

GLOBAL DEADLOCKS: AID ARCHITECTURE ISSUES

1. Large changes are taking place in the international aid architecture. The range and diversity of organisations, official and private, that help fund development is increasing, as are the channels through which aid is provided. The contribution of non-DAC donors and global funds to development assistance poses both opportunities and challenges to the Paris Declaration aid agenda. New fora and ways of working are developing, and constructive dialogues and cooperation are under way in many areas.

2. Although DAC members continue to provide over 90% of ODA, non-DAC providers of development assistance provide a significant (and increasing) amount of aid. They are also increasingly recognised for bringing innovative partnerships and experiences that could enrich the global reflection on how to improve the effectiveness of development co-operation. While there is limited understanding on how the Paris Declaration is understood and applied by different actors, there is general agreement that the aid effectiveness principles are important for all and that DAC and non-DAC donors can greatly benefit from learning more about each other's experiences and approaches

3. Global funds, most of which are in health, environment, and education, have also become increasingly important, not least because of the support provided to them by the major private foundations. Better integration of these funds at the country level was rightly identified as a priority area in the Paris Declaration. Recent experience shows that global funds can effectively complement multilateral and bilateral country programmes to achieve specific development objectives. However, when considering the creation of new global funds, donors need carefully to weigh the disadvantages of proliferation against the potential gains.

4. This paper notes efforts to address the existing aid architecture by DAC members before examining two rapidly growing sets of players: global funds and non-DAC providers of development assistance. **There is no suggestion of redesigning the aid system from scratch – an impossible task. Rather it is to manage growing complexity by applying the principles of the Paris Declaration. The Accra High Level Forum on Aid Effectiveness (September 2008) and the ensuing Accra Agenda for Action provide the vehicle for improving international arrangements to address these issues. One thing is for sure: no new international institution is required – the issue is rather one of finding ways to reduce the number of institutions in the aid business!**

Addressing fragmentation in the existing aid architecture

5. While the increased choice of development partners – such as global funds and non-DAC donors – may bring tangible benefits, such as improvements in health outcomes or more investment in infrastructure, there is also a danger of increasing aid fragmentation which could undermine capacity in countries with already weak systems. In this context, the DAC is examining two key approaches to improve the aid architecture: division of labour among an increasing number of donors and more systematic and shared assessments of multilateral institutions and new initiatives.

6. The DAC Secretariat has used the data on reported aid flows to examine the degree of fragmentation and/or concentration of donors by country. The results are published in the *Report of the 2008 Survey of Aid Allocation Policies and Indicative Spending Plans*

(www.oecd.org/dac/scalingup). They show, for example that in 2005, 37 recipient countries¹ had 24 or more DAC and multilateral donors. In two-thirds of these countries 15 or more donors collectively provided less than 10% of that country's total aid. At the other extreme, 38 countries² - mostly small island states - had fewer than 10 donors in total. These results - especially when further analysed by the sectors in which each donor is operating - offer insights into where it might be possible to reduce the complexity of the number of actors that each partner has to deal with and provide openings to reduce the administrative burden through silent partnerships, delegated co-operation and other such arrangements. This picture of the current aid architecture of 'traditional' donors can help to reduce overlaps and enhance rationalisation, while applying generic principles such as those in, for example, the EU Code of Conduct on the Division of Labour in Development Policy.

7. In examining improved aid allocation with better division of labour as aid is scaled up, the special needs of fragile states must not be overlooked, especially as there is often a funding gap between relief and recovery efforts. Such work needs to recognise the different types of fragile states based on need, opportunities for scaling up and coherent engagement, sustaining support to achieve turnarounds, and too few donors with a risk of changes in their priorities.

8. As members scale up their aid, some are looking to the multilateral aid system as a means to increase volume without having to scale up their administration costs too. Some eleven DAC countries, plus two countries as observers, work together in the Multilateral Organizations Performance Assessment Network (MOPAN) which assesses and tries to improve the effectiveness of multilateral organisations. These shared assessments are designed to reduce the burden on multilateral organisations of reporting on their performance while improving national accountability for this large - and growing - share of total ODA.

9. The DAC Secretariat will be producing a report on the multilateral aid system in the autumn, which will for the first time provide a comprehensive picture of the overall use of the multilateral system (with its 242 agencies eligible to receive ODA), measures of its effectiveness from the Paris Declaration Survey and other assessments, and information on each member's strategy and administrative arrangements for managing multilateral aid. The report will also include a few country level case studies, including drawing on experience with delivering as 'One-UN' at the country level. This information will provide a basis for decisions on how to improve the architecture of the multilateral aid system.

