

## Chapter 9

### Implications of the Changing Aid Architecture

*This chapter reviews how providers of development assistance beyond the DAC are increasingly recognised for bringing innovative partnerships including south-south and triangular co-operation and experiences that could enrich the global reflection on how to improve the effectiveness of development co-operation. It also highlights how global programmes and funds can effectively complement multilateral and bilateral country programmes to achieve specific development objectives, and efforts are currently under way to better integrate their assistance at the country level. However, as new global challenges emerge, partners and donors should think carefully before creating separate channels; priority should be given to channelling these new funds through existing mechanisms rather than creating new ones that would risk increasing fragmentation at the country level. A balance should also be maintained between funding for targeted mechanisms, and for those with a broader remit to build the capacity of systems as a whole.*

## Introduction

Over the past few years, the landscape of the international aid system has changed rapidly and become more complex. Beyond the “traditional” bilateral and multilateral donors, there is an increased diversity of actors involved in development co-operation, including emerging economies, private foundations, global thematic funds, civil society organisations and the private sector. These not only bring additional funding, but also experience, expertise and approaches that enrich the development process. Noteworthy examples include assistance provided through south-south co-operation and global thematic funds. At the same time, this diversity has also led to an increase in aid channels, which can complicate the management of aid at the country level.

Against the backdrop of the increasingly complex international aid architecture, this chapter focuses on two rapidly growing sets of actors: countries providing development assistance outside the DAC, hereafter referred to as “non-DAC donors”,<sup>1</sup> and the global programme funds. This chapter reflects upon their respective roles in the changing aid architecture and their implications for aid effectiveness, and proposes ways to maximise their development impact.

### Non-DAC donors (south-south co-operation)

While DAC donors provide an estimated 90% of ODA,<sup>2</sup> the significance of non-DAC donors is increasing. Although information on their aid volumes and modalities is still partial, it is expected that funding from these sources compared with that from DAC donors will continue to rise in the coming years.<sup>3</sup>

The term “non-DAC donors” encompasses a diverse group of countries with different history, geographic location, strategic interests and cultural links.<sup>4</sup> For example, Brazil’s development assistance is largely focused on technical co-operation provided in a South-South context, while Thailand primarily provides funding for infrastructure projects. Indian and South African aid is largely geared to neighbouring countries, while an increasing proportion of China’s aid is going to Africa. Algeria and Indonesia are fairly new and modestly sized donors, while China, India, Venezuela and Saudi Arabia are all large contributors.<sup>5</sup>

With the promise of scaling up aid in the coming years, partner countries are likely to have a wider range of choices of how to finance and support their development programmes. Non-DAC donors are in a strong position to contribute effectively to the development process, given their experience as former recipients of aid – which allows them to share know-how on development success in their own countries. They also have comparative advantage in establishing strong partnerships based on their regional and cultural ties. Innovative aid modalities, such as South-South co-operation and/or triangular development co-operation, practised by non-DAC donors are increasingly recognised as effective because they are largely demand-driven, promote ownership, and make use of technology and technical assistance that are sustainable and adaptable to local systems (see Box 9.1).<sup>6</sup>

### Box 9.1. Triangular development co-operation

“Triangular” (or trilateral) development co-operation is the term used for development assistance from traditional donors executed by southern donors (often in the form of technical co-operation). It is increasingly appreciated as an effective aid modality as southern contributors, 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 in volume for a number of southern donors, including Argentina, Brazil, Chile, China, Egypt, India, Malaysia, Republic of Korea, Singapore, South Africa, Thailand, Tunisia and Turkey. The 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. For example, Brazil (with financial support from partners) is involved in projects in vaccinations, school feeding, reforestation and malaria eradication. Similarly, Tunisia has received support to deliver technical assistance and capacity-building 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, designed to promote South-South co-operation and exchange in agriculture, education and science and technology, with a focus on capacity development.

*Source:* ECOSOC (2008) “Trends in South-South and Triangular Development Co-operation”, Background Study for the Development Co-operation Forum.

While many non-DAC donors were present at the Second High-Level Forum on Aid Effectiveness in 2005, when the Paris Declaration was endorsed,<sup>7</sup> most were not engaged in the political dialogue around the Declaration. Consequently, some non-DAC donors view the Paris Declaration as a prescriptive blueprint that does not necessarily reflect their interests or experiences. Some see practical challenges in implementing the Declaration principles, as they are still in the process of developing mechanisms to appropriately account for their ODA, and establishing monitoring and evaluation systems. Others are currently elaborating on their aid policies, establishing development agencies or formulating legal frameworks on international co-operation.

