

Is the current aid architecture 'fit for purpose'?



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Is our current aid architecture 'fit for purpose'? Or is the system for delivering international development assistance helping countries attain their development aims? In this paper we argue that it is not. Firstly the idea of an 'aid architecture' is a misnomer. The system we inherit is the consequence of a long series of political initiatives with differing premises and objectives. Secondly the purposes assigned to this assortment of institutions are also diverse. Developmental goals and poverty reduction are generally the dominant discourses within the aid industry today. They are however not the sole or even a major determinants of how aid is actually allocated and spent. The aid industry's patterns and behaviours are part of a broader political reality. Does this however matter? In this article we set out why we think this situation may be having serious consequence across a whole range of international objectives, including developmental ones.

The 'internal' effectiveness issues of aid, as set out in the large aid effectiveness and donor behaviour literatures, are not the subject at issue in this paper. Instead we are concerned with how the broader international context, which includes the aid system, may be generating a particular effect or pathology at the ground level, in aid recipient countries. The wide range of actors, interests, operational modalities, approaches and assumptions may simply be undermining each others' objectives.

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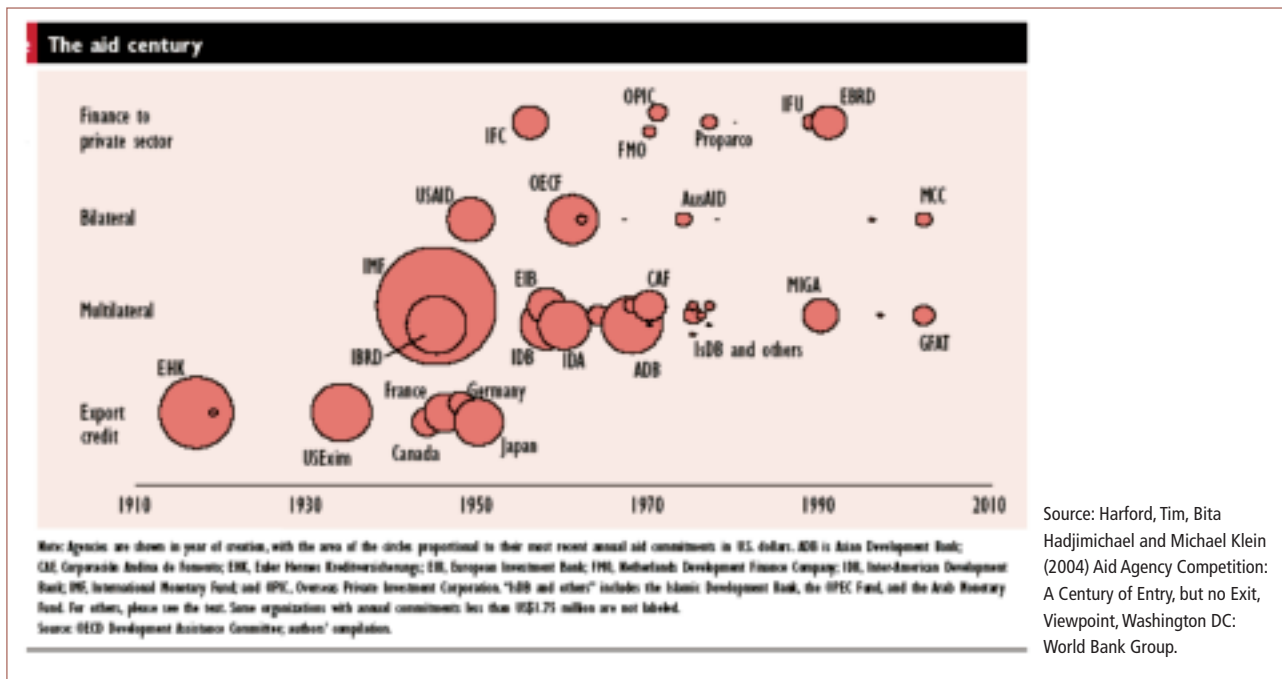
If this diagnosis is correct, then some of the major problems of the aid system lie beyond its own realms. To understand and solve them means engaging with the broader set of political realities that is generating the current situation. The search for solutions thus draws us deep into the 'coherence agenda'. We suggest that the focus of the coherence debate has tended to be on the supply side, i.e. absorbed in generating greater coherence of donor government policies, objectives and resources, at their origin. The focus needs to shift. Specifically, the perspective needs to move 'down' to the operational field level, and 'out' across all the objectives and actors

operating in a particular terrain. We set out some initial options on a framework for how to take this forward.