Global funds

10. Global funds that support specific sectors and sub-sectors - e.g., health, HIV/AIDS, primary education, environment³ - have become major channels for donor funding, particularly in low-income countries. These funds are distinguishable from multilateral organisations as their primary purpose is to attract, manage and distribute resources for global purposes. There are

¹ Afghanistan, Albania, Bangladesh, Bolivia, Bosnia-Herzegovina, Brazil, Cambodia, Cameroon, China, Colombia, Congo, Rep., Egypt, Georgia, Honduras, India, Indonesia, Pakistan, Peru, Philippines, Rwanda, South Africa, Sri Lanka, Tanzania and Viet Nam.

² Anguilla, Antigua & Barbuda, Barbados, Belize, Comoros, Cook Islands, Dominica, Equatorial Guinea, Fiji, Grenada, Kiribati, Libya, Marshall Islands, Mauritius, Mayotte, Micronesia Fed. Sts., Montserrat, Nauru, Niue, Oman, Palau, Samoa, Saudi Arabia, Seychelles, Solomon Islands, St. Kitts-Nevis, St. Lucia, St. Vincent & Grenadines, St. Helena, Suriname, Tokelau, Tonga, Trinidad & Tobago, Turkmenistan, Turks & Caicos Isl., Tuvalu, Vanuatu, and Wallis & Futuna.

³ Noteworthy examples include the Global Environment Facility (GEF), the Global Alliance for Vaccines and Immunisation (GAVI) and the Global Fund for AIDS, Tuberculosis and Malaria.

strong incentives for the donor community to create new funds to mobilize public support for visible and widely-shared priorities, and to respond to emerging issues. To combat the HIV/AIDS pandemic, for example, the United States created the Emergency Plan for AIDS Relief, approved by Congress in 2003 for five years, the largest ever commitment by one nation (USD 15 billion) dedicated to a single disease.

11. Global programmes can effectively complement multilateral and bilateral country programmes to achieve specific development objectives. They generate additional resources from public sources where there is lack of interest in expanding bilateral programmes or providing additional financial support to established international organisations. They can also leverage funding from private foundations alongside official donors. However, global funds have some weaknesses: the single issue focus neglects synergies across policy making and may contradict support for country-led development partnerships based on national priorities and strategies; they can duplicate existing structures and increase transaction costs; they have less democratic accountability than multilateral organisations and governments; and they may be used as a substitute channel for foreign assistance. These strengths and weaknesses may influence significantly the funding decisions of DAC member countries, particularly at a time when many countries are looking for engaging more strategically with multilateral organisations. When considering the creation of new global funds, donors need carefully to weigh the disadvantages of proliferation against the potential gains. Making the most of what global funds have to offer requires a joint effort to respond and adapt, globally and in countries, among donors, partner countries, local civil societies and the global funds themselves.

12. Board representation on global funds varies significantly: in some cases donors are automatically granted a seat on the executive management board whereas in other cases a seat may be shared or rotated between donors. If DAC member countries wish to engage strategically with global funds, they need to have the capacity to engage with the board and other donors on significant issues such as governance, priorities, sustainability issues and aid effectiveness. DAC members can also play a significant role by working together at the board and country level to ensure that global funds operate within accepted internationally accepted practice, particularly with regard to aid effectiveness.

Global funds and the Paris Declaration

13. The *Paris Declaration on Aid Effectiveness* rightly identified integrating global programmes better at the country level as a priority area. Despite diverse governance and operational frameworks, these programmes are increasingly finding ways to align their assistance to country priorities and systems. For the most part, their funding is reflected in country budgets, except for those channelling their funding through NGOs or the private sector. Some of them are participating in sector budget support and sector-wide approaches (SWAPs), thereby becoming more integrated into sector dialogue. For example, the Global Fund to Fight AIDS, Tuberculosis and Malaria has joined SWAPs in Malawi, Mozambique, and Rwanda, and the Global Environment Fund channels funding through United Nations agencies and multilateral development banks represented at country level. Nevertheless global funds face numerous challenges to implement the principles of the Paris Declaration, as shown below (Box 1).

Box 1. Global funds and the Paris Declaration: Progress and Challenges

The Global Programmes Learning Group has looked at progress in implementing the Paris Declaration principles. There has been, and continues to be, a good deal of learning. Global funds can make better use of existing flexibility in their governance and processes and could improve communications at country level, so that partner countries and donors know of this flexibility and of their commitment to implement the Paris Declaration.

