

Aid effectiveness post-2010 – a think piece on ways forward

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INTRODUCTION

1. The international aid effectiveness agenda is at a critical juncture. The Paris Declaration² (PD) targets and Accra Agenda for Action (AAA) commitments are due to be met by the end of this year, 2010. Next year, 2011, will see the next international aid effectiveness agreement negotiated at the fourth High Level Forum (HLF4). It will be informed by the results of the Paris Declaration Monitoring Survey³ and the Paris Declaration Evaluation,⁴ both due to report in 2011.
2. This think piece considers issues and possible directions in the approach to aid effectiveness beyond 2010. Specifically, it seeks to inform DFID thinking on the prospects for and direction of a new international agreement on aid effectiveness at the HLF4 in 2011.
3. The think piece is based on the findings from a detailed literature review and a one-day workshop held at ODI bringing together key experts in the field. Given the potential scope of the exercise a major focus of both the literature review and workshop was on:
 - Key drivers of change in aid post 2010,
 - Critical pressure points within the current aid effectiveness agenda and implications for the agenda in the future and,
 - Identifying a set of feasible actions to take the agenda forward in the short term (up to 2011) and the medium to long term (five + years from now).

What does the context for aid look like in 2010?

4. The global context for aid has been changing for some time. In 2010 we are poised to see further changes as the impact of the global financial crisis finally unwinds and new global challenges and risks gain prominence.
5. A number of trends are shaping this changing landscape:
 - a) **The number of countries classified as low or middle-income is set to change.** Bourginion et al (2007) estimate that, based on 2005 income and growth data, by 2015 that there will be at least ten fewer low-income (IDA-eligible) countries and an increasing number of blend (IDA and IBRD eligible) countries. There will also be an increase in the number of IBRD-only and fully graduated countries (mainly the emerging market economies of Asia and Latin America). Although the global financial crisis has downgraded the growth projections used

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² See: The Paris Declaration and Accra Agenda for Action at:

http://www.oecd.org/document/18/0,3343,en_2649_3236398_35401554_1_1_1_1,00.html

³ See the 2008 Monitoring Survey at: <http://www.oecd.org/dataoecd/58/41/41202121.pdf>

⁴ See:

http://www.oecd.org/document/60/0,3343,en_21571361_34047972_38242748_1_1_1_1,00.html

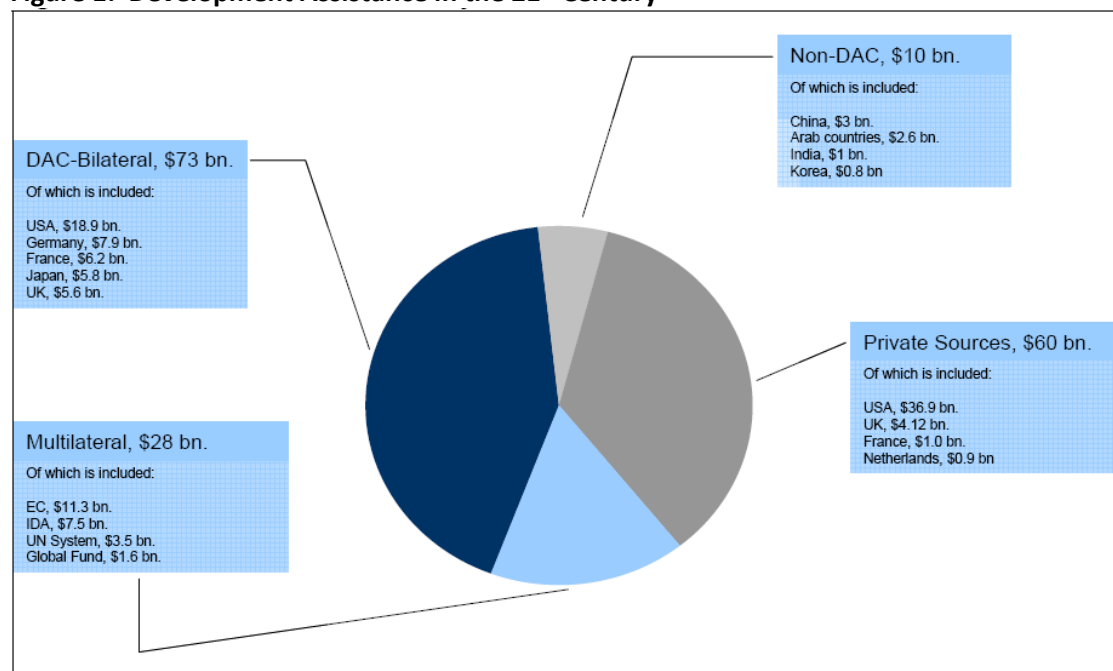
in the study, the implication remains: by 2015 there are likely to be fewer countries heavily reliant on concessional aid and fewer middle-income clients looking to aid organisations for financial assistance.

