Working Paper 278

Reforming the international aid architecture: Options and ways forward

Simon Burall and Simon Maxwell with Alina Rocha Menocal

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Acknowledgements

Foreword

High priority has been attached to scaling-up aid volumes since the Millennium Declaration and the Monterrey Consensus. The increased pledges made at the Gleneagles G-8 Summit (2005) need to be translated into commitments. The Paris Declaration (2005) has created the framework for improving aid effectiveness through agreement on Ownership, Alignment, Harmonisation, Managing for Results, and Mutual Accountability. While there has been some progress in implementing the Declaration there is still considerable scope for improvement. It has the potential to empower developing countries. They need to seize the opportunity.

While there have been advances in increasing aid volumes and strengthening aid effectiveness, there has been no holistic discussion on whether the current international aid architecture is 'fit for purpose'. Developing country perspectives, in particular, are not being heard. As a result the Commonwealth Secretariat, in collaboration with the *Organisation Internationale de la Francophonie* (OIF), organised a series of regional workshops entitled 'Reform Of The International Aid Architecture: User Perspectives'. These workshops were attended by representatives from government and civil society. The perspectives from the workshops in London (2005); Dhaka (2006) and Yaoundé (2006) form the basis of this ODI Working Paper.

The Working Paper describes the characteristics and constraints of the current international aid architecture. It also summarises the perceptions in partner developing countries of the strengths and weaknesses of key bilateral and multilateral aid agencies and the countries' perceptions of best practice features of aid agencies.

More importantly, the ODI Paper lists five options for reform of the international aid architecture:

- **Option A** – Do nothing.
- **Option B** – Rely on Harmonisation and Alignment, in the Paris Declaration.
- **Option C** – Harmonisation and Alignment, with additional features.
- **Option D** – Multilateralism (i.e. increased multilateralisation of aid delivery).
- **Option E** – Empowerment of aid-receiving countries.

The publication of this Working Paper can hardly be better timed, given the ongoing global initiatives to improve aid effectiveness and encourage more dialogue and debate about the reform process itself. One of these is the ongoing UN High-level Panel on System-wide Coherence in the Areas of Development, Humanitarian Assistance, and the Environment. Another is the next High-Level Forum on Aid Effectiveness scheduled in Accra (2008) as part of the Paris Declaration review process. It is hoped that this timely publication will empower developing countries to participate substantively in the review processes.

I wish to conclude this Foreword by expressing my profound appreciation to the ODI for its assistance in carrying forward this work.

Ransford Smith
(DSG, COMSEC)

Summary

The commitments to double official overseas development assistance by 2010, the rise of new donors like China, India and Korea, and the explosion of new multilateral funds, combined with political developments like the Paris Declaration on Aid Effectiveness and recent moves to reform the United Nations (UN) have the potential to radically change the international aid delivery system. These changes are occurring without overall political or technical direction because there is no central aid architect to define the direction of change and hence to ensure that the effectiveness of the aid that is delivered is increased.

At the same time as these developments, various international political groupings including the G8, G20, the Commonwealth Secretariat and La Francophonie are taking a greater interest in the reform of the international aid system. More direct government and civil society engagement in these fora has the potential to build the trust and mutual accountability required for full implementation of Paris as well as the collective action required for significant UN reform. This paper sets out some options for reform which could be discussed by these political groupings and draws up a calendar of events for the next five years as the start of a process for identifying where and when high-level political engagement will be required to ensure significant reform of the international aid system.

1. Introduction

The aid industry is undergoing significant change. On the one hand, volume is rising – from around $US60 billion a year throughout the 1990s to $US100bn in 2005 and a projected $US130bn by 2010 (Figure 1). On the other hand, the architecture is becoming ever more complex, with a proliferation of agencies and special purpose vehicles. The United Nations Development Programme (UNDP) calculate that at global level there are now more than 1,000 financing mechanisms (Figure 2).

Figure 1: DAC Members' net ODA 1990–2004 and DAC Secretariat simulations of net ODA to 2006 and 2010
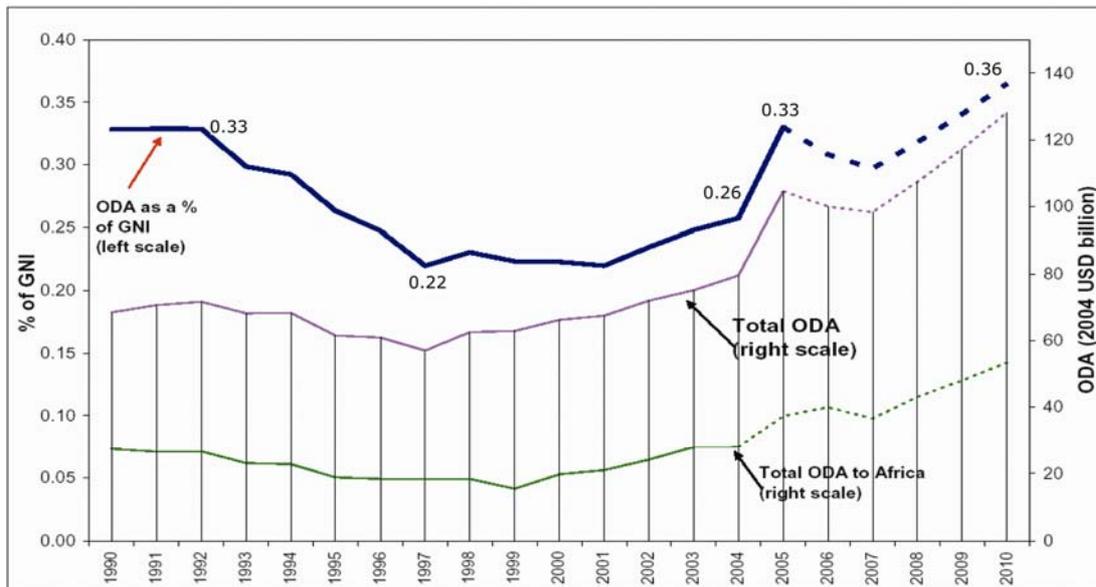
Source: OECD/ DAC 2006

