

BRIEFING | JANUARY 2026

Delivering mutual interest aid: Aligning incentives in a fragmenting world

Prepared by Anna Hope, Policy, Advocacy and Communications Lead at Global Nation

This briefing summarises a proposal for Mutual Interest Development Cooperation (MIDC) set out in a full policy paper by the Kiel Institute for the World Economy. It forms part of a project to examine and build the evidence base for mutual interest ODA (official development assistance, often referred to as ‘aid’). Mutual interest ODA is that which genuinely serves recipients’ development goals and, in doing so, also benefits donor countries. [Read more about the project.](#)

Introduction

We face a moment where aid may struggle to remain politically viable in many donor countries unless it demonstrates how it is delivering visible, credible returns for both partner countries and donor societies. It builds on work throughout 2025 by the Kiel Institute for the World Economy in partnership with Global Nation to fill an evidence gap on how aid benefits donors as well as recipients. The conclusion is clear: the benefits to donors of aid that also meaningfully benefits its recipients are significant. And they include key donor government priorities of economic stability and growth, security, soft power, migration and health.

Mutual Interest Development Cooperation (MIDC) is a pragmatic approach that provides a universally applicable set of principles and rules that align the incentives of donors and partner countries, while protecting provisions for humanitarian relief and human development support. Crucially, this is a high-level governance model, not a one-size-fits-all instrument, and as such can be applied by governments and institutions across their diverse institutional structures and political contexts. In doing so, it provides an approach to aid that can meet the moment we are in and make it resilient for the future.

It aims to inform and support those working on aid reform and we welcome feedback and dialogue on the paper.

Addressing the core problem: aligning incentives

Lack of alignment in incentives for donors and partner countries is the core challenge to aid's ability to garner sustained support and deliver transformational impacts. Aid saves and improves lives, but in many cases, it has not succeeded in fostering structural transformation, sustained economic growth and human development progress for recipients. Meanwhile, donor-side benefits visible to voters are lacking. As a result, we are seeing weak perceptions of aid effectiveness and utility in donor countries and growing criticism in partner countries. The reason is misaligned incentives: no sustained reform incentives for governments and fragile political support in donor countries.

Successive approaches have struggled to create aligned incentives, and the results are speaking for themselves. In the 1980s and 1990s we saw heavy reliance on policy conditionality, followed by a shift toward less conditional financing, and finally an emphasis on project-level improvements. In different ways, these have weakened reform incentives, reduced accountability, and contributed to a fragmented aid system that is working hard but ultimately entering existential crisis. Where aid has contributed to long-term transformative change, such as South Korea, the interest in developing the country and incentives to do so were typically aligned between donor and recipient countries.

The proposal: Mutual Interest Development Cooperation

Three principles that create mutual interest cooperation

MIDC is a rules-based partnership where development cooperation delivers measurable gains for partner countries and visible, verifiable returns for donor societies. It rests on three interlocking principles to dictate investments:

1: A mutual-interest filter should be applied

The first and most important step in MIDC is a filter that ensures mutual gains based on two questions:

1. *Will this deliver clear benefits for people in the partner country?*
2. *Will this deliver clear returns to the donor country (in ways the public can understand)?*

If either side's benefit is weak or unclear, MIDC requires that a programme is redesigned, *unless* it is for humanitarian obligations and basic human development needs such as healthcare, for which we recommend some funding is earmarked, irrespective of delivering direct benefits to donors. Such spending should then also be actively communicated as not being about donor benefits.

This is how MIDC avoids spending money on projects that are politically convenient but low impact.

2: Transformation should be the main purpose

MIDC should ensure that aid has transformative purpose (with limited exceptions):

- Aid should de-risk and reinforce domestic reform, helping countries become stable self-reliant economic and political partners rather than long-term aid recipients. Graduation from aid dependence is a benchmark of success.
- Countries with governments that are not reform-oriented would still qualify for some investments with very high mutual benefits, especially investment in global public goods such as reducing global health risks, and humanitarian assistance.

3: There are tiered opt-in partnership options

MIDC functions as a standing offer by donor governments for different levels of partnership with partner countries. Three tiers are proposed as the structure for this, plus a fourth humanitarian tier:

Tier 1 – Comprehensive Reform Partnerships. Long-term, multi-donor financing for governments with sustained reform commitment, delivering predictable support for deep reforms while reducing donor risk.

Tier 2 – Targeted Reform Partnerships. Shorter-term, focused cooperation that supports emerging reforms and scales up or down as momentum strengthens or weakens.