Ownership – An innovative feature is stronger support from and inclusion of civil society and the private sector, particularly in middle-income countries. Global funds tend to get strong support from concerned sectoral ministries. However, increasing ownership from overall co-ordinating mechanisms and ministries of central governments, including finance ministries, remains a challenge. A related issue is how to strengthen links between their local priority-setting or other institutional co-ordination mechanisms and corresponding government sectoral and co-ordinating ministries.

Alignment – Global funds are set up to carry out specific, generally sub-sectoral, mandates. Hence the process of setting priorities in alignment to country objectives needs to be done within a broader perspective, taking into account other sources of funds as well as considering the balance with other priorities within the sector and across sectors. Alignment to country systems also remains a challenge. Global funds are making efforts to adapt their funding rounds to country budget cycles. The use of SWAps can help global funds to fund country priorities in a balanced way.

Harmonisation – The specific mandates and processes of global funds as well as their general lack of direct field presence make harmonisation at the country level challenging. Given their global focus, global funds have tended to follow international good practice. But they are giving increased attention to balancing this with their objectives of acting jointly with other donors in order to reduce transaction costs, particularly for partner governments. The challenge to global funds applies, for example, in how to participate in country donor groups or in joint missions and analyses. There is strong commitment to addressing these issues.

Managing for Results – Global funds have been in some cases innovators in the emphasis that they give to building results and performance into their funding processes as well as to monitoring and evaluation. All the programmes emphasize results frameworks as a vital element of monitoring, evaluation, and auditing systems as well as outputs and the sound management of programme inputs. Indicative country allocations can help link results to aid predictability and cross-country impact. However, global funds differ substantially in the extent to which they make use of government and joint donor systems of monitoring, results, and auditing. For those which have made less use of these in the past, the challenge is to align and harmonize in a manner that contributes to improving overall government and donor monitoring and evaluation systems as well as methods for tracking development outcomes.

Mutual accountability – Global funds tend to have strong accountability to their international constituencies, and some have set standards of good practice among donors on transparency. However, mutual accountability is more difficult at the country level, partly because of the global mandates of global funds and their lack of direct presence on the ground. Global funds are seeking ways to participate more in country-level mutual accountability mechanisms, within limits set by staff constraints, or to have others represent them.

Source: Progress report on implementing the Paris Declaration, Part II, Findings, June 2008

14. Good practice with global funds can enrich the implementation of the Paris principles. Nevertheless, all global funds are encouraged to deepen measures to support country ownership, align and harmonise their assistance pro-actively with that of other donors and make good use of mutual accountability frameworks, while still emphasizing results. In particular, they should provide timely reporting on their funding for inclusion in country budgets and plans, avoid imbalances within and across sectors and provide multi-year financing frameworks to improve the predictability of aid and fiscal sustainability.

15. As new global challenges emerge, DAC member countries must think carefully before creating separate new channels to assist partner countries. While the mobilization of new funding mechanisms may be warranted in the area of global public goods, donors should prioritize existing implementing agencies rather than create separate aid channels that can contribute to fragmenting aid at the country level. Finally, achieving the long term objectives of global funds depends on complementary policies and institutions within and across sectors, which can be best addressed by institutions with a multi-sectoral mandate and expertise. Funding for these institutions should be sufficient to help them build their capacity and systems at the country level.

Non-DAC donors

16. The term “non-DAC donors” encompasses a heterogeneous group of countries with diverse historical ties, strategic interests and comparative advantages to bring to bear in developing countries. Indian and South African aid, for example, largely focuses on supporting neighbouring countries, while an increasing proportion of China’s aid is going to Africa. Algeria and Indonesia are new donors of relatively a moderate size while China, India, Venezuela and Saudi Arabia are all large aid contributors, some of them of longstanding. Brazil largely focuses on providing technical co-operation in a South-South context, while Thailand primarily funds infrastructure projects.

17. With the promise of scaling up aid in the coming years, non-DAC donors are in a strong position to contribute effectively to achieving the MDGs in partner countries. Given their experience as former recipients of aid, they have a unique comparative advantage in establishing strong partnerships based on regional and cultural ties with these countries and in mutual learning between different partners in development. South-South co-operation and/or triangular development co-operation (Box 2) can facilitate this. These forms of co-operation are largely demand-driven, promote ownership and make use of technology and technical assistance that are sustainable and adaptable to local systems.

18. From the perspective of partner countries, non-DAC donors bring additional sources of funding and expertise and South-South co-operation is attractive because it is flexible, responsive and can fill important gaps, for example to finance African infrastructure. At the same time, the tied nature of some aid provided by non-DAC donors reduces its cost-effectiveness and the use of loans and export credits instead of grants, could have adverse implications on the debt sustainability of partner countries.