- b) **The poverty ‘case load’ is changing.** With continued growth and rising incomes in low-income countries, the absolute number of people living below \$1 a day in these settings will decline. But just as the overall picture improves, so poverty appears more persistent and more concentrated in particular regions and localities. Under any scenario, Sub-Saharan Africa will continue to carry the major case load on poverty. But this is largely due to the high incidence of fragile countries on the continent. At the same time, hard to reach and chronic poverty will continue to persist in rapidly growing middle-income countries. As the Bourginion study states:

“Looking ahead, the next development challenge will be to make globalization inclusive and sustainable: ensure that Sub-Saharan Africa and other slow-growing low-income countries fully participate in-and benefit from-the globalization process . . . do more to address the challenges facing fragile states . . . help middle-income countries share equitably the benefits of growth . . . monitor and control global and regional externalities.” (Bourginion Long Term Strategy 2007)

- c) **The number of providers of aid continues to rise.** The number and diversity of aid actors has increased considerably since 2000. The biggest change comes in the form of new major philanthropic funds, new multilateral and supranational organisations and the growing prominence of non-DAC official donors. There are no definitive figures on how many aid actors are now at work globally but recent data suggest as many as 126 bilateral agencies from DAC countries and a further 23 non-DAC donors and 263 multilateral aid agencies of varying sizes. The number of philanthropic and private funds is impossible to count but the overall value of this kind of assistance is estimated to be roughly \$60bn (Kharas, 2009). The figure below gives some sense of the share of these different actors in total global development assistance for 2008.

Figure 1: Development Assistance in the 21st Century



Source: OECD/DAC, *The Index of Global Philanthropy 2009*, and Kharas (2009)

d) **Forms of ‘beyond aid financing’ continue to grow.** Financing for a new set of global policy challenges is increasingly happening outside the traditional boundaries of ODA. The most obvious and substantial is climate finance with its emphasis on polluter-pays and a compensation model based on transfers and taxes. In addition, sovereign and private donors have championed an array of initiatives from global solidarity levies to a host of new results-based financing mechanisms to address the perceived limits of ODA. Development banks have also started issuing new types of bonds that link resource mobilization and development objectives, for example, debt offerings for sustainable investments with climate change-related themes. There is a sense, in some quarters at least, that as global problems multiply a new set of supra-national institutions and networks is likely to emerge to deal with them (Woods et al 2009). For their part, developing countries have sought not only more financial flows but better financial solutions, including partnerships that mobilize private finance for public service delivery, risk mitigation efforts that promote private entry in productive sectors, and support for carbon trading (Girishanker, 2009). Table 1 provides a snapshot of the range of innovative forms of financing.

Table 1: Innovative Forms of Financing

	Fund-Raising	Financial Solutions
Traditional	<ul style="list-style-type: none"> ▪ ODA financed by budget outlays from developed countries ▪ Some private flows 	<ul style="list-style-type: none"> ▪ Transfers (cash or contingent) to public entities
Innovative	<p><i>Solidarity mechanisms</i></p> <ul style="list-style-type: none"> ▪ ODA financed by budget outlays from emerging sovereign donors ▪ Global solidarity levies (such as airline ticket tax, Adaptation Fund) ▪ National lotteries ▪ Stolen Asset Recovery <p><i>Public-private partnership mechanisms</i></p> <ul style="list-style-type: none"> ▪ Joint financing with private donors ▪ New bonds (those in local currencies or those targeting sustainable investors) ▪ Sovereign catastrophe risk (incl. derivatives, currency swaps) ▪ Frontloading ODA <p><i>Catalytic mechanisms</i></p> <ul style="list-style-type: none"> ▪ Carbon funds 	<p><i>Solidarity mechanisms</i></p> <ul style="list-style-type: none"> ▪ Counter-cyclical lending ▪ Debt swaps for results <p><i>Public-private partnership mechanisms</i></p> <ul style="list-style-type: none"> ▪ Private participation in social sectors and infrastructure (incl. through guarantees, OBA) ▪ Sovereign catastrophe risk finance (through derivative and hedging, deferred drawdown options or DDOs) <p><i>Catalytic mechanisms</i></p> <ul style="list-style-type: none"> ▪ Leveraging private investment in the financial and productive sectors (through local currency lending, guarantees, risk-sharing facilities) ▪ Creating private insurance markets (through insurance pools and DDOs) ▪ Advance market commitments ▪ Copayment schemes

Source: Girishanker, N (2009) Innovative Development Finance. Policy Research Working Paper 5111. World Bank.

6. Broad trends influencing the context for aid are accompanied by more specific drivers of change within aid and the aid effectiveness agenda itself. O’Keefe below notes the likelihood of more diversity leading to more pluralism and fragmentation, while Rajani points to the emerging consensus that aid effectiveness has to become more concerned with development outcomes than simply aid management itself.

“The odds of the aid industry become more centralised (i.e. dominated by a small club of agencies sharing an agenda) or more realpolitik (i.e. powerful nations dictating the development agenda) are diminishing. More likely, we will be living

in a world where the aid industry is more pluralist and fragmented” (O’Keefe, J (2007) Aid from Consensus to Competition)

“[...] with all the attention the Paris Declaration has received, it is easy to lose sight of a simple point - that the purpose of aid effectiveness is not aid effectiveness, but households escaping impoverishment, and people realizing concrete changes in their lives. Paris is only the plumbing; the purpose is water and to have thirsts quenched” Rakesh Rajani (2008)