At the same time, it is important to note that many non-DAC donors *de facto* adhere to several aspects of the aid effectiveness principles. For example, donors from the Middle East have practised harmonisation and co-ordination for decades by routinely consulting with one another on projects and making use of each others’ documentation systems (Manning, 2006 and OECD, 2008, pp. 104-106). Kuwait and Korea report over 75% of their total aid on the recipient governments’ budgets, China and Venezuela provide multi-year commitments, and India and Arab donors provide budget support.<sup>8</sup>

In addition, an increasing number of non-DAC donors are taking strides to implement and operationalise aid effectiveness principles. For example, the Czech Republic and Korea volunteered to undergo a special peer review to identify ways in which their aid could become more effective (OECD, 2007a). Six non-DAC donors participated in the 2006 Survey on Monitoring the Paris Declaration<sup>9</sup> and more are participating in the 2008 survey. And, in 2008, Hungary and Slovakia have taken part in a self-assessment exercise on the degree to which the Paris Declaration is becoming mainstreamed into their development work (see Box 9.2 for further examples). At the same time, DAC donors are working with non-DAC donors to raise transparency and awareness about their aid flows.

In particular, in addition to providing direct technical assistance to improve statistical capacities of non-DAC donors (for example in Thailand and Hungary), the DAC is working to provide a comprehensive overview of worldwide ODA, and all non-member countries with significant development co-operation activities are being encouraged to provide information about their aid flows on a comparable basis (OECD, 2008, p. 104).

Given that all donors face challenges in implementing the Paris agenda, there is considerable scope for mutual learning, dialogue and co-operation between non-DAC and DAC donors at both the international and country levels. International efforts have intensified over the past few years, including through a series of outreach efforts by the DAC and the United Nations.<sup>10</sup>

From the perspective of partner countries, non-DAC donors bring welcome sources of funding and expertise. Partner countries view South-South co-operation as particularly attractive: it is flexible, speedy and fills important gaps (for instance scaling-up financing for infrastructure in African countries). At the same time, partner countries recognise that this type of development co-operation is typically “tied” (an issue also for traditional donors). In addition, some co-operation agreements are conducted at the highest political level and outside existing aid management systems, and sometimes it is not clear whether grants or loans (such as export credits) are involved, which could have adverse implications on the debt sustainability of the recipient country.

A consensus is emerging amongst partner countries – confirmed by the regional consultations in the Pacific, Asia and in Africa – that countries need to take stronger ownership over their development processes and provide a common platform for all providers of development assistance, whether DAC or non-DAC. Partner countries also need to build country systems and develop clear aid management frameworks in order to ensure the quality of all forms of aid.

### Box 9.2. Non-DAC donor approaches: Korea

Since establishing Korea’s Comprehensive ODA Improvement Plan in 2005, Korea has striven to build a platform of policies and institutional mechanisms that enhances the effectiveness its aid. Building around the key principles of greater strategic focus (based on Korea’s comparative advantage and respect for partner country priorities), Korea is building its capacity to provide aid along the Paris principles. For example, the formulation of Korea’s mid-term country assistance strategies helped sharpen Korea’s focus to provide assistance around seven sectors in a smaller group of countries. Further, more discretionary power to overseas offices is ensuring aid is provided in line with local priorities.

*Source:* Presentation given by KOICA at the “Dialogue on Expanding Partnership for Development” conference on 23 April 2008.

### *Key messages*

Going forward, it is important that the donor community at large – DAC and non-DAC alike – works together to ensure strong partner country ownership, 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. The donor community can greatly benefit from exploring how aid effectiveness

principles are understood and applied in different contexts. Finding practical ways to strengthen partnerships between DAC and non-DAC donors will foster coherence and complementarity of different forms of development assistance in partner countries.

A more systematic dialogue between DAC and non-DAC donors to share lessons from experience would be beneficial to all parties involved. In this dialogue, the principles underlying the Paris Declaration should be seen as a reference point, recognising that all donors face challenges in improving aid effectiveness and that their ability to aim for the Declaration's targets may vary depending on their own circumstances.

## Global programme funds and the Paris Declaration<sup>11</sup>

Global programme funds that support specific sectors and sub-sectors – *e.g.* health, HIV/AIDS, primary education, environment – have become major channels for donor funding, particularly in low-income countries. There are strong incentives for the donor community to create new funds to mobilise public support for visible and widely shared priorities, and to respond to emerging new issues. Global funds have also attracted funding and strategic involvement from private foundations, alongside official donors (see Box 9.3).

While global funds have diverse governance and operational frameworks, many are committed to engaging in good aid effectiveness practices, promoting behaviour change and working as flexibly as possible. Donors, partner countries, local civil societies and the global funds themselves need to work together (globally and in countries), if they are to make the most of what these global funds have to offer.