Figure 2: Multiplication and diversification of international financing mechanisms
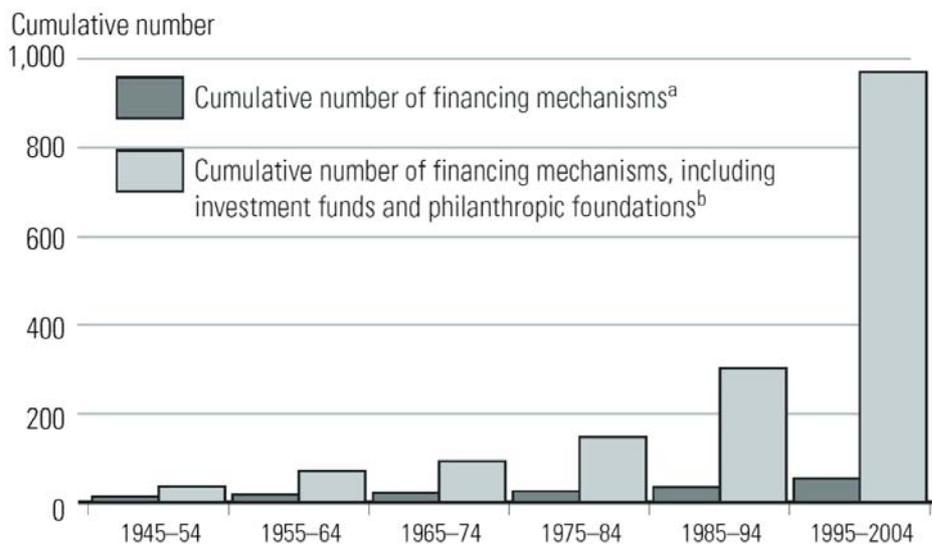
Source: Kaul and Conceição, 2006

Donors, recipients and independent observers all agree that the system is too complicated and imposes high transaction costs on all parties (see, for example, Action Aid, 2005;

Banerjee, 2006; Easterly, 2002; Knack and Rahman, 2003). Box 1 provides some examples which illustrate this vividly. Put simply, the architecture is not 'fit for purpose'.

So far, the main response to the problem has been to try and operationalise the ideas of alignment and harmonisation: in other words for donors to follow government plans and priorities (alignment) and to work together in that process (harmonisation). The ideas are illustrated in Figure 3. The Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) has taken the lead, and in April 2005 sponsored the Paris Declaration on Aid Effectiveness. This was signed by 35 donor countries, 26 multilateral donors, 56 recipients and 14 civil society observers. There are specific targets, reproduced in Annex 1. For example, one target states that two-thirds of all aid should be provided in the context of programme aid approaches, and another that 40% of all donor missions should be joint with others.

Figure 3: Harmonisation and alignment

Source: OECD/DAC, 2004
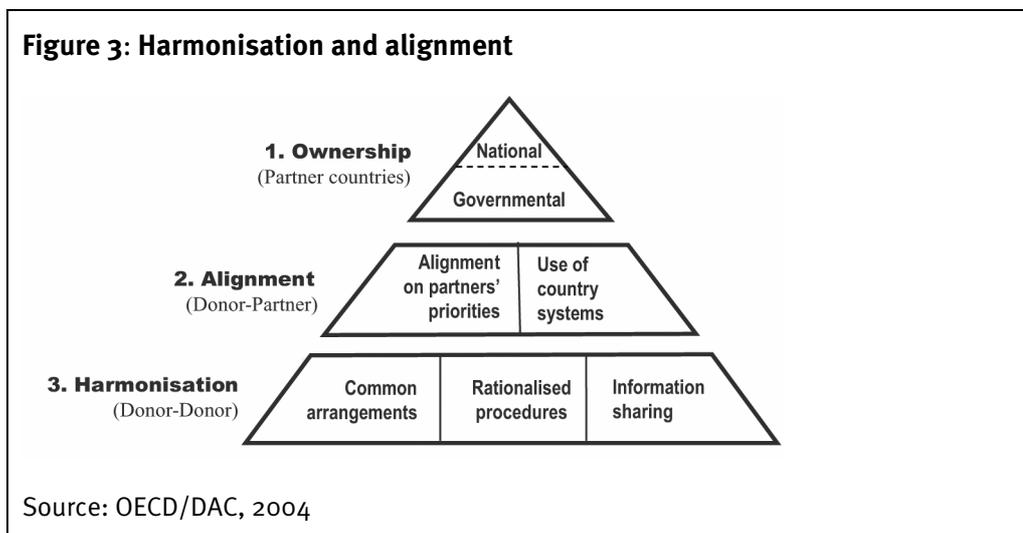
The Paris Declaration will not be easy to implement, but even if it is implemented in full, will it be enough? Should there also be systematic thinking about the overall structure of the industry and how it might be rationalised?

Some aspects of aid architecture are already on the agenda. For example, the process of reform of the governance of the IMF has begun following the ad hoc increases in the quotas for China, Turkey, South Korea and Mexico in 2006. This is a process that may take up to two years and requires significant political engagement from the various constituencies at the Fund if further reform is to progress as planned. Reform of the governance of the World Bank is also on the agenda. The UN High-Level Panel on System-Wide Coherence, co-chaired by the Prime Ministers of Pakistan, Mozambique and Norway, is due to publish its report in early November 2006 (as this paper is being written). It is expected to propose a series of potentially far-reaching reforms to the UN system. The 2005 UN Millennium Review Summit agreed reforms to the Economic and Social Council (ECOSOC) which include mandating it to hold a biennial high-level Development Co-operation Forum (UN, 2005: para. 155). This is due to meet for the first time in 2007 and may provide a forum for both donor and recipient governments to discuss reform of the system. These developments suggest that there is an appetite for debate about some aspects of the future aid architecture.

Box 1: Examples of the complexity of the aid system

- The WHO has 4,600 separate agreements with donors and has to provide 1,400 reports to donors each year (*Personal communication with Simon Maxwell, Downing Street, July 2006*).

- Uganda has over 40 donors delivering aid in-country. The Government of Uganda's own figures show that it had to deal with 684 different aid instruments and associated agreements between 2003/04 and 2006/07 for aid coming into the central budget alone (*Ugandan Ministry of Finance, Planning and Development's 'Development Management System' and the Donor Economists Group in Uganda*).

- A 14-country survey by the OECD and the World Bank showed an average of 200 donor missions per year, three-quarters of these by a handful of donors (the 'chronic travellers'). Cambodia and Vietnam received 400 missions each, Nicaragua 289, Bolivia 270, Bangladesh 250 (*OECD/DAC, 2006b*).

- There are 90 global health funds (*Benn, 2006*)

- In Vietnam, 11 UN Agencies provide between them only 2% of aid (*Ryan and Morch, 2005*).

- St. Vincent, population of 117,000, was asked to monitor 191 indicators and Guyana 169 indicators on HIV/AIDS (*World Bank, 2005b*).