7. Some of the more important drivers of change within aid are:

- **Pressures on public finances** are challenging donors to justify existing allocations between and within countries, and to demonstrate value for money. The search for efficiency gains in the administration of aid is also leading to changes in business practices at HQ and recipient-country level (reduced staffing levels, reduced number of country offices, shared offices, wholesaling of funds through global mechanisms and multilateral trust funds...).
- **Growing political concern over demonstrating development results** is exposing weaknesses in the Paris/AAA framework in measuring and accounting for results. This is fuelling a drive for more independent and independently rigorous evaluation as well as more monitorable and trackable aid. There are equivalent concerns, however, that the push for results will lead to more short-term assistance looking for ‘quick wins’ and a downgrading of the country-led approach.
- **Demands for more transparency** in aid flows and recipient country budgets have intensified post-Accra and the establishment of IATI, fuelling demand for new global standards on aid transparency to be picked up by the Paris/AAA framework. Transparency is not just a question of sharing vital information on aid flows, however, but is also seen as a route to more fundamental change based on recasting the social contract between aid givers and aid beneficiaries. Barder (2010) for instance states: *“Across the development system there is lots of variation, but almost no system to ensure effective selection..... That is why aid transparency is so important. Information about aid funding and programmes empowers the intended beneficiaries, affording them greater political leverage and enabling them to put pressure on donor organisationsEveryone who cares about the future of foreign aid should support greater transparency: when taxpayers are able to see directly how their aid is being used... it will be the basis of a new social contract between taxpayers in industrialised countries and the aid system”*⁵
- **The diversity of aid contexts** and the increased focus on a core group of ‘difficult partners’ – fragile and conflict-affected states – is testing the generic relevance of the Paris/AAA framework. Concerns about how far aid can be aligned and owned in volatile aid environments is pushing some to argue that the Paris framework must be much more adapted to context. Isenam and Shakow (forthcoming), for instance, argue that: *“Some development agency staff [...] forget that Paris-Accra deals essentially only with process and not with the substance of what needs to be done. They at times focus so heavily on the principle of alignment to country programmes that important issues, such as quality or severe risk of corruption, do not get the attention they deserve. They seem to forget that modalities, dialogue and allocations should be*

⁵ http://www.atlantic-community.org/index/Open_Think_Tank_Article/Spotlight_on_Transparency

adapted to the needs of individual developing countries and that the objective is not better processes per se but better development outcomes.”

- **Political economy concerns**, and particularly the ownership and accountability dilemmas in countries receiving major inflows of aid (Orstrom 2006, Booth 2010), is pushing the debate on aid effectiveness more in the direction of mutually accountable aid partnerships, greater recipient choice and more politically savvy aid and away from detailed procedural compliance focused on a narrow aid management agenda (Brown (2009).

8. Against this backdrop of increasing complexity and diversity on the global stage there are also added uncertainties about the direction of UK international development policy and, specifically, how far the Paris aid reform agenda is ‘owned’ by and across the political spectrum. Any future government will have to address major questions about:

- how to sustain support for development assistance in a time of major domestic finance pressures and competing global challenges, in particular how to demonstrate the value of aid in difficult times;⁶
- what to do about the country allocation of aid, specifically which low-income countries to work in and what to do about middle-income countries;
- which organisations to work with (multilateral, bilateral, DFI, business,) and which ones to let go of;
- what to do about aid delivery, particularly in fragile and conflict-affected contexts; and,
- how to build and implement stronger policy coherence for development across government departments in an increasingly risk-prone and climate constrained world.⁷

9. The possible links between these larger trends and the prospects for reform of the Paris framework are illustrated in Table 2.

Table 2: Promoting and restraining forces shaping the context for aid reform post-2010

Promoting	Either/or	Restraining
Examples of donor collective action, such as the EU Code of Conduct, EU strategy paper for Haiti provide good models of coordinated behaviour.	Non-DAC aid actors (China etc.), more south-south and trilateral cooperation in the ‘aid space’ are moving the debate beyond north-south	Key relationships in development finance are no longer exclusively donor – recipient; rise of G20 over G8, south-south cooperation rising.
Recipient-led aid policies and aid effectiveness plans continuing to emerge with some positive outcomes	Climate finance, innovative financing redrawing the map on financing for development – recipients and funders looking increasingly beyond aid.	Loans, concessional investments, public-private funds on the increase and operating ‘by different rules’
Global Strategies/frameworks for action combining multiple actors e.g. CFA on Food Security, provide good models of coordinated working.	Non-system effects i.e. fragmentation of aid funds/actors continues to create major coordination challenges at global and country levels	Perceived failures at Copenhagen, increased interest in regional deals and bilateral cooperative arrangements, post-Copenhagen agenda involves search for new forms of/ models of collective action based on tri-lateral and non-traditional players.
Evidence of improved governance	Slow progress on mutual	Complexity of working in fragile

⁶ Although it is worth noting that both major political parties have committed in their election manifesto’s to commuting the 0.7% aid target to legislation and the current government has already prepared a draft bill to that effect.

⁷ Lockwood, Mulley et al. (2010)

in recipient countries creates a positive climate for aid management, transparency and accountability	accountability globally. Obstacles to greater transparency remain although new tools for closing the feedback loop between aid givers and aid recipients show promise.	states raises questions/ challenges about generic Paris principles, including the prospect of mutual accountability. Mutual accountability cannot be delinked from stronger domestic accountability. Questions about the accountability of new forms of development financing.
Results-based financing, MDG contracts and being promoted by key Paris proponents (EC, UK et al).	Lagging progress on MDG8 continues to hamper serious global efforts at addressing non-system effects. Architecture for a post MDG 2015 framework unclear.	Results-push encouraging aid actors to innovate ‘outside of/beyond’ the Paris framework. Public-private arrangements not fully joined up with Paris.
Humanitarian actors increasingly operating the Cluster system to good effect.	Number and diversity of emergency situations stretches the ability of humanitarian actors to abide by good principles. Some doubts amongst humanitarian actors about the ‘state-centric’ nature of Paris.	Humanitarian principles still not fully joined up with Paris. Humanitarian actors ‘reserve the right’ to do things differently.