Box 2. Triangular development co-operation

Triangular (or trilateral) development co-operation is used for development assistance from traditional donors executed by Southern donors (often in the form of technical assistance) in developing partner countries. It is increasingly appreciated as an effective aid modality as

Southern contributors, which are still themselves developing, may be better placed to respond to the needs of aid receiving countries, often at a lower cost. Though presently small in scale, triangular co-operation is significant for a number of Southern donors, including Argentina, Brazil, China, Chile, Egypt, India, Malaysia, Republic of Korea, South Africa, Singapore, Thailand, Tunisia and Turkey. Main Northern funders include: Canada, Finland, France, Germany, Japan, Norway, Spain, Sweden, and the UN. Japan's 2003 ODA Charter specifically identified triangulation as an effective aid modality.

Triangular development co-operation is used to fund a range of development programmes and projects. With financial support from partners, Brazil has actively engaged in projects in vaccination, school feeding, reforestation and malaria eradication. Similarly, Tunisia has provided expertise in areas ranging from public administration to reproductive health services.

In addition to North-South-South co-operation, triangular co-operation between developing countries is also advancing. One of the most prominent examples is the India-Brazil-South Africa Trilateral Initiative to promote exchanges and strengthen capacity in agriculture, education and science and technology.

Source: soon to be published UNDCF report on 'South-South and Triangular Cooperation'

Non-DAC donors and the Paris Declaration

19. While a number of non-DAC donors tend to view the Paris Declaration as a prescriptive blueprint that does not necessarily reflect their interests or experiences, many of them *de facto* adhere to some aspects of the aid effectiveness principles. Donors from the Middle East, for example, routinely consult with one another on projects and make use of each others' documentation systems⁴; Kuwait and Korea report over 75 per cent of their total aid on the recipient governments' budgets; China and Venezuela provide multi-year commitments; and India and Arab donors provide budget support⁵. In 2007 and 2008 respectively, the Czech Republic and Korea volunteered to undergo a special review identifying ways in which their aid could become more effective, and a number of non-DAC donors participated in the 2008 Survey on Monitoring the Paris Declaration. Recently, both Hungary and Slovakia agreed to assess the degree to which they were mainstreaming the Paris Declaration in their development work. While these efforts are being encouraged, practical constraints in implementing the Paris principles are appearing as non-DAC donors are still in the process of developing mechanisms to appropriately account for their ODA; put in place monitoring and evaluation systems; elaborate aid policies and legal frameworks on international co-operation; and/or establish new development agencies.

20. Where they are active or present in the field, non-DAC donors have an opportunity to learn from the successes and failures of "traditional" donors and adopt good aid management practices early on. For example they can join existing donor co-ordination mechanisms, share analytical work and contribute collectively towards achieving development results aligned with national priorities. They can complement other donors by supporting countries that may be under-

⁴ R. Manning (2006), "Will Emerging Donors' Change the Face of International Co-operation?", Development Co-operation Report.

⁵ Source: soon to be published UNDCF report on 'South-South and Triangular Cooperation'

funded or neglected by current channels. By making full use of their strengths at sector or country level, they can also contribute to the division of labour among donors.

21. Several constraints, however, may limit non-DAC donors' ability to make their aid more effective and efficient. One of them concerns their institutional and human capacities for planning, formulating and collecting data as well as for monitoring and evaluating development assistance programmes. The lack of a long-term vision towards development assistance underpinned by a clear policy and legal or regulatory framework delineating the roles and responsibilities of public actors involved can be an additional limiting factor. Furthermore, as many non-DAC donors are held accountable by their own constituents to reduce domestic poverty, balancing such responsibility with their interest in providing external development assistance can be difficult to manage politically. As with traditional donors, non-DAC donors can build up a national constituency for development co-operation through participatory dialogue and development education. Demonstrating results over time is another recommended course of action to gain support for additional spending on external development assistance.

22. Both DAC and non-DAC donors face challenges in implementing the Paris Declaration agenda and the scope for dialogue, co-operation and mutual learning is considerable. The donor community at large is working together to ensure strong partner country ownership and leadership, share information on aid volumes and modalities, continue the dialogue on aid effectiveness and recognise the important contribution non-DAC donors can make to the development process. Finding practical ways to strengthen partnerships between DAC and non-DAC donors will contribute to ensuring the coherence and complementarity of different forms of development assistance in partner countries. The principles underlying the Paris Declaration should be seen as a reference point for the dialogue, recognizing that all donors' ability to adhere to the Declaration may vary depending on their own circumstances and conditions in partner countries. In order to contribute to making non-DAC donors more efficient, the DAC is working with them to raise transparency and awareness about their aid flows.