- The number of registered NGOs in Banda Aceh rose from 80 before the tsunami to 180 by June 2005 (*World Bank, 2005a*).

Whether there is desire to address wider architecture issues, and what those issues might be, has been the subject of work carried out jointly by the Commonwealth Secretariat and the Organisation Internationale de la Francophonie. A principal objective of this work has been to bring Southern voices to bear on the debate. There have been three workshops, in London, Dhaka and Yaoundé, facilitated by the two organisations with the support of the Overseas Development Institute in London. The workshops have been attended by 73 senior officials and civil society representatives from 27 countries.[1]

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[1] Background documents to these workshops can be found at
www.odi.org.uk/PPPG/cape/what_we_do/aid_effectiveness/engaging_in_debate.html

2. The current aid architecture: characteristics and constraints

The complexities of the aid system are well known, but there are some remarkable features: a large number of agencies, a high proportion of bilateral aid, high proportion of technical assistance, large role of private flows and NGOs.

The international aid system consists of a loose aggregation of more than 150 multilateral agencies, including the UN system agencies and the global and regional financial institutions (OECD/DAC, 2006a), 33 bilateral agencies which are members of OECD/DAC, at least 10 non-DAC governments providing significant sums of ODA, and a growing number of vertical global funds. Bilateral aid agencies contribute nearly 70% of the total aid disbursed, with multilateral agencies contributing the remaining 30%. The creation of new funding mechanisms has increased in recent years: as many have been created in the past 10 years as were formed in the prior five decades (Kaul and Conceição, 2006). The latest newcomers include the Millennium Challenge Corporation (MCC), launched by the USA, the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), and the pilot International Financing Facility for Immunisation.

In the decade since 1993, DAC donors accounted for around 95% of all international aid. A recent trend not yet picked-up in the DAC statistics is the emergence of a significant number of non-DAC donors, in particular from Asia, which has been especially evident in the aftermath of the tsunami. For example, Korea and Turkey reported figures larger than two DAC members in absolute terms for 2004. In addition, Korea is aiming to reach $1bn by 2010. China has committed to providing $10bn in concessional loans and preferential export buyer's credit within the next three years. India is considering increasing its provision to Africa roughly ten-fold compared to 2004/05 levels. It is unclear though what proportion of either the Chinese or Indian increases would qualify as concessional under DAC definitions (Manning, 2006). ODI research shows that non-DAC donors, most of them Asian, provided up to 12% of humanitarian aid between 1999 and 2004, with the figure peaking at over $700 million in 2001 (Harmer and Cotterrell, 2005). China has become the third largest donor of food aid in the world (WFP, 2006).

Even though the G8 provides over 70% of its financing, and financial contributions still largely dictate policy influence, the international aid architecture has not developed as the result of a master-plan and has no central architect. There is little co-ordination of inputs and processes between the large donor agencies, and no single approach to the objectives and outputs of aid programmes. Where decisions about replenishments to multilateral funds are made, these are taken individually with little attention paid to developments in the system as a whole. The negotiations also rarely achieve more than marginal adjustments to the previous situation.

There are a number of theories about why the system has evolved in this way. Both recipients and donors act as a result of complex political pressures and institutional incentives. All sides to negotiations for reform of the system play complex 'games' to balance out these pressures as they try to achieve their objectives.

One starting point is to ask why aid agencies exist at all; why do finance ministries in donor countries not just hand over a cheque to finance ministries in recipient countries? The existence of aid agencies can be explained by the role they play in mediating between different interest groups at home, and between these groups and interest groups in the recipient countries. This role is vital in the absence of full information, trust and accountability between the different actors (Martens, 2005). Taking this analysis as a starting point, it is possible to examine the role played by both multilateral and bilateral agencies.

Despite the fact that multilateral agencies only account for around 30% of total ODA disbursed, they offer some significant advantages. They help to contain competition and conflict among donors and so provide a mechanism for collective action. Evidence shows that they balance their aid allocations somewhat better than bilateral aid agencies. This enables countries which would otherwise be donor 'orphans' to access development resources (see, for example, Levin and Dollar, 2005). Despite the recognition that they have not always encouraged the policies which promote development and reduce poverty in recipient countries, multilateral agencies have been able to increase the legitimacy of unpopular policies (such as reform of macro-economic policy) that have led to positive results. They can help to reduce the costs and increase the credibility of policy-relevant information as a result of their economies of scale, and, in comparison to the bilateral agencies, have a greater capacity for research, advice and development innovation. However flawed, the governance structures of multilateral agencies also give recipient governments some say in decision-making, in contrast to bilaterals which offer no formal mechanism for recipient voices to be heard.

Bilaterals offer some advantages too. The history of their engagement with some countries and regions arguably gives them greater insight and knowledge of the development processes in recipient countries. It has also been argued that they are able to provide greater coherence of aid with other policies such as trade and security. Because of their size and governing structure, many are also able to offer greater flexibility than multilateral agencies. This can allow them to react more quickly to developing situations and significantly increase the speed of disbursement.

Rogerson et al. note that four underlying factors can be identified as the tensions between different views on the appropriate architecture are played out in the debate about reform. Some of these factors are ongoing and some are new:

- *Multiple foreign and security policy objectives*, that may or may not be bundled with anti-poverty goals, with no common weighting system.
- The continued existence of *institutional barriers* insulating aid programmes, to different extents, from hard budget constraints and political pressure attached to them.
- *Reduced willingness, or ability, to use aid in its current form* at both ends of the recipient spectrum: more advanced countries reject foreign intrusion; weaker countries badly need aid but cannot demonstrate the ability to use it.
- *Symbiotic relationships with private and voluntary organisations,* partly funded by official aid, but competing with it for taxpayer attention (Rogerson et al., 2004)

Figure 4 shows the four possible futures for the aid system.