10. The question that immediately arises from Table 2 is whether it is possible to further the aid reform agenda from within the aid effectiveness consensus that has prevailed since 2005 (Barder 2009, Kharas 2009). As Barder argues, *“the well-documented and widely known shortcomings of the foreign assistance system have proven themselves stubbornly impervious to change driven by declarations and communiqués.”* The reasons for the slow pace of change are many, but one stands out which is a basic problem of collective action when participants (in this case DAC donors) face different objective functions in allocating and delivering aid. While all DAC donors have signed up to delivering aid for poverty reduction the multiple objectives of aid are well documented and reflect somewhat different treatments of the ‘development problem’ in and by domestic constituencies (contrast the US and the Nordics for example). Achieving equivalence of effort by setting common targets when the starting positions of donors vary so much tends, at best, to result in change at the pace of the slowest reformers or, at worst, no change at all. As political pressures on aid mount as a result of the financial crisis this basic problem of getting donors to commit equal amounts of effort is only likely to get worse. So what next?

11. The positive assessment is that the Paris agenda has delivered some important change already. The 2008 DAC monitoring report is clear that against a possible counterfactual of ‘no progress’, important progress has been made. However, viewed from the other direction of how much more is needed to meet the Paris targets, progress looks a great deal less positive. The next question is whether it is possible do better, or whether the consensus has in some sense reached its natural limit? If it is the former, should the agenda be extended beyond 2011 to allow more time to make progress? If so what’s the best way to achieve that progress given the changing context? Should the agenda be broadened to address issues that are currently missing or underemphasised, including: (i) the political economy concerns that critics most frequently raise; (ii) the need for a stronger recipient lens, and (iii) the fact that many new and influential actors are not currently part of the Paris consensus? If it is the latter, should donors and recipients be thinking differently in the face of the changing geo-politics of aid and working towards a more differentiated approach that makes a virtue out of increased diversity? None of these questions can be answered categorically

the politics surrounding each of them is complex, but the rest of this think piece considers two different but complimentary scenarios for aid reform building on the trends and drivers noted earlier.

12. The first scenario builds directly on the Paris agenda and, based on the belief that it still has a lot to offer, proposes a series of possible improvements to that agenda between now and 2015. The second considers a more radical change post-2015 and the need to build a new kind of global development partnership based on a potentially different set of development finance priorities.

SCENARIO ONE: ISSUES AND OPTIONS FOR THE PARIS/AAA FRAMEWORK 2010-2015

13. Scenario one starts with the observation that, notwithstanding the changing global context, the Paris/AAA framework represents a remarkable point of consensus on aid reform and continues to be relevant to the challenges experienced by aid-dependent countries. Progress has been made since 2005, but latterly trust around the consensus has been tested by the uneven pace of implementation on both donor and recipient sides, and by what is perceived to be an overly rigid technical agenda divorced from the *realpolitik* of development in practice. With the 2010 targets almost certainly to be missed, this scenario assumes that the main priority at HLF4 will be to build a renewed international agreement on aid effectiveness directly out of the Paris framework with a new timetable for achievement and a series of international initiatives (IATI and possibly a charter for global funds) designed to reinstate trust levels both at the DAC and between DAC donors and partner countries.

14. As part of any 'new' international agreement there are bound to be calls for a more political and recipient-focused lens on the challenge of using aid effectively. Recent work by ODI (Burrall 2007, Wathne and Hedger 2009) on recipient country perceptions of development assistance points to the near universal view that the donors signed up to Paris need to be more responsive to country circumstances (a variant on the need for stronger alignment which takes stronger account of country context); to stand by their commitments (more emphasis on predictability); and to avoid excessive interference when designing programmes and defining performance conditions (concrete commitments on conditionality). While these concerns are arguably reflected in the Paris Declaration in terms of general statements about respecting and being responsive to country ownership, they are not, as yet, hardwired into the core technical agenda.

15. Donors, for their part, remain concerned about the capacity of recipient country institutions to manage and utilise aid. Weaknesses in government remain a major factor in decisions by donors to use parallel mechanisms that side-step country systems. Such behaviour is seen by some as an obvious reaction to state weakness e.g. Norad (2009). The research evidence, however, remains unequivocal that the quality of national and local institutions is critical to the effective use of aid and to the sustained delivery of development results.⁸ Achieving aid effectiveness through institutionally (and politically) smart means is an agenda increasingly dominating donor (traditional and non-traditional) discussions.

16. Building on these concerns and reflecting the weight of support for and critique of different elements of the Paris agenda (as set out in the literature review), Table 3 identifies some specific ways of enhancing the Paris agenda in the short term. These ideas are then picked up in three potential pathways to reform below.

⁸ This latter point, relates chiefly to the level of governmental capacity and oversight needed to achieve sustainability of development results more than the specific means of delivering them which can, of course, involve a wider set of actors than national or local public institutions.

