

**Working Paper 250**

**Spyglass. Spigot. Spoon. Or Spanner.  
What future for bilateral aid?**

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## Summary

Bilateral aid has been the mainstay of the development aid industry for a generation – and still is. There are important challenges on the table, however. If bilateral aid agencies are not reviewing their mandate, priorities and competences, they probably should. There are four models they might follow, alone or in combination. And the choices aid agencies make now will shape the aid industry for a generation to come.

Aid is growing, by nearly 5% p.a. in real terms since the low point in 1997, by 4.6% again in 2004. Total volume in 2004 was US\$79bn. The growth rate could well accelerate if calls to double aid are heeded and if the International Financing Facility comes to full fruition.<sup>1</sup> What price total aid of US\$120bn by 2007 or 2008?

Bilateral aid presently accounts for nearly three quarters of the total, and alone amounted to US\$50bn in 2003, the last year for which detailed data are available. Some donors exhibit a greater preference for bilateral aid than others. Table 1 gives figures for the years 2002–3 combined. It shows the bilateral share ranging from 85% in the case of the US down to 43% in the case of Italy. As a result of these variations, and also because aid volumes vary widely between donors, of course, the bilateral aid business is dominated by six big players, who account for three quarters of the total. They are the US, Japan, France, Germany, the UK and the Netherlands (Figure 1).

We know about bilateral aid, or think we do. Lots of country offices. Lots of projects. Lots of country missions. Lots of discussion about donor coordination and harmonisation. Lots of meetings at the DAC in Paris. Lots of problems. But also, let's be fair, lots of success in reducing poverty and supporting reform. The research and evaluation evidence is unequivocal: the poor of the world would be worse off without bilateral aid.<sup>2</sup>

What, then, are the challenges? There are four.

The first arises from the rapid rise in total aid volumes, and with associated debate about the multi-bi split. Bilateral aid accounts for three quarters of the current cake, but its share could change radically if decisions are made at the margin to allocate increased aid to multilateral organisations. The International Financing Facility, for example, could channel large volumes to the Multilateral Development Banks and the vertical funds for HIV/AIDS or immunisation. Will bilateral aid account for a steadily shrinking share of total aid? In this respect, will the future look more Italian than American?

The second challenge is associated with the increased pressure for harmonisation and alignment, most recently reflected in the outcome of the DAC High Level Forum, held in Paris in March 2005. This built on an earlier meeting in Rome in 2003, and set specific targets and timetables: for example, that by 2010, 85% of aid flows should be aligned on recipient government priorities and reported in recipient national budgets.<sup>3</sup>

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1. The data in this and the next paragraph are from OECD 2005.

2. Tarp (ed) 2000; Beynon 2003.

3. See: [www.aidharmonisation.org](http://www.aidharmonisation.org)

**Table 1: Bilateral and Multilateral Aid 2002–3 (US\$m)**

	Bilateral (US\$m)	Multilateral (US\$m)	Total (US\$m)	Bilateral Share (%)
Australia	1 749	459	2 208	79
Austria	592	433	1 025	58
Belgium	2 180	745	2 925	75
Canada	2 849	1 186	4 035	71
Denmark	2 070	1 321	3 391	61
Finland	560	460	1 020	55
France	8 828	3 911	12 739	69
Germany	7 388	4 721	12 108	61
Greece	335	303	638	52
Ireland	619	283	902	69
Italy	2 068	2 698	4 765	43
Japan	13 026	5 137	18 163	72
Luxembourg	266	75	341	78
Netherlands	5 400	1 919	7 319	74
New Zealand	221	66	287	77
Norway	2 607	1 131	3 738	70
Portugal	368	275	643	57
Spain	2 149	1 524	3 673	59
Sweden	3 050	1 362	4 412	69
Switzerland	1 710	528	2 238	76
UK	7 367	3 840	11 206	66
US	25 164	4 380	29 544	85
Total	90 564	36 757	127 321	71

Source: OECD/DAC 2005: Statistical Annex Tables 12, 13

The third challenge has to do with new ways of delivering aid, which follow from the Paris agenda. In particular, the harmonisation and alignment agenda implies a greater share of budget support, delivered in support of programmes owned and managed by developing country governments. At present, budget support accounts for perhaps 7% of total aid. In the future, in all except fragile states, this share is bound to rise.<sup>4</sup>