Figure 4: Possible futures for the aid system[2]
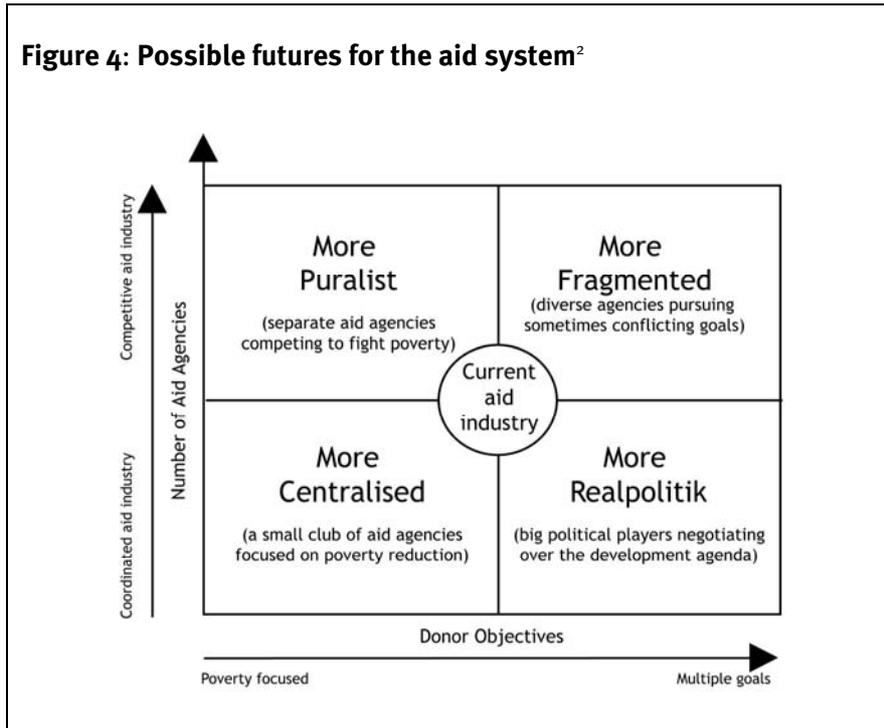
As highlighted above, there is no central aid architect and the system is changing within the four dimensions shown in the chart, with little political direction being given to promote overall aid coherence and effectiveness. This has led a number of NGOs to work within recipient countries to characterise different donor agencies in order to help governments make choices about the costs and benefits of engaging with different agencies. They have developed indicators to assist this assessment.

Figure 5: Ranking of donors on policy criteria

Source: Johnson et al., 2004

Figure 6: Ranking of donors on procedures criteria

Source: Johnson et al., 2004
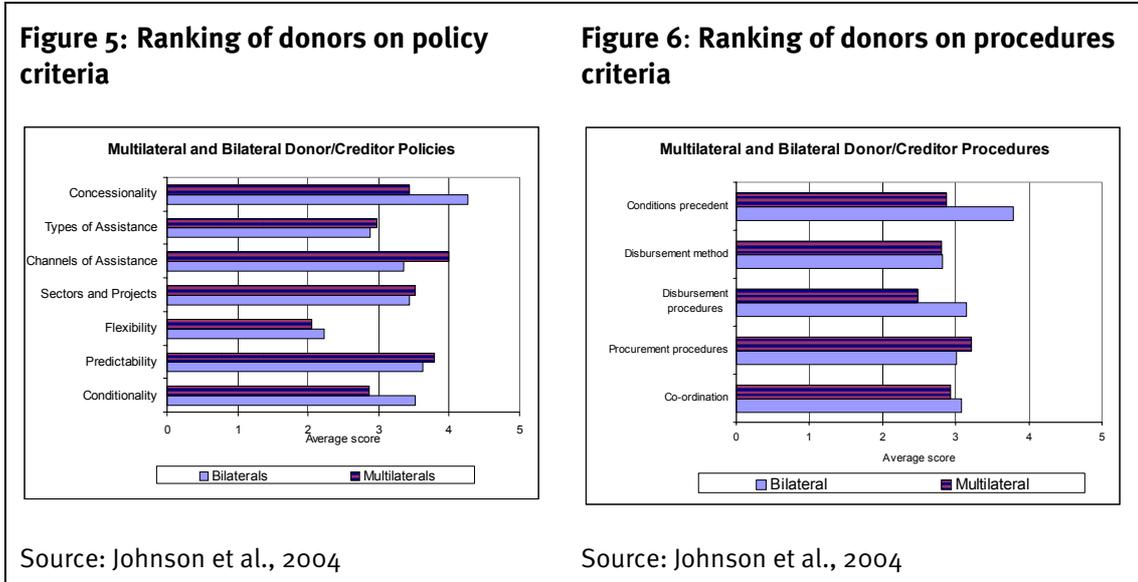
Oxfam carried out a survey of donor practices in 2004. This focused on five main variables: simplifying reporting requirements; delivering aid on time; committing for the long term; fitting

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[2] This graph was created by Tim Harford, an economist at the World Bank-International Finance Corporation Private Sector Vice Presidency, with inputs from Andrew Rogerson. It was first used in the World Bank-IFC 'Private Sector Development' homepage in May 2005 to encourage people to vote on the future of aid.

in with the government budget cycle; and imposing minimal conditions. Among the multilateral agencies, the EC scored well on reporting requirements, but quite poorly on timely delivery of aid. The World Bank, on the contrary, was judged too heavy on reporting and conditionality requirements, but fared very well on long-term commitments and delivering on time and through the budget (Oxfam, 2004).

The work of Debt Relief International (DRI) is more comprehensive.[3] The organisation has been working with 12 heavily-indebted poor countries (HIPCs) in sub-Saharan Africa to develop a methodology able to assess the quality and performance of assistance from different donors. This methodology focused on the characteristics of donor policies and procedures, in particular concessionality, types of assistance, flexibility, predictability and conditionality. For procedures, the main areas covered include disbursement methods, schedules and procedures, procurement rules and co-ordination. The preliminary results are shown in Figures 5 and 6.

Other NGOs are attempting to monitor the size of aid flows and how they live up to donor-country commitments, either at the global level (Development Initiatives and DATA, for example) or the country level (the newly formed African Monitor and the Open Society Initiative inspired 'Publish What You Fund' in Romania, for example). Others analyse the quality of aid either at the global level or within individual countries (Action Aid's 'Real Aid' reports, the Reality of Aid, and the Open Society Initiative in a number of countries, for example).

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[3] Annex 2 contains a mutual accountability matrix developed by DRI and provides a more technically-focused set of best-practice criteria.