Table 3: Steps to Reforming the Paris Agenda 2010-2015

Paris Principles	Hold Firm	Change/Improve
Ownership	Being more credible on recipient-leadership is vital (i.e. learning the lessons of PRSPs) but also important to hold firm on the principle that effective recipient ownership does not mean a 'blank cheque' from aid providers. The latter will always have a view on what a sound development strategy looks like and they will always have a view on the importance of careful stewardship of aid resources. The important thing in the spirit of the PD is that this does not amount to undue interference or influence.	More recognition given to context and particularly the scope for adapting generic principles to different country settings. This could be enshrined in a new approach that encourages recipient countries to design their own approach to aid effectiveness, possibly through jointly agreed AE plans, based on the broad Paris/AAA principles. Recipient countries with AE plans could be encouraged to establish their own peer review mechanism (possibly through the DCF), to encourage lesson sharing and improving practice. Possible room for a new target indicator on the number of performance conditions attached to aid instruments – starting possibly with PBAs.
Alignment	Working with and through country systems must remain at the core of the Paris aid reform agenda. But country systems are not just about alignment, they are also about results and more focus needs to be given to the way in which these systems deliver development outcomes.	Clarity is needed that working with and through country systems is not synonymous with GBS nor necessarily PBAs. Rather two critical elements need to be brought out: the first is that working with country systems requires that aid in whatever form (project, programme, pooled, non-pooled), is on-budget and fully aligned with a country's development strategy. Second, that the pooling of aid behind a common programme is generally a good way of achieving alignment and supporting recipient leadership. There needs to be a commitment to no new global funds without an equivalent commitment to consolidation. Ensure that existing global funds, while continuing to campaign vertically, are working and disbursing horizontally through country systems. In very volatile situations, donors should work towards 'shadow alignment' rather than not aligning at all.
Harmonisation	Technically difficult but important, may be more difficult to hold firm on some of the detailed indicators because of the number of non-DAC actors now in play	A simple measure of how harmonised aid is the share of ODA that goes through multilateral channels. Think twice before creating new funding mechanisms.
Results	Results are moving up the agenda but managing for results appears to have less traction than initially hoped. Too much emphasis on elaborate M&E systems and too little emphasis on how to get things delivered. Some revised formulation of the results principle seems appropriate.	Here the emphasis is on moving the Paris framework in the direction of: (i) reducing the number and type of indicators used to monitor and measure results (a realistic results agenda); (ii) emphasising the sustainability of results over 'quick wins'; and, (iii) some kind of indicator on the share of aid that

		is subject to independently verifiable evaluation.
Mutual Accountability	<p>Progress has been slow but the commitment to mutual accountability remains fundamental</p> <p>Finding an international forum for locking in mutual accountability is vital. WP-EFF/ UNDCF relations clearly important. Is UNDCF a better forum for mutual accountability?</p>	<p>Transparency as a vital, necessary but not sufficient component of mutual accountability. However transparency could be a spur to more fundamental change as more information is available not just on aid flows but also on results.</p> <p>Mutual accountability needs to build on not replace effective domestic accountability – hence processes needed to be fully aligned with national and local accountability institutions (Parliaments, councils and oversight bodies etc)</p> <p>Paris needs to stretch into addressing the incentives within donor agencies that promote and/or restrain further progress on m/accountability.</p>
Predictability – a new principle?	<p>Predictability is a weak and un-ambitious indicator in the Paris framework, despite it being a major concern of recipients. Research has shown that volatility in aid flows can result in a deadweight loss (a welfare loss) of as much as 20 percent of each aid dollar.</p>	<p>Elevate predictability to the status of a principle.</p> <p>Establish clearer and more ambitious criteria and indicators for predictable aid that takes account of the devastating effect that within year adjustments and substantially reduced disbursements can make to development programmes.</p> <p>Encourage medium term over short term commitments as far as possible.</p>

16. Building on Table 3 it is possible to think of three slightly different pathways to enhancing the Paris agenda in the three years following HLF4.

17. The first path is best characterised as **‘hold firm and do better’**. This is perhaps the closest to the status quo option with a stronger emphasis on benchmarking progress and building a more inclusive Paris framework:

- Redoubling efforts to deliver on current targets. The sales pitch is essentially one of consistency and re-building trust in the aid receiving community by ensuring that donors keep to their commitments, even if these commitments fail to deliver the kind of transformation of aid practice that was initially hoped.
- Running a scorecard or series of league tables ranking donors according to their compliance with Paris principles. This could be seen as a further element of the transparency agenda and could be appended fairly easily to future monitoring exercises.
- Support for aid recipients in grounding the Paris principles in national strategies or policies that provide clarity on recipient preferences around aid instruments and division of labour and link more clearly the delivery of aid with the delivery of development results.
- Encourage more development finance actors into the conversation on effectiveness at OECD/DAC and DCF meetings, even if they do not sign up to the framework itself.
- Pull together a charter for global funds that could be appended to the Paris framework setting out key accountability arrangements, operating criteria and criteria for new entrants and exits.

18. The benefit of such an approach is that it stays squarely within the ‘train tracks’ of Paris and opts for an evolutionary approach over major change. The political benefit is that it doesn’t upset the apple cart too much and doesn’t necessarily threaten those donors at the core of the current

consensus and who already making many of the changes required by Paris and who would like to see it succeed (i.e. the Nordic-plus group). Pushing for a charter for global funds could be a fairly 'quick win' if a few key bilateral and philanthropic contributors (the UK, US and Gates) were willing to put their hat in the ring first. While this may not be possible before Seoul in 2011 it could certainly be one of the key outputs from Seoul to be delivered within a 2 year time frame (similar to the launch of IATI during Accra).

19. The risk of this approach is that it is perceived outside of the DAC to be too much of the same with a disproportionate focus on a largely donor-centric agenda and too little focus on problems raised by partners – especially in relation to predictability and conditionality. Some non-DAC donors are also already part of the wider conversation on Paris, including via UNDCF, so the value-added of more formal involvement in the run up to Seoul may be, at best, hard to demonstrate and at worst, a distraction of effort. Finally, scorecards and league tables can be divisive if the intended purpose is not clearly spelled out. As part of an 'extreme transparency' agenda it might be possible to bring the US alongside, less clear is whether it would be possible to reassure donors such as Japan and possibly Italy of their merits.