Aid architecture: a misnomer

The term 'aid architecture' is a misnomer. The pattern of aid actors, spending and activities we are presented with today are the product of disjointed history of political initiatives based on widely different premises. The current aid system is not a coherent, functional structure based on a single design, or even commonly held principles.

The pattern of institutional proliferation of the aid system is illustrated in the diagram below. New organisations are created to solve old problems or to serve new agendas. High profile examples include the Global Fund for Aids, TB and Malaria and the US Millennium Challenge Account. But old institutions continue in parallel. The proliferation of bilateral players has added to the range of regional development banks and other international financial institutions (IFIs). The problems of inefficiency, duplication and lack of accountability remain largely unsolved and are sometimes reinforced. An increasing number of financial channels deliver overall aid volumes that, until the last few years, were stagnant or declining in real terms. This proliferation is accompanied by an expanding range of UN and other implementing agencies including burgeoning numbers of non-governmental organisations (NGOs) and private contractors, providing a vast array of services, goods, technical assistance, capacity building or advocacy.



Source: Harford, Tim, Bita Hadjimichael and Michael Klein (2004) *Aid Agency Competition: A Century of Entry, but no Exit*, Viewpoint, Washington DC: World Bank Group.

This diversification of suppliers could be a source of competition and enhanced effectiveness, from which aid recipients should benefit. However, in the context of the marked power and information asymmetries inherent in aid relationships, it does not have that effect. There is a marked lack of clarity and predictability about the terms of aid contracts. Previously undeclared political conditions may be arbitrarily invoked. Despite the current rhetoric around mutual accountability, contractual obligations and enforcement mechanisms, such as they are, only exist against recipient breaches. There is no third party appeal mechanism. This situation is underscored by a series of 'principal-agent' problems, each with its own complicated incentive patterns. Key divergences include that between donor and recipient

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governments, but also within donors, particularly between HQ and country or operational levels, between recipient ministries of finance and their line ministries, between donors and non-government implementing agents such as NGOs and UN agencies. [Easterly, 2003]

Purpose: which purpose?

The dominant rhetorical objective of the aid industry today is development or poverty reduction, as articulated for example in the Millennium Development Goals (MDGs). The range of purposes and interests of bilateral donor governments is much broader. In addition to humanitarian and development objectives they have legitimate interests in their own

defence and security, including counter-terrorism, nuclear and other weapons of mass destruction non-proliferation, organised crime reduction and counter-narcotics, communicable disease control and an array of trade, energy security, growth and economic interests, as well as concerns around their social cohesion and immigration. And even within an overarching concern with recipients' development in an 'MDG sense', individual donor emphasis varies. This can include a focus on formal democratic progress, minority and gender rights, environmental protection and other agendas, perceived as either key enabling conditions for, or valuable joint outcomes of, country development. However they may well clash with the recipient countries ordering of such concerns within their own strategic priorities.

The window between the end of the cold war and 9/11 allowed for some degree of de-politicisation of aid. This was manifest at national level by attempts to legislate the purpose of aid in the UK and Sweden. At an international level it is shown in global commitments to the MDGs and the recent and momentous focus on aid within the G8 agenda. The promised doubling of aid flows to Africa and much more specific commitments towards the UN 0.7% aid targets are very significant achievements, especially in the current economic climates in France, Germany, Italy and Japan.

However, the impact of this resurgent commitment on the actual pattern of aid deployment should also not be overestimated. Aid remains a part of the foreign policy tool kit. This applies whether aid is given directly to governments, international and local NGOs or through multilaterals such as UN agencies and the IFIs. The system for delivering aid as well as its spending patterns, modalities and habits is part of the political and foreign policy strategies of western donor governments. This also applies to the 'emerging' donors, about whom the established aid industry knows so little and who

include donors from the Gulf region and the growing powers in Asia, particularly China and India.