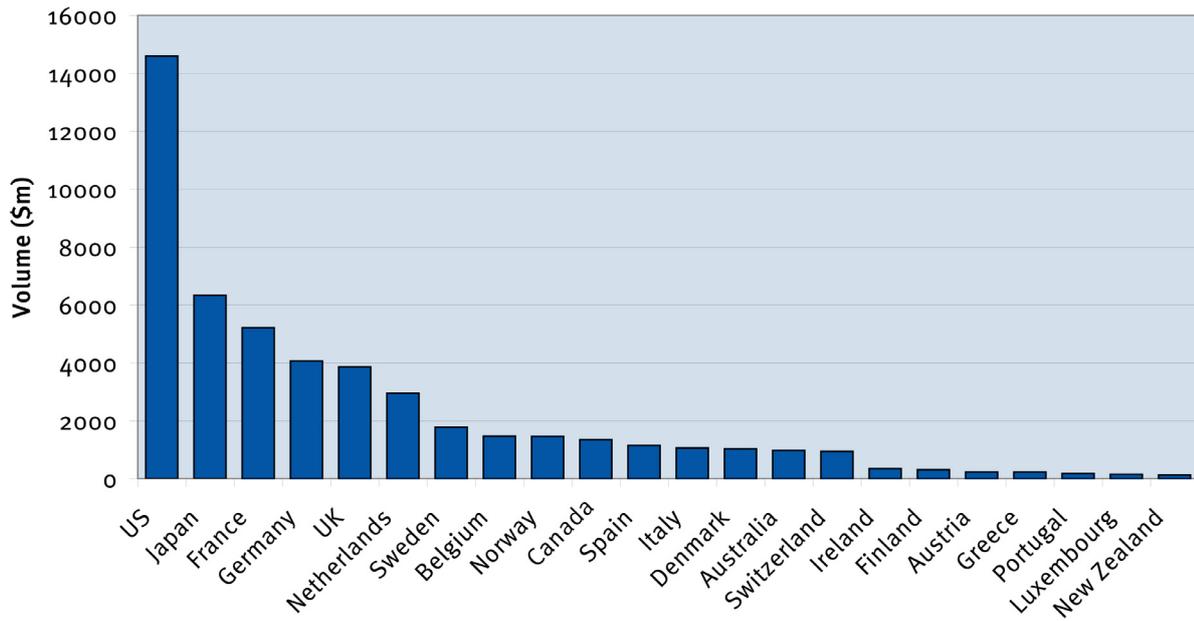
Finally, bilateral aid is challenged by new thinking about development. Much of this has to do with well-known issues to do with concepts of poverty, human development and social exclusion, and with the pace and extent of liberalisation.<sup>5</sup> There is also a new debate, however, about the importance of infrastructure, identified as a major theme of both the Millennium Development Project and the Report of the Africa Commission.<sup>6</sup> It is notable that the latter proposed additional expenditure of some US\$20bn a year on roads, ports and power in Africa. As I have observed elsewhere, ‘the rediscovery of infrastructure is probably the biggest single development story of 2005’.<sup>7</sup>

4. On budget support, see: Booth 2004; Special Partnership for Africa (SPA-6) 2004; Lawson et al 2003. For the UK, budget support currently accounts for up to 30% of all country programme expenditure (DFID 2005: 116)

5. Maxwell 2005a.

6. Sachs 2005; Commission for Africa 2005.

7. Maxwell 2005b.

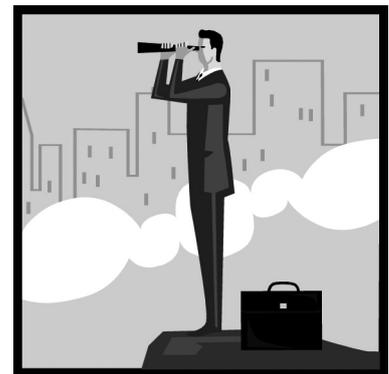
**Figure 1: Bilateral aid 2002–3 (US\$m)**

Source: OECD/DAC 2005: Statistical Annex Tables 12, 13

Cutting across all this are other issues about the changing locus of poverty in the world, which also require aid agencies to change: poverty is more African, that is well known, but also more urban, more aged, more subject to natural hazard, including global warming, and probably more likely to be associated with economic shocks.<sup>8</sup>

What do these challenges mean for the future of bilateral aid? In particular, what do they mean for the day to day work of national aid agencies, and for their staffing? As suggested in the title, there are four possible models for the aid agency of the future. These apply across the board, including in the field of humanitarian assistance.

The first model is the spyglass. In this model, multilateral aid dominates the scene, and the key priority of the national aid agency is to allocate money effectively and ensure it is well spent.<sup>9</sup> The most important people in the agency are those who run the multilateral aid branch. They know about development on the ground, a bit, but their main competences are to do with overall aid policy, the governance of the international system, international negotiations, and the evaluation of organisational effectiveness. If they leave headquarters on rotation, they are more likely to be in Washington or Brussels than in Maputo or Manila.



The second model is the spigot. In this model, bilateral aid is still important, but the mode of operation has shifted sharply away from project aid towards budget support, usually at aggregate government budget level. In principle, this is the ‘one cheque a year’ model of development cooperation. The

8. ODI 2004.

9. EU funding is included in this model for European donors, recognising that its status is somewhat different to that of other multilateral agencies.

most important people in the agency are now those working in the bilateral branch, but they are not necessarily of a familiar type. Their core expertise is in topics like budget formulation, audit and evaluation, results-based management, and North-South accountability. They are relatively few in number. They are mostly based in headquarters. When in the field, their normal haunt is the Ministry of Finance or the National Audit Commission. They work closely with counterparts in other agencies.