Box 2: Evaluation of the aid system	
The workshop participants in Dhaka and Yaoundé were asked to evaluate the aid system by undertaking an exercise to identify the strengths and weaknesses of different agencies. The judgements were necessarily subjective, but produced challenging answers.	
Dhaka Workshop	**Yaoundé Workshop**
The World Bank generally scored highly for scale, technical expertise, efficiency and sector focus, but poorly for terms of finance, consultation, flexibility and transparency. It was also thought not very cost-effective.	**The World Bank/IDA** scored highly on level of financing, concessionality, budget support, predictability, untying of aid, alignment, efficiency and long-term impact. It scored poorly on conditionality, level of bureaucracy, transparency and flexibility
UNDP scored highly in transparency, and responding to national priorities, but not in efficiency or providing large-scale finance.	**UNDP** scored well on untying, long-term impact and concessionality, but poorly on bureaucracy and speed of disbursement.
The Asian Development Bank scored highly for scale, sector focus, customer-friendliness and regional expertise, and less well for terms of finance, flexibility, response speed, mutual respect and open-mindedness.	**The African Development Bank** scored highly on level of financing, accountability, concessionality, transparency and long-term impact, but poorly on disbursement speed, flexibility, transparency, efficiency, bureaucracy and budget support.
The EU scored highly on mutual respect and on size, but poorly on speed and flexibility.	**The EU** scored highly on level of financing, accountability, concessionality, untying of aid, access for CSOs to aid and long-term impact, but poorly on conditionality, bureaucracy, disbursement speed, respect for national systems and ownership.
DFID scored highly on efficiency, terms, orientation to national priorities, speed and flexibility and poorly on scale, ability to fund infrastructure and tying status.	**DFID** scored highly on alignment, predictability and speed of disbursement. It did not score poorly on any of the characteristics identified.
Japan scored well on being customer-friendly, expertise and predictability, but poorly on poverty orientation and flexibility.	**Agence Française de Développement** scored highly on alignment, predictability and speed of disbursement. It did not score poorly on any of the characteristics identified.
USAID scored well on emergency response, but poorly on most other criteria.	

The efforts of DRI in particular represent important steps forward in promoting mutual accountability. However, the narrow focus on technical matters mostly related to financial management and general policy concerns leaves room for further discussion on the wider implications of comparing donor performance and comparative advantages at the country level. Box 2 shows the results from an exercise at two of the Commonwealth/Francophonie workshops attempting to obtain a more country-level perspective. Working in small groups, participants undertook an exercise to identify best-practice criteria for different donors. They then ranked donors with which they were familiar against these criteria.

Exercises like those of DRI and the Commonwealth/Francophonie workshops can provide insights into country preferences for donor characteristics. When pulled together they suggest the potential for developing a charter of best practice for donor behaviour. Box 3 has a synthesis of the donor characteristics valued by workshop participants.

Box 3: Developing a charter of donor best practice

This draws together the best-practice characteristics produced at the Dhaka and Cameroon workshops by participants. It categorises them by the number of groups which agreed that the characteristic was an important one to look for in a donor.

Chosen by Five Groups

Alignment
Flexibility
Transparency

Chosen by Four Groups

High concessionality
Participatory approach
Predictability
Speed of disbursement
Volume of financing

Chosen by Three Groups

Efficiency/cost-effective
Light bureaucratic procedures
Untying of aid

Chosen by Two Groups

Good monitoring
Knowledge transfer
Regional focus
Technical expertise

Chosen by One Group

Able to fund infrastructure
Access for CSOs to aid
Accountability
Budget support
Consistency of donor policy over time
Customer friendly
Decentralisation of aid-management
Emergency response
Environmentally friendly
Internal governance
Knowledge banks
Light on conditionalities
Open-minded
Outcome-driven
Ownership
People-oriented
Pro-poor
Rights-based
Sector focus
Strengthening capacities
Use of national expertise
Long-term impact
Long-term projects
Mutual respect

3. Options for the future aid architecture

The Paris Declaration on aid effectiveness, the workshop discussions and other recent developments provide a foundation for debating changes to the aid architecture. In all the workshops, participants emphasised the importance of implementing the Paris Declaration. The role of civil society, as an honest broker and independent advisor, was also underlined. Having pulled the ideas from the workshops together with others promoted in the literature and other fora, it seems that there are five options, each of which has advantages and disadvantages. These are summarised in Box 4 and explained in more detail in the text below.

Box 4: Options for reform of the international aid architecture

Option A – Do Nothing

Features Slow implementation of Paris; Creation of more vertical funds and special purpose vehicles.

Advantages Easy.

Disadvantages Incoherence of aid system remains, with high transaction costs for all parties.

Option B – Rely on Harmonisation and Alignment

Features Gradual implementation of Paris leads to better H&A at country level; New vertical funds and special purpose vehicles continue to be created; DAC remains largely a bilateral donor club.

Advantages Basic building blocks already in place, with monitoring of progress against Paris targets; Leaders able to satisfy constituencies or raise new money by creating new vehicles; DAC functions effectively and is already opening to non-DAC observers.

Disadvantages Number of aid agencies continues to be large and rising; Strong institutional incentives make implementation of Paris inevitably slow; Few opportunities for mutual accountability; Southern voices have difficulty in being heard; Recipient-country governments have difficulty managing aid donors.

Option C – Harmonisation and Alignment Plus

Features Recipient countries take the lead in driving H&A; Donor numbers in each country controlled, with more joint programmes and offices; DAC should become open to wider membership, including non-OECD member observers; National-level Paris agreements and 10-year partnership agreements agreed; Mutual peer-review programmes implemented; Independent monitoring group at country level begins and countries request multi-donor evaluations; Publication of a World Aid Report considered; The UN sets norms and standards for co-ordination, harmonisation and delivery of aid.

Advantages Recipient countries have stronger voice, or try to; Self-denial by donor agencies leads to some cost savings; DAC has the infrastructure to be a forum for wider debate; Promotes mutual accountability and ensures predictable aid flows for completion of projects and programmes and sets measurable targets.

Disadvantages Changes rely largely on goodwill and negotiating competence; Still a large number of aid agencies, and high transaction costs; Developing-country voices in the aid architecture debate are difficult to mobilise.

Option D – Multilateralism

Features A determined effort is made to simplify the aid system while retaining diversity, by increasing the share of aid channelled through the World Bank, the UN, the MDBs and the EU; UN and IFI governance reform is given high priority and a single UN Development fund formed; A forum such as a reformed and strengthened ECOSOC becomes the principal arena for discussion of aid issues.

Advantages Radical simplification of aid system, leading to streamlining and lower transactions costs; Easier for recipient countries to manage; Recipient voices more easily heard; Mutual accountability becomes easier.

Disadvantages Difficulty of reaching agreement on UN reform; Equal difficulty in making quick decisions in a multilateral context; Resources may fall if donors are not satisfied on efficiency and transparency.

Box 4: cont'd

Option E – Empower Recipient Governments

Features Developing countries are equipped with better information about the relative performance of aid agencies, the result of independent monitoring and evaluation; They are then given more say in the choice of which agencies act as suppliers of aid, perhaps through vouchers or similar; A forum such as a reformed and strengthened ECOSOC becomes the principal arena for discussion of aid issues.