The Paris Declaration calls for better integration of global funds at the country level as a priority area (PD § 4.iv). To assess progress, this report draws primarily from two streams of work. First, a range of country-level consultations undertaken by the World Bank (World Bank, 2008) and the Strategic Partnership with Africa (SPA) to understand how global funds are working on the ground. Second, feedback from the Global Programs Learning Group (Isenman, 2007)<sup>12</sup> on their experiences in implementing the Paris Declaration. The analysis looks at programmes that transfer significant amounts of funding at the country level using a range of funding modalities, including the Global Fund to Fight AIDS, TB & Malaria; the GAVI Alliance; PEPFAR; EFA/FTI; and the GEF (see Box 9.4).

### Box 9.3. Private foundations and the Paris Declaration

Private foundations, some of which have decades of distinguished contributions to development, are also growing in significance. While the role of foundations as donors has often been considered to be beyond the scope of the Paris Declaration commitments, a number of the larger foundations are recognising that the ways in which they operate and the funding decisions that they make influence the effectiveness of aid as a whole. Official donors are stepping up their work with foundations to help them maximise the effect of their development contributions. For example, a conference was organised in Lisbon in March 2007 to foster dialogue between DAC donors and foundations. For more information about foundations see OECD (2003).

### Box 9.4. Global funds and the Paris Declaration: Progress and challenges

The Global Programs Learning Group has studied progress in implementing the Paris Declaration principles. There is a good deal of learning, as global funds share how they tackle challenges to increase their development impact. Experience has shown that global funds can make better use of existing flexibility in their governance and processes. It has also shown the importance of improving communications at country level, so that partner countries and donors understand this flexibility and the commitment of global funds 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. They also need 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 aligned with country objectives needs to be done within a broader perspective, taking into account other sources of funds as well as the balance with other priorities within the sector and across sectors. As alignment with 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** – Due to the specific mandates and processes of global funds, as well as their general lack of direct field presence, harmonisation at the country level is hard to achieve. Given their global focus, global funds have tended to follow international best practice. But they are open to balancing this with the need to act jointly with other donors to reduce transaction costs (particularly for partner governments). Global funds are exploring how to participate in country donor groups, or in joint missions and analyses.

**Managing for results** – Some global funds have been innovators, thanks to their focus on building results and performance into their funding processes, and on monitoring and evaluation. All the programmes have embraced results frameworks – as a vital element of monitoring, evaluation, and auditing systems – with an increasing focus on outputs as well as on sound management of programme inputs. Indicative country allocations can help link results to predictability and cross-country impact. Global funds differ substantially in the extent to which they make use of government and joint donor systems of monitoring, results and auditing. Some have made less use of these in the past: they need to find a way to align and harmonise in a way that improves overall government and donor monitoring and evaluation systems and methods to track 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 studying how to participate more in country-level mutual accountability mechanisms (within limits set by staff constraints), or to have others represent them.

Some global funds were designed with the Paris Declaration principles in mind. Where there are gaps between principles and implementation, global funds are adapting their approaches to improve aid effectiveness. In an effort to work within the principles of the Paris Declaration, global funds are finding ways to align their assistance with 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). Also, some global funds are now participating in sector budget support and SWAps and are becoming more integrated into sector dialogue. For example, the Global Fund to Fight AIDS, TB and Malaria has joined sector-wide approaches in Malawi, Mozambique and

Rwanda. The EFA-FTI programme business model is well integrated; it is based on sector programmatic approaches and promotes budget support. The GEF's use of implementing agencies helps to integrate its funding through UN agency and MDB channels already present in country.

Global funds have recently undertaken major evaluations notably, during 2007, the FTI; the Global Fund to Fight AIDS, TB and Malaria; and GAVI. Boards and management have pledged to take action based on the recommendations that emerge; for example, interim evaluations of some programmes have ushered significant operational changes in harmonisation and alignment. This ability, both to evaluate newly established programmes quickly and to respond to these evaluations by bringing about appropriate changes, is an example of good practice for aid in general; it is followed by many other institutions.

There are good practices of global funds that could enrich implementation of the Paris Declaration principles in general and provide positive lessons for putting them into practice; but there are also challenges that need to be managed in applying the Paris Declaration. The most difficult exist where global funds account for a substantial share of sectoral expenditures in low-income, aid-dependent countries, with limited implementation and absorptive capacity. Country consultations revealed that governments appreciate scaled-up funding through global funds, with their focus on results and their expanding partnerships with civil society and the private sector. At the same time, partner countries expressed a number of concerns: there are imbalances within and among sectors when large amounts are focused on specific purposes, funds are not always reported to the budget or sector plan and use parallel implementation systems, scarce human resources can be diverted and there is competition with other sector priorities, and there are issues of sustainability due to the creation of contingent liabilities in the long term.<sup>13</sup>

### ***Key messages***

Global funds can effectively complement multilateral and bilateral development assistance to achieve development objectives, and the efforts to better integrate their assistance at the country level are welcome. All global funds are encouraged to deepen measures to support country ownership, to align and harmonise their assistance pro-actively, and to make good use of mutual accountability frameworks, while continuing their emphasis on achieving results. In particular, it would be important for global funds to provide timely reporting on their funding for inclusion in country budgets and plans, to avoid imbalances within and across sectors, and to provide a multi-year financing framework to help predictability and fiscal sustainability.