20. The second path involves '**deepening and broadening**' the Paris/AAA framework by applying a stronger country-led approach and a involving some rewriting of the rules of the game around Paris. This 'Paris-Plus' strategy seeks to address some of the current asymmetries in the aid partnership and to enhance the focus on results by moving towards:

- Country-led aid effectiveness plans based on the Paris principles with a clear focus on delivering development results.
- Country plans would identify a minimum set of indicators that are monitored as part of a global monitoring exercise, but there would be no presumption that all countries or donors needed to do the same everywhere i.e. they would be tailored to country circumstance and would focus on the kinds of development results that individual countries are trying to achieve rather than generic targets linked specifically to the MDGs.
- Being driven by the recipient, country-led plans would be applicable to a wide range of aid/finance actors.
- Country plans would need to be peer-reviewed and possibly peer monitored and would be subject to periodic independent review/evaluation (both possibly through UNDCF).

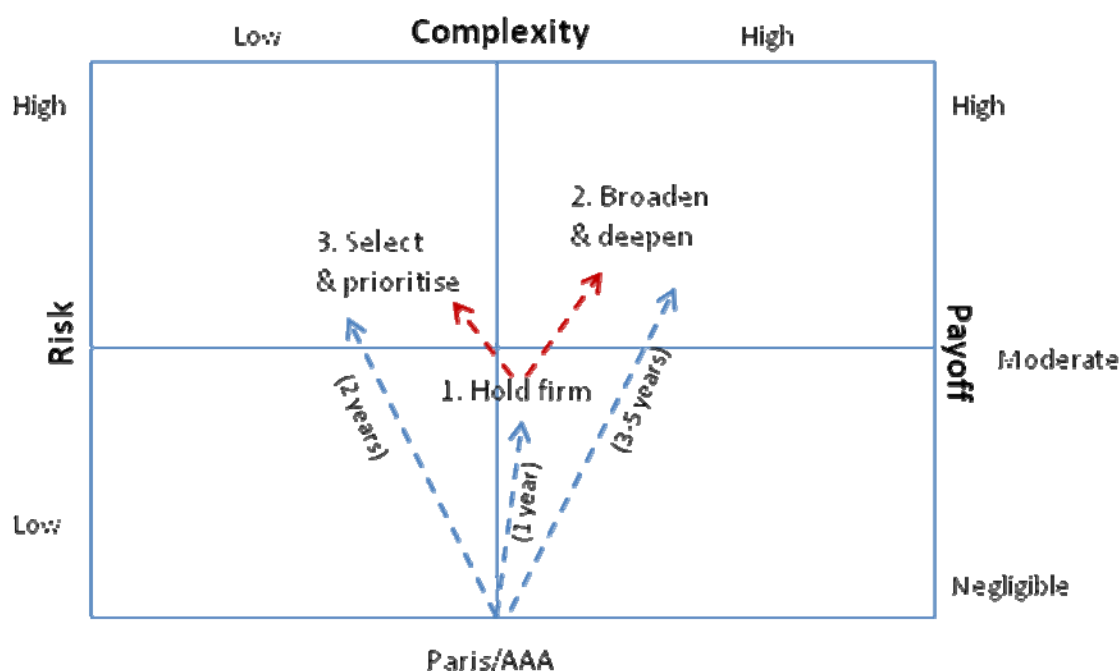
21. The benefits of this approach lie largely with reframing the aid relationship in terms of country-led rather than donor-led and, possibly further in terms of increasing south-south cooperation. By giving explicit and practical support to the country-led agenda there is also a stronger likelihood that recipients will feel committed to the agenda and to its success. The quid pro quo for donors is a more direct link to the demand-side of aid effectiveness and to a set of thorny aid management issues that exist within country level institutions. The move away from a mechanistic technical agenda would also allow for more adaptability to country context, while peer monitoring would create a clearer constituency for reform and learning amongst recipients possibly backstopped by UNCDF or a similar representative body. The risk, however, is that those countries without the immediate capacity to prepare plans will rely on donors to fund them and do them with minimal country ownership. There is also a potential problem of overloading if country-led plans do not supplant other donor-led coordination instruments. It would also be a major shift in the way the Paris framework is currently crafted and would involve a major change in the agenda between now and Seoul 2011 (although it might be possible to pilot a number of these country-led plans ahead of Seoul – particularly for those countries that already have aid strategies in place- to demonstrate how they could work in practice).

22. The third path is a ‘Paris-light’ approach and involves **selecting and prioritising** from within the current agenda a set of principles that have particular relevance both for aid-donors and recipients. Based on a review of the literature, these ‘*effective financing*’ principles would most likely be alignment (responsiveness to country context), accountability and transparency, with predictability (timeliness) a close third. The focus on results would come out of a strong emphasis on accountability and transparency.

23. Focusing attention on a limited set of principles gives an opportunity to re-tool the agenda in the face of a changing context and would be a way to build traction with a (potentially) new set of political leaders - who may see merit in these principles irrespective of their association with the Paris agenda. Further development of a sub-set of principles would also allow for a clearer articulation of what success might look like for both recipients and donors, and across a variety of contexts and financing sources. The risk is that the very process of coming up with a sub-set of Paris principles may trigger implosion within the wider agenda as aid actors diverge over what they regard as the most important for effectiveness. And, once again, recipients may feel only limited ownership of such principles if they are not embedded within country-led plans.

24. The most likely and feasible path for reform will depend on a host of factors, not least the political appetite for reform amongst DAC donors themselves. The figure below suggests some possible trade-offs that will be need to be considered as part of any way forward. For instance, option 1 is likely to involve some heightened risks (including the risk that it is perceived as the status quo and is therefore not taken seriously), as well as some increased complexity (in particular through an increase in the number of stakeholders and non-DAC donors involved). In practical terms, however, this is the option that has the least risks overall and a moderate payoff and could be an intermediate path on the way to either option 2 or 3. Options 2 and 3 yield potentially higher payoffs in the medium term, but at the cost of higher risks in the short term and, at least in the case of option 2, added complexity. The ability of different donors to handle such risks will vary as will the degree of commitment to a higher payoff but over a longer timeframe, hence any strategy going forward will need to weigh up what is practical and desirable in the short term and seek to build a consensus position around the best way of getting there.