The pattern of aid allocations clearly demonstrates this political nature of aid. Low-income countries receive less than half of global aid [Foster, 2003]. Former colonies that are ‘non-democratic’ or have less open economies get twice as much aid as non-colonies that are ‘democratic’ or open [Alesina and Dollar, 2000]. The direct link between aid and donor economic interests also remains strong. The Gulf of Guinea oil producers, which now account for about 15% of US oil imports, have benefited from an increase in US aid from US\$3.4 million to US\$93.4 million between 1995 and 2003. Little progress has been made on the untying of aid, despite the repeated commitments to de-linking assistance from the purchase of donor country supplied goods and services. Even for those who have officially untied their aid, patterns of contracting have not necessarily changed. An estimated 96% of the ¥64 billion of Japanese aid spent on large projects in Vietnam in 2003 involved projects solely or partially involving Japanese companies [Real Aid, 2005].

Specific recent developments include the much discussed explicit (re-)securitisation of aid. The US Fragile States Policy launched in January 2005 and the European Security Strategy both overtly link development assistance to purposes other than recipients’ development. The European Security Strategy regards “development cooperation largely as an ‘instrument’ at the disposal of EU foreign policy which should be guided above all by security; this narrow view contributed to emphasising security as an essential ingredient for development while failing to note that the obverse was also true” [ECDPM, 2005].

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The implications extended to individual EU Country Strategy Papers. In the EU Afghanistan strategy, “security issues dominate the agenda”. The rhetorical use of aid to support security purposes is also manifested in terms of aid flows. Between 2000 and 2002, net Official Development Assistance (ODA) received by the countries surrounding Afghanistan more than doubled from US\$1.2 billion to over US\$2.7 billion. Pakistan’s ODA alone tripled over that period, with US bilateral contributions to Pakistan increasing from an average of US\$40 million (1998–2000) to US\$770 million in 2002 [Real Aid, 2005].

While this clearly raises further questions about how effective aid is at enhancing donor government security, as well as achieving developmental goals, neither is the focus of this article. Evaluating fitness for purpose requires clarity around the definition of purpose. If aid

in practice serves a wide range of interests and objectives, then assessing its fitness in terms of any single purpose is of limited utility. Attempts to evaluate the aid systems purely in terms of developmental or humanitarian objectives often generate quite stinging critiques (for example Easterly, 2003, or van de Walle, 2005). However valid these critiques are, the imputing of a single or dominant function to aid does not assist our understanding of the system as it stands.

Does motive matter?

While the political realities generating the lack of a meaningful aid architecture and ‘subversion’ of what some see as the legitimate core developmental purpose may be frustrating to development technicians, the real issue is how much this really matters in terms of results ‘on the ground’. We argue that it has, in fact, serious negative consequences.



Systemic overload.

The main ‘pathology’ emerges around each development actor's lack of strategic and operational awareness of other actors. If each actor is meeting their own programme objectives effectively, the deeply unsafe further assumption is often made that overall each of their objectives will thereby be met. This is a straightforward fallacy of composition. Joint or overall utility maximisation will not happen, unless the actions of multiple independent actors are coordinated, through either:

- The invisible hand of markets or market-like signals;
- Strong collective action or cartel-like discipline; or
- External regulation.

None of these applies to the current situation [Rogerson, 2005].

In reality, the constellation of external interests and actors may inhibit or even completely undermine the achievement of both their own and others’ objectives. The array of interests pursued by a vast number of bilateral departments and agencies, multilateral and regional organisations, NGOs and the private sector, including trans-national companies, is broad and at times conflicting. These actors also have diverse operational modalities, underlying assumptions, mindsets and approaches. The symptoms can include lack of

engagement as well as excessive, overlapping or counter-productive interventions.

An illustration from within the aid systems of this lack of fit is that with few limited exceptions, no individual donor explicitly factors into its aid allocation formula the combined allocations of others to the relevant set of countries. Donors rarely take account of each other's resources, plans, conditionalities, or operational modalities before developing and negotiating programmes with countries, sectors or institutions.