As new global challenges emerge, donors should think carefully before creating separate new channels to assist partner countries. While the mobilisation of new funding mechanisms may be warranted in the area of global public goods, priority should be given to channelling these new funds through existing implementing agencies rather than creating separate aid channels that would increase fragmentation at the country level.

A balance should be maintained between funding for targeted mechanisms and for those with a broader remit. The achievement of global funds' long-term objectives depends on complementary policies and institutions within and across sectors, which can be best addressed by institutions with a multi-sectoral mandate and expertise. Therefore, it is important that funding for these institutions be commensurate with the need to address systemic issues at the country level.

## Notes

1. The inelegant term “non-DAC” is used here since it has the virtue of being more precise than “new” or “emerging”. For convenience, the term “donor” will be used as shorthand to include emerging economies for the remainder of this section.
2. ODA from DAC member countries totalled USD 104.4 billion in 2006, representing an estimated 90% of ODA (OECD, 2008).
3. The amount of development assistance from non-DAC donors is likely greater than is currently estimated as data from countries outside the OECD and EU are limited. For a more complete picture of aid flows from non-DAC donors see ECOSOC (2008).
4. These countries include several sub-groups: 1) OECD members that are not members of the DAC (countries such as Turkey and Mexico); 2) new EU members that are not members of the OECD (countries such as Bulgaria and Estonia); 3) regional donors (including Middle East and OPEC countries and funds, as well as Russia); 4) emerging and transition economies (for example, Brazil, China, India, South Africa and Venezuela); and 5) countries which are (or until recently have been) both recipients and providers of development assistance (for example Thailand and Malaysia).
5. For a recent account of various donor programmes, see OECD (2008), pp. 104-106; and “Trends in South-South and Triangular Development Co-operation”.
6. The importance of South-South co-operation was highlighted at a number of regional consultations, including the Regional Preparatory Meeting for Latin America and the Caribbean for the Third-High Level Forum on Aid Effectiveness, Accra, Ghana, which took place in Colombia, 5-6 June 2008, <http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1205870632880/SantaMarta-FinalReport.pdf>.
7. For a list of countries and organisations adhering to the Paris Declaration, see OECD “Countries and Organisations Adhering to the Paris Declaration”, [www.oecd.org/document/22/0,3343,en\\_2649\\_15577209\\_36074966\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/22/0,3343,en_2649_15577209_36074966_1_1_1_1,00.html).
8. “Trends in South-South and Triangular Development Co-operation”.
9. Czech Republic, Hungary, Iceland, India, Korea and Turkey. See OECD (2007b).
10. Relations were formally re-launched with the 2005 Forum on Partnership for More Effective Development Co-operation. The first formal discussion on aid effectiveness with non-DAC donors took place in November 2007 during the Special Session on WP-EFF. The event was an important opportunity to reach a general agreement that all donors, be they DAC or non-DAC, share a common vision that the Paris Declaration’s principles are about improving the quality and effectiveness of aid. Further, a High-Level Symposium of the UN Development Co-operation Forum held in January 2008, which discussed South-South co-operation and aid effectiveness, is an example of the prominence of this topic in the international debate. A special



workshop was held in Bangkok in February 2007 with support from UNDP and the European Commission to discuss Thailand's role as an emerging donor.

11. Global funds are defined as partnerships and related initiatives whose benefits are intended to cut across more than one region of the world and in which the partners: *(i)* Reach explicit agreements on objectives; *(ii)* Agree to establish a new (formal or informal) organisation; *(iii)* Generate new products or services; and *(iv)* Contribute dedicated resources to the program (World Bank, 2004).
12. The Global Programs Learning Group promotes good aid effectiveness practices among participating global funds working in a variety of sectors. Founded in 2006, it includes the Global Fund to Fight AIDS, TB and Malaria; GAVI Alliance; Global Environment Facility; the Fast Track Initiative for Education; and the CGIAR for agriculture.
13. "The Learning Group of Global Programs on Aid Effectiveness".

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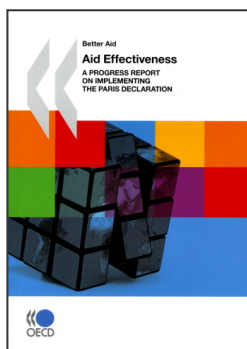
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