Advantages Rational allocation system possible; Recipient countries making their own choices of supplier of aid; Accountability easy to manage.

Disadvantages Difficult to establish universally accepted and independent benchmarks of performance; High level of audit and accountability needed to avoid rent-seeking; Resources may fall if donors are not satisfied on efficiency and transparency.

Progress towards achieving these five options requires concerted action by all stakeholders in the international aid system. The rest of this section explores in greater detail exactly what is required, while section 4 highlights the recent developments within the system which may provide opportunities for building dialogue and consensus around the different options.

Option A is less of an option and more of a scenario of what is likely to happen if governments make little effort towards the implementation of the Paris Declaration. International pressures, including G8 processes and initiatives by bodies like the Gates Foundation, will lead to the creation of new funds and programmes. UN reform is probably slow and piecemeal in this scenario. The planned governance reform of the World Bank and the IMF makes only limited concessions to the demands of developing countries. The costs and benefits are easy to imagine: the status quo is always an easy option, but leaves the high inefficiencies of the present system untouched.

Option B is the most likely outcome if governments make an effort and Paris is implemented at the top end of the range of expectations, but with other reform efforts making little progress. As in the previous scenario, new funds continue to be created. The achievements here are not negligible and nor are they easy to win: implementation of Paris will require sustained pressure. In this model, the DAC is likely to play a major role, with some, but limited, participation by developing countries. Mutual accountability remains largely a rhetorical ambition and Southern voices generally have little weight.

Option C represents an extension of the Paris Declaration in which developing countries themselves decide to play a more assertive role. This will require greater national leadership in aid policy and management as well as in the development and implementation of national development strategies. Some recipient countries will wish to reduce radically the number of donors, as India has done. Others will insist on donors working more together, sharing offices and if possible allowing others to lead in particular sectors. As they do this, countries will expect to be heard more frequently in international meetings, though those that succeed in the project are likely to be relatively better-managed states. The implementation of Paris will always be difficult for fragile states, despite rhetoric by donors about 'shadow alignment'. Even in recipient countries moving forwards with the Paris agenda, this will require substantial commitment, as well as changes in behaviour, from the donor countries. Donors will need to consider making longer-term commitments to recipient countries and to engage in effective mutual accountability mechanisms. This will also require reforms within international institutions, perhaps with the DAC opening up its membership more broadly and a redefinition of the role of the UN within the international aid system.

There are many difficulties and risks associated with this approach, not least how to manage unequal power relationships in aid. In this connection, the legal procedures for arbitration and appeal in the Cotonou Convention bear closer examination.

Option D sets out to tackle head-on the imbalance between bilateral and multilateral aid. It recognises that the harmonisation and alignment agenda is necessary only because there are so many aid agencies. It responds to the slogan '*don't just harmonise, multilateralise*'. Though there are many advantages to this model, especially in saving transaction costs and in giving recipient countries greater voice, it is dependent on thorough reform of the multilateral system, in such a way as to achieve both voice and efficiency. It requires a change in the way bilateral agencies view their role and significant political commitment from donor nations as a result. The work of the High-Level Panel on UN System-Wide Coherence is a good test of the feasibility of this approach. Reform of ECOSOC will be vital to moving forwards with this option as it offers a more legitimate forum for discussion of the issues involved in shifting towards greater multilateralisation. If the High-Level Panel produces strong recommendations which can be implemented quickly, and ECOSOC reform proceeds satisfactorily, then Option D has good potential for success. The reform of the governance of the Bretton Woods Institutions is also a test. If these tests fail, then multilateralisation is unlikely to succeed.

Option E is speculative but may represent a long-term future for aid, and work in this area is beginning to happen (for example the DRI work referred to above). In this model, the overall global aid budget is allocated, through a voucher system, to recipient countries rather than aid agencies, and it is the countries which decide which agencies to use. Successful voucher systems depend on there being adequate supply and contestability, and are usually backed up by rigorous and independent monitoring and evaluation, on a whole range of performance indicators. Examples are league tables for schools and hospitals or certification systems for privately-provided services like nursery education in the UK. Successful reform of the UN system is likely to be critical to the achievement of this option.

Common to all of these options is the need to build the capacity of recipient governments to use the aid they receive more effectively to promote growth and developmental progress. This will require technical assistance and capacity-building for governments as well as civil society and parliaments to monitor developmental progress.

4. Where are decisions about reform of aid architecture taken?

Unlike the regulation of global trade, for example, one of the key features of the international aid architecture is that there is no forum that brings together all of the key players to discuss, and ultimately make binding decisions on, its reform. Until very recently, the main forum for discussion of issues relating to development co-operation has been the OECD DAC. This has the distinct disadvantage of being for OECD members only; recipient governments and civil society are only involved in discussions by invitation and this significantly weakens its legitimacy. Recent work undertaken by ODI, 'Southern Voices in Aid Architecture', found that one significant block to the engagement of Southern civil society organisations in the debate about the reform of the aid system is that there is no international forum in which they can contribute or undertake policy (Rocha Menocal and Rogerson, 2006). With so many other pressing issues, it is a rational decision to focus limited capacity on issues where advocacy and energy have the potential to change policies and decisions.

There are some signs that this situation is changing. As has been highlighted above, there have been a number of developments which might offer some opportunities, if not for binding decisions, at least for advancing the debate and increasing the political pressure on the different actors in the system. In addition, there are a number of international groupings and fora with overlapping membership which together might offer a way to build consensus on the next stage of reform.

The Paris Declaration, and its targets and indicators, offers perhaps the most potential for the most immediate changes to the way aid is delivered. The third High-Level Forum on aid effectiveness, which will take place in Ghana in 2008, will provide an opportunity for all the signatories to the Declaration, as well as civil society organisations, to assess progress in implementing its principles as well as developing the next stage of the discussion for reform.

The process of UN reform begun by Kofi Annan when he assumed office reaches its next stage in November 2006 when the United Nations System-Wide Coherence in the Areas of Development, Humanitarian Assistance and the Environment reports. If, as expected, this makes radical proposals for streamlining the UN's development architecture, there will be significant opportunity for reform of a key element of the international aid architecture which provides a third of all multilateral assistance.

The UN Millennium Review Summit, which took place in 2005, proposed a significant overhaul of ECOSOC. Included in its proposals was the mandate for ECOSOC to hold a biennial high-level Development Co-operation Forum to review trends in international development co-operation, including strategies, policies and financing, and to promote greater coherence among the development activities of different development partners. Unlike the OECD/DAC, ECOSOC's membership includes both donor and recipient countries on an equal footing. One proposal is that this biennial forum provides a place for multi-stakeholder dialogue between governments, civil society and the private sector. Given its membership and the fact that the multilateral agencies have observer status, this proposed forum could well overcome many of the legitimacy problems which hamper other arenas for discussion.