Figure 2: Trade-offs and time paths for each of the reform pathways (illustrative only).



25. As potential fixes to the slow pace of change under the Paris Framework are found, the world is rapidly changing and the more searching and difficult question becomes: what is needed to deliver on a major step change in effectiveness in this increasingly complex and potentially less consensual environment? Who and what else needs to come into play? What might the post-2015 development framework look like and what kind of aid reform agenda will be needed to transform not only the way aid is provided but the way the challenges of global public policy will be met in the future?

SCENARIO TWO: ISSUES AND OPTIONS BEYOND 2015

26. The second scenario begins from a different starting point and suggests elements of a new global approach to development finance in which publicly intermediated aid is an essential but not necessarily defining component, and in which traditional dichotomous relationships between aid-donors and aid-receivers are reworked to reflect a changing landscape.⁹ Here the emphasis is on building a broad global development partnership that allows for diversity while adhering to common guidelines and criteria from all stakeholders – emerging and private aid actors included.

27. From 2015 the trends and drivers noted earlier could go in one or more directions. What is clear is that what was understood to be ‘business as usual’ in 2005 will be less relevant in 2015 and potentially irrelevant in 2020. Drawing on the analysis in the literature review and the workshop two particular trends are worth watching out for.

- The first is the redrawing of the global consensus on the MDGs and the centrality of poverty reduction post-2015. There are few who would argue that the MDGs will disappear altogether and even fewer who claim that poverty reduction will disappear as a principal development goal. But the shifting case load on aid and poverty and the intensifying challenges of both regional and global collective action suggest that reaching a global consensus similar to that reached at the start of the Millennium and repeated again in Monterrey, Rome and Paris, will be a great deal harder in 2015.¹⁰ Instead the post-2015 agenda is likely to be shaped by a new set of regional and global policy concerns rooted in achieving inclusive development in a climate and financially constrained world. This ‘beyond aid’ agenda is partly based on the shifting geo-politics of development and new patterns of regional integration and economic dynamism, and partly on the changing discourse around poverty and equity in the face of new global risks and opportunities (Zoellick 2010, Alex Evans et al 2010).¹¹
- The second is that important demand-side challenges to the effective use of aid (and development finance more generally) are now understood to emanate not just from the complex political economy at country-level but also from weak regulation of regional and international public and private ‘bads’ (e.g. the illicit trade in natural resources, transnational crime and corruption) (Unsworth and Moore 2009, Collier 2008). The effect of

⁹ As Barder (2009) puts it: the challenge is ultimately not to ‘think outside of the box’ but to ‘change the box’.

¹⁰ The difficulties in delivering a global deal on climate action in Copenhagen attest to this trend.

¹¹ Financial system vulnerability, slow onset disasters with global impact and vulnerability in global supply chains are all beginning to shape the way we think about the cost and benefits of globalisation.

these ‘bads’ is to weaken national public authority and to perpetuate a cycle of weak governance, particularly in fragile states. Global initiatives such as EITI, the Stolen Asset Recovery Initiative and the Natural Resource Charter are part of a growing web of voluntary codes and standards designed to limit the scope and costs of these illicit flows. Attention to these initiatives is likely to grow, particularly as the perceived risks of globalisation intensify.

28. In this context and irrespective of how long the Paris agenda lives on, the aid effectiveness agenda is going to have to re-tool to address a broader range of development effectiveness issues and a wider range of development finance actors. Pressures to align operational decisions on aid with a range of foreign, security and climate policy priorities will also mean that pursuing global poverty reduction objectives is going to require a more joined-up and networked approach across government and between governments, private and foundation actors, regional as well as global bodies (Lockwood, Mulley et al 2010). The implication is that conversations around ODA will need to be joined up with conversations about other financial flows and the kinds of development financing options required to meet the changing needs of developing countries (particularly countries moving from low to lower middle income status and fragile countries) and the global community at large.

29. This scenario points to the need for a different kind of global development partnership less hinged around a technical agenda on aid effectiveness and based instead on a common set of global public policy goals (Severino et al 2009) and a set of development effectiveness principles that relate to both traditional and less traditional/new forms of development finance. Evidence for this can be found in Rischard (2002) and Severino and Ray (2009) each of whom identify a number of pressing global policy areas that are likely to shape the context for development in the coming years. Rischard’s formulation is in Table 4. Severino and Ray summarise theirs in terms of (i) financing and delivering global public goods; (ii) access to essential services and, (iii) economic convergence. The World Economic Forum Global Risks Report for 2010 identifies a number of slow-moving risks exacerbated by the financial crisis and global economic downturn, and stresses the continued need to further enhance global resilience to risks including through increased load-bearing and reactive capacity internationally and coordinated action on key agendas.

