

Localising aid: can using local actors strengthen them?

Jonathan Glennie with Ahmed Ali, Maia King,
Alastair McKechnie and Gideon Rabinowitz

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Results of ODI research presented
in preliminary form for discussion
and critical comment

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* Disclaimer: The views presented in this paper are those of the author(s) and do not necessarily represent the views of USAID, ODI or their staff

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Acronyms

AEPRP	African Economic Policy Reform Programme
CABRI	Collaborative African Budget Reform Initiative
CPIA	Country Policy and Institutional Assessment
CSOs	Civil society organisations
DAC	Development Assistance Committee
DFID	Department for International Development
ENACT	Environmental Action programme
FARA	Fixed Amount Reimbursement Agreement
G2G	Government-to-Government
GBS	General Budget Support
GDCC	Government-Donor Coordination Committee
GDP	Gross Domestic Product
ICSOs	International Civil Society Organisations
IFI	International Financial Institutions
IMF	International Monetary Fund
IPR	Implementation and Procurement Reform
MDP	Most Deprived Persons
MOHSF	Ministry of Health and Social Welfare
MTEF	Medium Term Expenditure Framework
NAO	National Audit Office
ODA	Overseas Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PBAs	Programme Based Approaches
PEPFAR	President's Emergency Plan for AIDS Relief
PFM	Public Financial Management
PIU	Project Implementation Unit
PRSP	Poverty Reduction Strategy Paper
SBS	Sector Budget Support
SOAS	School of Oriental and African Studies
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank
WFP	World Food Programme

Executive summary

Since the modern era of aid giving began after the Second World War donors have sought to improve the effectiveness of their aid. In the 1980s and 1990s a shift towards policy lending (as opposed to project lending) dominated aid spending, along with a rise in the role of private agencies and contractors (both for profit and not for profit). In response to a perceived mishandling or downgrading of the potential role of the state during this period, the Paris Agenda strongly emphasised greater use of recipient government systems in the 2000s, primarily with a view to strengthening their capacity and accountability. Now, in a context of limited progress towards increased ‘use of country systems’, that agenda is also being reassessed, both for failing to accommodate non-state actors into its purview, and for applying an over-rigid set of solutions that fail to take sufficiently into account the contexts of both recipient and donor partners.

Building on that analysis and learning from the challenges to date, this paper sets out a research programme to address whether the ‘Paris-style’ approach to using systems in order to strengthen them (i.e. transferring aid to and through those systems) is working, and whether an analogous approach might also be appropriate for non-state sectors (i.e. the private sector and civil society).

The paper tentatively proposes a new formulation: ‘localising aid’. **‘Localising aid’ means channelling aid to recipient-country entities.** These entities might be public (ministries, parliament, accountability bodies and local government) or private (civil society organisations, media, non-governmental organisations and the for-profit sector). There are two ways aid agencies give aid to local entities: as core support to the work of those entities, usually with some kind of conditions; or by channelling money through them to complete an agreed task according to a specific contract. We recognise that there are many ways in which country partners, state and non-state, may be strengthened; ‘using’ them is only one way of doing so. However, that is the intentionally limited focus of this research programme. Other ways of achieving similar objectives may be analysed as comparators.

One of the spurs behind this focussed approach is practical; USAID has committed to a major reform that includes a target to give 30% of USAID aid directly to local entities, both public and private, by 2015 (up from 11% in 2011). As funder of this ODI research, one output USAID requires is evidence of the development value of such a policy. However, the application of such a policy to broader development and aid debates is immediately apparent. By introducing non-state actors into a category alongside government and state institutions, the localising-aid approach re-emphasises a ‘whole-of-society’ approach, much in the spirit of the recent Busan conference in November 2011. Furthermore, given donors’ poor progress to date in meeting the Paris commitments, such an approach may promote a wider range of options for the development community in its bid to improve aid effectiveness and gradually to reduce the reliance of host countries on aid interventions. Preliminary investigation suggests that both the evidence base for the effectiveness of using country systems and the theory (or theories) of change (i.e. the logic behind intervention) are often poorly articulated. If aid agencies are to implement sometimes radical reforms, in the face of hard questioning by domestic stakeholders concerned about the loss of tied business or the increased risk associated with localising aid, a stronger evidence base will be necessary.