Reform of the international aid architecture requires the active engagement and agreement of many different actors, bilateral and multilateral donor agencies as well as national governments within the donor and recipient nations. In addition, to ensure the legitimacy and effectiveness of the reforms, key elements of both civil society and the private sector will have to understand, and at least broadly agree with, the general direction proposed. Reform of the

architecture therefore presents a complex collective-action problem; how can consensus, and in the end trust, be built to allow significant and meaningful reform to occur?

In addition to the processes and fora highlighted in this paper, there are a number of intergovernmental groupings where discussions about aid architecture occur. Most of these have overlapping memberships and, if discussions in these run in parallel to work on the Paris Declaration and UN reform, they offer the potential to build consensus and hence promote reform. These groupings include:

- *The G8:*[4] While its highly restrictive membership is a disadvantage in terms of legitimacy, the fact that this grouping contributes over two-thirds of ODA makes it an important forum. The inclusion in recent years of some middle-income governments on the fringes offers at least the potential that different views might be discussed. The G8's commitments to increase ODA substantially demonstrate that it is possible to achieve significant policy decisions within the grouping.

- *The G20:*[5] This informal grouping involves governments representing two-thirds of the world's population and 85% of the world's GDP, potentially providing it with greater legitimacy than the G8. It is a relatively new political grouping which is only now finding a role and relevance. At their 2005 Summit they committed to play an active role in addressing critical development issues (G20, 2005) therefore offering the potential for building broader consensus.

- *The Commonwealth Secretariat*: This is one of the oldest political groupings in the intergovernmental constellation and has 53 members including developed, middle-income, low-income and small-island states in its membership.[6] While the Commonwealth offers no opportunity to implement reforms to the aid system, its membership possesses a significant degree of trust not found in many places in the international arena and, as such, presents the potential to build consensus across a broad set of countries with very different views on reform of the aid system. At their recent meeting in Colombo in September 2006, Commonwealth finance ministers mandated the Secretariat to establish a working group of senior officials drawn from across the membership to consider reform of the aid architecture and how the Commonwealth might influence the debate (Commonwealth Secretariat, 2006).

- *La Francophonie*: This grouping plays a similar role to that of the Commonwealth Secretariat but for Francophone countries. Coincidentally it too has 53 members spanning a similarly broad range of economic status to that of the Commonwealth.[7] A few of these are also members of the Commonwealth, but the majority are not. It too offers the potential to build political consensus about reform.

Taking these processes and groupings together, and including other key international events within the main multilateral actors, the World Bank and the IMF, a calendar of events can be constructed which could provide the basis for a series of steps in the reform process of the aid architecture. This calendar is shown in Figure 7. The European Union is a critical multilateral actor in its own right, but in the next five or so years there is limited scope for promoting reform within established processes, though the negotiation of the European Partnership Agreements should not be forgotten in this context, and are happening now and expected to conclude in 2008.

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[4] Members: USA, France, Russia, UK, Germany, Japan, Italy and Canada.

[5] For a full list of members see http://www.g20.org/Public/AboutG20/index.jsp#membership

[6] For a full list of members see http://www.thecommonwealth.org/Internal/142227/members/

[7] For a full list of members see http://www.francophonie.org/oif/membres.cfm

Figure 7: Chronology of future aid architecture discussions

Year	Quarter	UN Reform	BWI Reform	Aid Co-ordination	Political Groupings+
2006	4	High-level panel report			G20: Australia
2007	1		IDA negotiations begin		
	2	ECOSOC biennial forum*			
	3				G8: Germany CFM:[8] tba
	4				G20: South Africa CHOGM:[9] Ghana
2008	1				
	2		IDA replenishment Spring meetings		
	3		Autumn meetings	3rd High-level forum; aid effectiveness (Paris)	G8: Japan CFM: tba
	4				G20: tba
2009	1	ECOSOC biennial forum*			
	2		Spring meetings		
	3		Autumn meetings		G8: Italy CFM: tba
	4				CHOGM: tba G20: tba
2010	1				
	2		Spring meetings		
	3		Autumn meetings		G8: Canada CFM: tba
	4				G20:tba

+ Country indicates chair and location
* Timing to be confirmed

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[8] Commonwealth Finance Ministers' Meeting.
[9] Commonwealth Heads of Government Meeting.

5. Conclusion

The Paris Declaration, with its signatures from both recipient and donor governments, represents a significant step forwards. Despite the shortcomings of the targets and indicators found in the Declaration, the decision to regularly review and monitor progress provides a mechanism for promoting implementation and potentially, over time, for improving aid effectiveness. The process of UN reform also has the potential to improve the effectiveness of a key part of the aid architecture. An enhanced mandate for UN and ECOSOC could strengthen the organisation to the extent that it is able to play a central co-ordinating role within the aid system, perhaps in the end, given its potential legitimacy, acting as its architect.

This analysis suggests a twin-track approach; focus in the short term on implementing the Paris Declaration and strengthening recipient governments to enable them to play more of a role in aid co-ordination at the national level. This is option C from Box 4. At the same time, the process of UN reform started by the Secretary-General in 1997 and accelerated in 2000 and again in 2005 should be continued. This is option D from Box 4 and is not a quick project. It will require attention from key global actors for a decade or more.

Both tracks require the building of trust and mutual accountability between the governments of high-, middle- and low-income countries, between governments and civil society, as well as the private sector. Building this trust is also a long-term project, but the implementation of Paris is showing that in a few countries it can have important impacts in the short term too.

A key element of the building of trust at the international level is the engagement by governments in various political groupings. A critical element of the aid architecture reform process will therefore be the engagement by civil society in the fora highlighted above, if not others as well, in order to keep the issue on the agenda, build dialogue and therefore trust.

Substantial and significant reform of the international system will require sustained high-level political engagement over a decade or more. A number of critical processes and intergovernmental fora now exist for this engagement to have more meaning.

At the same time, to ensure that trust is actively maintained, the engagement of civil society will be necessary. This must happen at both the national level, particularly in the implementation of the Paris agenda and reform agendas beyond this, as well as at the global level, as negotiations for governance reform of the Bretton Woods Institutions and the UN gather pace.