Tier 3 – Limited Engagement Contexts: Narrow, high-impact engagement limited to shared-risk or essential areas where broader development progress is politically constrained.

Tier 4 – Humanitarian Engagement: Lifesaving, rights-protecting assistance delivered through multilateral or non-governmental channels when partnership is impossible, operating outside incentives and under strict “do no harm” principles until conditions allow a shift to structured cooperation.

The opt-in character of MIDC replaces traditional conditionality with partnership while the primary mutual interest filter set out above ensures that partner countries are guaranteed clear measurable benefits set on their own terms.

Global public goods are protected across tiers as they create mutual benefits even under weak governance. Basic human development investments such as childhood immunization often generate high long-run developmental returns, while providing indirect donor-side benefits thus passing the mutual interest filter.

However, in limited reform contexts (tier 3), these returns might not materialize. In this case, some funding should be earmarked by donors to fund essential ‘safety net’

investments in basic education, health and nutrition even if they operate outside the MIDC logic. Humanitarian assistance remains fully separate from MIDC incentives to guarantee a basic safety net.

A practical solution fit for the times

Mutual Interest Development Cooperation rests on four core pillars that make it a practical tool that can work in today's challenging context:

- **Clarity of purpose:** By ensuring aid is viewed as a temporary catalyst for self-sustaining growth, it brings access to deeper cooperation determined by credible reform alongside demonstrable mutual returns.
- **Political realism:** Because cooperation deepens where domestic reform incentives align with donor interests and narrows to high-return interventions where political conditions constrain impact, it becomes far easier to make the case to the public.
- **Predictability and fairness:** Transparent, rule-based tiers link financing to observable performance, enabling long-term planning that has the highest chance of impact and orderly, non-punitive adjustment or exit.
- **Credible delivery:** In reforming contexts, governments take the lead. In fragile ones or contexts where the elites have little interest in reforms, multilaterals and civil society take over delivery to protect integrity and reach citizens directly. And across all, transparency is non-negotiable: spending, results, and donor-side rationales are published in forms accessible to partner-country publics and donor taxpayers ensuring trust-building and prevention of implementation failures.

Funding Mutual Interest Development Cooperation

MIDC proposes a pooled Mutual Interest Fund to anchor the approach financially and enable scale. Similar to Multi-Donor Trust Funds, contributions can come from all like-minded parties, including bilateral donors and multilateral actors such as the World Bank. The MIDC fund can in turn channel funds to specialized agencies such as Gavi. By pooling donor resources, it corrects coordination failures, protects reformers from short-term donor politics, and ensures concessional finance delivers the highest joint development and donor returns. The Fund is strictly limited to MIDC development cooperation and cannot be diverted to humanitarian response or ad hoc geopolitical priorities, preserving incentives and discipline.

The Fund would entail three main financing approaches according to the partnership tiers set out above:

- **Comprehensive Reform Partnerships (Tier 1):** Long-term (10+ year) envelopes using grants, concessional loans, guarantees, and blended finance, with countries graduating in financing terms (but cooperation remains strong) as reforms consolidate.

- **Targeted Reform Partnerships (Tier 2):** Rolling 3–5-year packages linking focused finance and technical assistance to verifiable reform outcomes. Meeting MIDC standards can form part of this financing, such as investments in statistical capacity.
- **Limited Engagement Contexts (Tier 3):** Narrow, high-return grants addressing shared risks such as disease surveillance, with a small window for basic capacity-building to enable graduating to tier 2. Cooperation protects joint interests without shielding regimes who obstruct development progress.

Outside the purview of the Mutual Interest Fund:

- **Global Public Goods, Humanitarian, and Transition Cases:** Global public goods are financed separately through multilateral or coalition-based mechanisms; humanitarian aid remains grant-based and reform-independent; post-conflict reconstruction is treated as a priority transition from humanitarian support to targeted reform cooperation.

Moving forward – refining this idea together

Mutual Interest Development Cooperation is not presented as a silver bullet but as a practical response to a changed political and fiscal reality in which aid must demonstrate value to partner countries and donor societies alike to remain viable. This briefing has outlined its core logic and proposition, while the accompanying policy paper by the Kiel Institute for the World Economy provides the full analytical foundation and design choices.

The proposal is offered to provide novel and important thinking at this critical juncture for aid, and we welcome reactions and reflections as the concept moves from design toward implementation.



About this work

This briefing paper has been produced by [Global Nation](#) and [the Kiel Institute for the World Economy](#) as part of a project to build the evidence on where the greatest mutual benefits lie for foreign aid. [Learn more about the project.](#)