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This results in skewed patterns of congestion and scarcity at every level [Levin and Dollar, 2005]. It variously can increase costs, fragmentation, complexity and overload limited capacity. The interplay of different types of aid conditions designed without reference to each other can be particularly corrosive. The cumulative effect is often contradictory incentive sets facing the people donors are interacting with. Despite significant, well-intentioned recent efforts at 'donor harmonisation' and attempts to 'align' with government priorities and systems, little has changed operationally [Rogerson 2005, DAC 2004].

This lack of policy and operational congruence is perhaps particularly dangerous in 'fragile states', the current focus of much donor attention, where the national fabric is arguably most vulnerable to avoidable externally-induced shocks [Christiansen et al 2004]. However, it is not specific to them. It may be that those situations where this vulnerability has the largest predicted negative spillover effects on the wider international community that, for short periods at least, the incentives for effective international coherence efforts might be strongest.

Implications for the overall policy coherence agenda

If the diagnosis set out above is correct, then understanding the pathology and how to respond to it draws one out into the Realpolitik of the agenda of coherence between the broader dimensions of foreign, economic and security policy. If we want to make aid, development assistance or international relations in general 'fitter for purpose', we need to go beyond the development system's longstanding internal narratives and constructions. We need to engage with the powerful political forces that shape the institutional and behavioural parameters in which aid is occurring.

Coherence presents both threats and opportunities for development and humanitarian goals. This is not necessarily a win-win game, and development may well lose to more powerful domestic political constituencies. Like it or not, the aid industry is part of this broader context, both defined by and constitutive of it. The current debate around 'harmonisation' of donor policies and systems, for example, is part of the aid subcomponent of the coherence agenda and needs to be seen as such. Progress in some of its key dimensions, such as aid untying, presupposes the demand for parallel policy changes elsewhere. In the case of untying aid, this involves negating domestic economic interests.

The current formulation of 'between whom' and 'around what' to generate coherence tends to be focused on the supply side – on joining up policies and objectives across a particular western government or multilateral institution. This is embodied, for example, in the recently established post-conflict stabilisation or reconstruction units within the UK and US and the recent announcement of EU civilian rapid reaction units as part of the Common European Security and Defence Policy. Sometimes the agenda goes as far as looking at resource inputs. Rarely does the agenda go as far as addressing the consistency of outputs or impacts at the (aid recipient) country level.

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A shift in the agenda

We suggest that a major shift needs to occur in this 'coherence' agenda, for it to engage with the systemic problems that we have outlined above. The shift in approach required here is twofold. A move 'down' to operational activities and the field level, towards outputs and impacts, combined with a move 'out' beyond any specific bilateral agenda, to the cumulative effects of all of the actors and agents operating in a particular context.

Fundamental to this shift is distinguishing which of the resulting tensions and effects on the country level currently stem from:

- A fundamental incompatibility of objectives among the main actors;
- Differences in operational modalities and assumptions including mindsets, decision making systems, approaches to local systems and structures; and/or
- 'Simple' failures of collective action.

The analytical tools for such an approach may not yet exist, or to the extent they do, it is not clear who has a strong incentive in applying them. Is it possible to

develop a conceptual structure, for example, that would draw out the long-run trade-offs between pursuing counter-narcotics objectives, or supplying emergency relief, and a range of other objectives, including development and poverty reduction? Who would be the major stakeholders in such approaches? The constellation of actors, objectives, interests and modalities will be quite different in Uganda compared with Bangladesh or the Solomon Islands, Iraq, Mozambique or Palestine. The processes as well as the outcomes of improving the 'coherence' of external interventions need to be tailored to specific situations.

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Conclusion

If the suggested problem identification around the fitness for purpose of the current system for delivering aid is accepted, then the solution must reach beyond that system. If the sources of the current 'aid architecture's' lack of structure and multiplicity of purposes stems from beyond the aid system, then so must the search for solutions. The agenda set out above involves external actors taking more responsibility for the consequences of their own actions, making the trade-offs more conscious and their effects more transparent, to domestic and foreign constituencies alike. We offer no ready-made institutional recipe for how this new shift towards greater coherence 'downwards and outwards' should be achieved. Different combinations of recipient country leadership and multilateral support could be effective in different contexts. But if the problem is judged politically significant enough, the necessary analytical tools and dialogue processes could emerge relatively quickly.

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