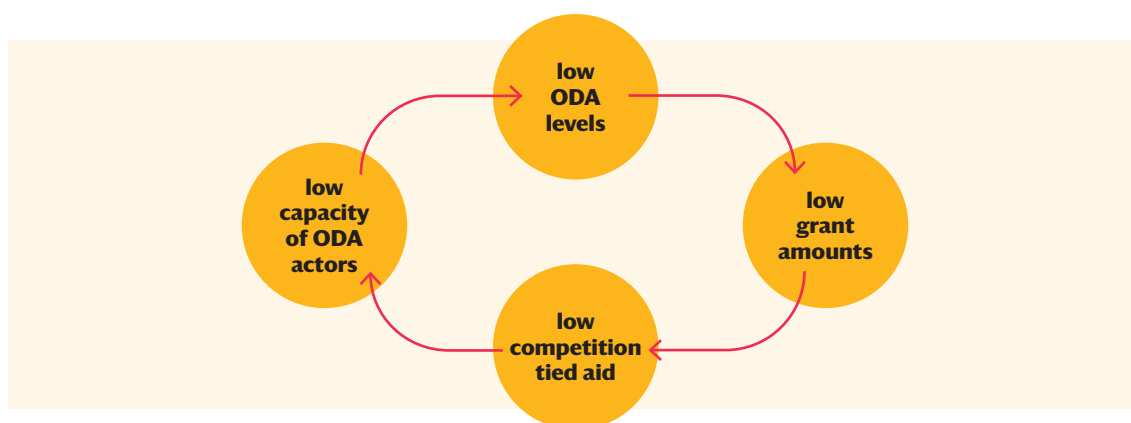
The EU and Slovakia can use their soft power and resources to direct VC investments towards climate action (SDG13) and female founders (SDG5). Blended finance can be combined with VC, using innovative impact investment tools like SIINCS³³ as well as their future web3 versions.

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CONCLUSION

How to increase the total Slovak ODA budget is a complex question. There are many possible reasons why the bilateral aid component remains one of the lowest in OECD DAC (24% bilateral vs 76% multilateral in 2021). It can be seen as a lack of will to raise ODA beyond internationally agreed commitments to multilateral organizations, when even within multilateral aid, 88% is contributed toward the EU³⁴.

It can also be perceived as a lack of capacity and a vicious cycle among various Slovak ODA stakeholders:



However, a lack of state and CSO capacity and various bureaucratic and legal bottlenecks (inability to do cash-based and trust-based financing), might be more of a factor than a lack of political will. The discrepancy between military aid (€217m) and bilateral humanitarian aid (€5m) to Ukraine, according to the Kiel Institute³⁵, suggests exactly that. This combined aid makes Slovakia the 5th largest provider to Ukraine, relative to GDP, while it ranks 25th from the EU member states in terms of humanitarian aid. We can see on the example of Ukraine that the will to help is present, but the channels of ODA seem to be weak and slow and the system needs reform. To quote a representative of Ambrela platform: “Call for humanitarian projects on Ukraine was opened 3 months after the Russian invasion and was signed by the minister after additional almost 2 months - altogether it took the government 5 months to enable CSOs to react to this imminent crisis in our neighborhood. However, efforts to adopt National strategy on humanitarian action were interrupted in 2019 and there has not been any progress since then”³⁶.

What fresh and creative ideas can Good Idea Slovakia produce in ODA and in social innovations?

The lack of political will may not be the biggest problem we face. There seem to be bureaucratic and legal bottlenecks, as well as lack of capacity on the side of various Slovak ODA stakeholders, but we could break this vicious cycle and turn it into a virtuous cycle by investing in technological and social innovations.

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