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Annex 1: Paris Declaration Targets

OWNERSHIP		SUGGESTED TARGETS 2010
1	**Partners have operational development strategies:** Number of countries with national development strategies (including PRSs) that have clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets.	*75% of countries have operational development strategies*
ALIGNMENT		**SUGGESTED TARGETS 2010**
2	**Reliable country systems:** Number of partner countries that have procurement and public financial management systems that either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	(a) **PFM** – *half of partner countries move up at least one measure on the PFM/CPIA scale performance.* (a) **Procurement** – *one-third of partner countries move up at least one measure on scale used to assess performance of this indicator.*
3	**Aid flows are aligned on national priorities** (i.e. is reported on recipient government's national budget).	*Halve the proportion of aid* flows to the government sector that is NOT reported on partners' national budgets.
4	**Strengthen capacity by co-ordinated support consistent with partners' national development strategies.**	*50% of technical co-operation flows are* implemented through co-ordinated programmes consistent with partners' national development strategies.
ALIGNMENT		**SUGGESTED TARGETS 2010**
5	**Use of country systems (both PFM and procurement):** Percent of donors and aid flows that use PFM and procurement systems in partner countries that either (a) adhere to broadly accepted good practices; or (b) have a reform programme in place to achieve these.	*Depending on partner country's score on a given scale, a* ***certain percentage of donors will use partner countries' PFM and procurement systems*** *AND* ***percentage of aid not channelled through PFM systems will be reduced.***
6	**Strengthen capacity by avoiding parallel implementation structures:** Number of parallel project implementation units (PIUs) per country.	*Reduce by two-thirds* the number of parallel PIUs per country.
ALIGNMENT		**SUGGESTED TARGETS 2010**
7	**Aid is more predictable** (i.e. disbursed to agreed schedules).	*Halve the proportion of aid disbursements* that are NOT released according to agreed schedules in annual or multi-year frameworks.
8	**Aid is untied:** Percentage of bilateral aid that is untied.	*Continued progress over time.*
HARMONISATION		**SUGGESTED TARGETS 2010**
9	**Use of common arrangements or procedures.**	*66% of aid flows* are provided in the context of programme-based approaches.

10	**Encourage joint missions and shared analysis.**	*40% of donor field missions are joint; and 66% of country analytic work is joint.*
MANAGING FOR RESULTS		**SUGGESTED TARGETS 2010**
11	**Results-oriented frameworks:** Number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programmes.	*Reduce the gap by one-third –* reduce the proportion of countries without transparent and monitorable performance assessment frameworks.
MUTUAL ACCOUNTABILITY		**SUGGESTED TARGETS 2010**
12	**Mutual Accountability** (i.e. partner countries to undertake mutual assessments of progress on agreed commitments on aid effectiveness).	*All partner countries* have mutual assessment reviews in place to ensure all parties are honouring commitments.

For more information visit: http://www.aidharmonization.org/secondary-pages/Paris2005

Annex 2: Debt Relief International's indicative mutual accountability matrix

POLICY AREA	African Government Objectives	Donor Objectives
Concessionality	• Seek grants in preference to loans and maintain minimum 35% (or higher) grant element • Reject all export /suppliers/mixed credits	• Maximise grants rather than loans and offer loans with minimum grant element of 35% (or more) • Do not offer export/suppliers/mixed credits
Amount of Assistance	• Provide accurate/early forecasts of PRSP funding need • Establish borrowing limit to maintain sustainable debt • Strengthen legislation and institutional procedures to ensure all new external assistance is analysed and ratified in timely manner	• Provide sufficient resources to fund PRSP • Ensure new lending is in compliance with government limits • Ensure government institutional procedures are followed for new external assistance
Type and Channel of Sssistance	• Maximise budget support through the establishment of a multi-donor budget support programme • Negotiate maximum debt relief from all creditors • Negotiate reduced technical assistance in favour of capacity building support	• Increase budget support and work with government to set up multi-donor budget support programme • Deliver maximum debt relief as additional budget funding • Minimise technical assistance Ensure TA projects include budget and time allocation for capacity building
Sectors and projects	• Negotiate aid only for PRSP sectors, and within these sectors prioritise budget projects • Refuse stand-alone projects • Reject donor ear-marking of sectors and projects	• Ensure donor country programmes are organised and classified around PRSP priority sectors and line ministries • Refrain from financing stand alone projects • Refrain from ear-marking sectors and projects
Flexibility	• Establish early warning systems for tracking and analysing shock and report rapidly to donors on shocks	• Provide maximum possible resources to finance protection against external shocks, through multi-donor facility
Predictability	• Provide clear medium-term expenditure and financing plans	• Provide government with projected commitments and disbursements for 3 to 5 years, in time for annual budget
Policy Conditionality	• Negotiate minimal donor conditionalities • Seek donor flexibility in interpreting the implementation of conditions	• Interpret flexibly the implementation of conditions to ensure that disbursements are not delayed or suspended if agreed PRGF/PRSP outcomes are basically on track
Policy Dialogue	• Brief donors/creditors on policy updates and progress at semi-annual (or quarterly) meetings	• Participate in semi-annual (or quarterly) meetings with government
PROCEDURE AREA		
Conditions Precedent	• Negotiate minimum conditions and monitor implementation on timely basis • Streamline parliamentary approval processes which are causing significant delays	• Reduce conditions precedent to legal opinion only and monitor implementation in timely manner •Minimise cross-financing conditions, whenever possible
Disbursement Method	• Seek disbursement of funds through direct cash payments, rather than reimbursement claims • Establish mechanism to determine value of all aid-kind, especially food aid	• Provide programme (budget support) to minimise disbursement delays • Provide information on value of all aid-in-kind, especially food aid
Disbursement Procedures	• Seek reduced donor matching fund requirements to below 10% of loan/grant amount • Work with donors to harmonise disbursement procedure • Exclude donor funds for non-priority projects form tax exemptions and do not provide matching funds for them	• Reduce donor matching fund requirements to below 10% of loan/grant amount • Work with government to harmonise disbursement procedure • Review tax exemptions requested and count government contributions in kind and tax exemptions as matching funds
Procurement Procedures	• Reject tied funds and encourage local procurement • Ask donors to use government procurement procedure	• Eliminate all forms of tying, and encourage local procurement • Comply with government procurement procedures
Co-ordination and Evaluation	• Survey donors annually to assess compliance with government policy and report at CG meetings • Ask donors to minimise review missions and meetings and to conduct jointly whenever possible • Work with donors to harmonise reporting and financial accounting formats	• Report annually to government on progress with above objectives • Reduce demands on government officials by synchronising review missions and meetings with other donors • Work with government to harmonise reporting and financial accounting form

Source: Johnson et al., 2004