Table 4: Twenty Global Issues, Twenty Years to Solve Them

Sharing Our Planet – the Global Commons	Sharing our Humanity – Global Commitment	Sharing our Rule Book – Global Regulation
Global warming Biodiversity and ecosystem losses Fisheries depletion Deforestation Water deficits Maritime safety and pollution	Massive step up in the fight against poverty Peace-keeping, conflict prevention, combating terrorism Education for all Global infectious disease Digital divide Natural disaster prevention and mitigation	Reinventing taxation for the 21 st century Biotech rules Global financial architecture Illegal drugs Trade, investment and competition rules

30. In this more complex world, a critical underpinning for more effective coordinated global action is likely to be the ability of the development community to agree on a set of development effectiveness principles that address the way in which development assistance is allocated, delivered and accounted for alongside a broader range of actions that promote and support development. Based on a range of literature, such a set of principles would need to cover:

- Agreement on a more equitable global allocation of aid including a new sharing of responsibilities between old and new donor countries and shared criteria for allocating aid according to a new set of risks and vulnerabilities experienced by aid receiving countries.

What is needed is a new cooperation relationship built around fiscal rules (a system of transfer payments and grants) rather than traditional aid-giving rules.

- Better metrics for assessing and benchmarking the outputs of aid provided by international development actors at country level.
- Country-led development effectiveness plans covering a range of development finance sources and new trilateral/south-south and innovative partnerships. Some of this is already happening with the increasing number of south-south partnerships developing, culminating in April 2010 in statements such as the Bogota statement on South-South Cooperation with a strong emphasis on capacity development and knowledge sharing.
- Greater transparency and benchmarking of development finance flows through full disclosure of both public and private sources. Agencies could be awarded a ‘transparency mark’ when they comply fully with disclosure guidelines.¹²
- A stronger framework for international mutual accountability built around, inter alia, a series of codes, standards and enforcement mechanisms for limiting the negative impact of cross-border ‘bads’; full consideration of the impact of rich and emerging market economic policies on low-income countries through a monitoring mechanism at the G20¹³; and smart regulation of new financial and technological innovations that mitigate the risks while not choking off new growth opportunities in developing countries.
- Agreement on a set of guidelines for international engagement in fragile contexts including the principle of do-no-harm
- Agreement on a set of guidelines (a ‘Charter’) for limiting the proliferation and improving the impact of global vertical funds. Such guidelines would need to draw on a portfolio management approach in which each Fund is required to meet certain performance standards and, if not, there are clear rules for exit or consolidation.

31. What is clear is that much of the agenda set out in this scenario extends beyond the specific mandate or competence of a single aid agency or Department for development. In preparation, DFID must seek to work more closely across the departments of government and in new ways with bilateral and multilateral partners. Moving from aid effectiveness to development effectiveness puts a premium on networking and cooperation and on engaging with the politics, particularly the asymmetries of past aid relationships, as much as the technical challenges of aid and development. For organisations such as DFID this is likely to require a rethinking of the role of middle-income countries in development, viewing them not as potential targets for aid but as critical knowledge and financing partners in a new kind of development cooperation relationship.

CONCLUSION – THINKING OUT OF THE BOX OR THINKING THE BOX DIFFERENTLY?

32. In his speech before the annual Spring Meetings of the World Bank and IMF this year President Zoellick was clear that the world is changing and it is changing for aid and development also.

¹² Note the UK Secretary of State’s recent commitment to an ‘Aid Transparency Guarantee’ is very much at the forefront of this thinking.

¹³ See: Willem de Velde et al (2010) *The G20 framework for strong, stable and sustainable growth: what role for low-income, small and vulnerable economies?* ODI

“Development is no longer just North-South. It is South-South, even South-North, with lessons for all with open minds.... It is a new world where developing countries are not only recipients but providers of aid and expertise. Nor is it about ideological panaceas, blue-prints or one-size-fits all. In a multipolar economy, development is about pragmatism, learning from experience, recognising how markets and business opportunities change, sharing ideas and connecting knowledge...Nor is the future of development only about old concepts of aid. The sovereign and pension funds wanting to invest in Africa represent a new form of financial intermediation. This is not charity. This is investment looking for good returns.....” (The End of the Third World? Modernising Multilateralism for a Multipolar World. Robert E Zoellick, April 14, 2010).

33. Aid reform continues to be a big agenda, while the context for aid is rapidly changing. The background work for this think piece makes it very clear, however, that there are serious dangers to abandoning the current path of aid reform too quickly. Much has been achieved within the constraints of Paris and there is still work to be done in delivering on a far-reaching set of commitments between now and 2011 and, arguably, up to 2015. There are opportunities, however, to enhance the impact of Paris between now and 2015 by moving the agenda away from its largely technical and technocratic preoccupations (numbers of missions and PIUs) towards a stronger and clearer application of its founding principles and of an understanding of the political economy dimensions of aid reform.

34. Whatever is done to improve on Paris in the short to medium term will not prepare donors or recipients for what is likely to be a very different global and regional context post 2015. As Zoellick states “Poverty remains and must be addressed. Failed states remain and must be addressed. Global challenges are intensifying....But the manner in which we must address these issues is shifting. The outdated categorisations of First and Third Worlds, donor and supplicant, leader and led no longer fit” (Spring Meetings, 2010). While challenging the old asymmetries of aid defined much of the thinking behind Paris, the next chapter will be to dispense with these asymmetries altogether. It is not just thinking out of the box, but thinking the box differently. Aid will retain its significance in the fight against poverty and inequality, but it will need to do so alongside other forms of financial intermediation and in a context in which there are new actors, new interests and potentially new ‘differences’ to manage.

35. As a development actor DFID will need to find new ways of working both within and across government, with existing and new fora for international and regional cooperation. There will need to be much more emphasis on matching financial and knowledge solutions for different kinds of low-income country. As a financial and knowledge actor, DFID will need to become even more networked and more agile as time goes on. Working towards a set of development effectiveness principles will not only guide these changes within DFID but form the basis of a different kind of conversation within the UK government and, all importantly, with middle-income partners, recipient countries and regional and international actors.

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