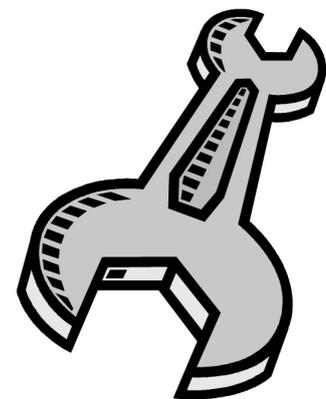


The third model is the spoon. In this model, familiar in recent years, bilateral aid is imbued with a mission to reach the human development



goals embedded in the MDGs, with a particular focus on primary health and education. Some of the programme may be concerned with projects, especially those with a demonstration effect in-country. However, in a post-Paris world, the majority will be in support of government-led sector programmes. The main expertise required will be national-level sector-planning: health or education specialists, maybe also agricultural specialists, who work not on the design of individual projects, but on big picture issues of budget allocation and public-private partnerships. There will be in-country presence, though in careful coordination with other donors, so as not to overwhelm government capacity.

The fourth model, the spanner, is similar, but recognises the swing of the pendulum back to infrastructure. The specialists here are transport, power, irrigation engineers, mostly involved at sector level, but also with special expertise in helping governments to tender, contract and supervise large civil construction works. If there are Land Rovers or Land Cruisers in the embassy compound, these are most likely to be their principal customers.



It is not difficult to make the argument that these four models, these imaginings of the future of bilateral aid, imply very different arrangements with regard to funding, staffing and training. But are they realistic?

One obvious objection is that most aid agencies will have some of each of spyglass, spigot, spoon and spanner. True. Neither multilateral aid nor bilateral aid is likely to disappear, and the pressures will remain on aid ministries to satisfy different constituencies with a variety of aid activities.<sup>10</sup> That's a pity, of course. Developing countries would be well served by a sharp increase in the multilateral share, both to increase efficiency and to reduce transaction costs. Hence the slogan 'don't just harmonise, multilateralise'. They would also be well-served by more specialisation and greater concentration. Developing countries don't need fifteen or twenty agencies supporting education or health in their countries: three or four will do.<sup>11</sup> Note, however, that this does not imply monopolistic aid supply, by one large agency. Elsewhere, Andrew Rogerson and I have argued for more competition in the aid industry, not less, describing present arrangements as looking like Walmart on one hand (the

10. Olsen 2000; Milner 2004.

11. Rogerson 2005.

World Bank) and many corner shops on the other – an industry structure which is neither efficient nor sustainable.<sup>12</sup> Balanced competition between the MDBs, the UN, the EU and a few selected bilaterals would look much more healthy.<sup>13</sup>

Still, some change may happen, and aid agencies should be explicit about their futures and the choices implied. We'll come back to that.

A more subtle objection is that agencies are unable to fulfil any one role effectively unless they fulfil all. Thus, effective participation in, say, the World Bank board, is dependent on the wealth of country knowledge and sector expertise that only comes from an active bilateral programme. That's an arguable hypothesis, but one that at first sight seems implausible. There are many ways to establish the credible knowledge base needed in Washington, Brussels or UN agency headquarters, including staff exchanges. Most countries also have pools of expertise that can be tapped in the universities, the NGOs and the private sector.

A third objection might be that the vested interests within bilateral aid agencies are strong enough to block change. In particular, it might be argued that professional groups are so well entrenched that re-engineering becomes impossible. This is not implausible: Tony Blair is not the only one to complain of scars on his back as a result of trying to reform public services.<sup>14</sup> Nevertheless, there are examples of substantial aid agency reform, and not far down the road from Downing Street: consider, for example, the successive reforms to DFID's Policy Division.<sup>15</sup>

If change is necessary, and it surely is, then bilateral aid agencies need to plan for it and manage it. Many produce policy papers of various kinds, discoursing on the importance of the MDGs.<sup>16</sup> Few grapple with the implications for their own structure. Don't they need strategic review processes which work systematically through the changing context for aid and their own changing role?

Finally, this is also surely an issue which should be debated internationally, by aid agencies collectively. Is this for the DAC? Or someone else?

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12. Rogerson & Maxwell 2004.

13. Klein & Harford 2005; de Renzio & Rogerson 2005.

14. In a speech to the Venture Capitalists Association Conference, 6th July 1999, London. See: [http://news.bbc.co.uk/1/hi/uk\\_politics/388528.stm](http://news.bbc.co.uk/1/hi/uk_politics/388528.stm)

15. DFID 2005.

16. For a review of some recent examples, see Maxwell et al 2004.

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