This preliminary framing paper does not seek to present evidence, but to frame the enquiry. The output of the research will be an improved evidence base to support the development of aid-delivery options that credibly balance results with sustainability, and the political economy factors of both donor and recipient countries. In Part 1 of this paper we look at the history of aid effectiveness to date, with a special focus on the motivating factors behind, and critiques of, the Paris Agenda. In Part 2 we set out a research programme to investigate whether localising aid may lead to better aid impacts, particularly with regard to sustainability of development results, through the strengthening of the state sector, private sector and civil society.

PART 1: From Paris to Busan: The conventional approach to country systems

In the first section we briefly summarise the aid policy trends of the 1980s and 1990s, not an easy task given the weakness of the quantitative data. While the main aid modality in the 1960s and 1970s was project funding, economic crises in much of the developing world during the second half of the 1970s led to a different approach with two main pillars. On one hand, there was an increase in the proportion of grants and loans transferred directly to recipient-government coffers (so-called ‘structural adjustment lending’, because the conditions attached were intended to promote ‘structural’ changes in recipient economies). On the other hand, the role of private entities, including national and international organisations, began to take on a growing importance in development. By 1993, Northern CSOs accounted for \$5.6bn (15%) of bilateral grants from DAC states, and in India they handled 25% of all aid; much of it was channelled to recipient country organisations. USAID was said to recycle 80% of its aid back to US contractors.

By the turn of the century dominant critiques had emerged of both of these pillars. The first pillar – coercive structural adjustment lending that promoted policies without deep local ownership – had few defenders left. Some thought it had not worked because of the impossibility of ‘buying reform’ where no national leadership supported it; others thought the neo-liberal policies of the Washington Consensus were simply misguided. Still others were more concerned about the impact of strict conditionality on democracy and sovereignty. The second pillar – faith in the ability of non-state sectors to achieve results where other aid modalities had failed – was undermined by poor results, bad value for money and lack of sustainability without chronic aid dependence. A consensus emerged that the role of a capable, accountable state had been overlooked by development practitioners who had placed too much weight on private entities (either market or voluntary organisations) to break through the barriers to progress in poor countries, or on external agencies to intrusively manage state failings.

In section 1.2 we chart the aid-effectiveness agenda that emerged in response to this critique and which coalesced around the Paris Agenda. While the role of CSOs continued to evolve, with emphasis on participation and an ‘enabling environment’, the clearest policy direction in the new era, as set out at the Rome, Paris and Accra conferences of the 2000s, was the alignment of donors behind strategies ‘owned’ by the recipient country itself – namely, the government. We identify three main groups of motivating factors behind this emphasis shift, sometimes interconnected and sometimes even contradictory: results, sustainability and reduced costs.¹ In the main they emanate from observing the ‘dis-benefits’ of aid that bypass country systems (i.e. a ‘negative’ efficiency argument, rather than a ‘positive’ opportunity and outcome argument).

¹ We consider accountability, another important part of the Paris Agenda, as part of the sustainability objective.

Results: Concern that poverty-reduction results were limited and slow

Donors recognised that sharing control and responsibility for development interventions with local (notably state) actors might lead to a range of new risks and challenges. At the same time, evidence suggested that when donors forced their own priorities on countries, they ran the risk of working counter to, rather than along with, the grain of local actors, making progress therefore less likely. The integration of donor and recipient development objectives, it was thought, would lead to a higher probability of objectives being realised as quickly as possible. Well under 50% of donor assistance was considered to be aligned to country priorities in 2005, a statistic that has little changed since (OECD, 2011a).

Sustainability: Increasing recognition of the importance of strengthening local actors and procedures for the sustainability of development results

Rather than respond directly to the needs of the poorest by delivering services, donors wanted to use aid to support and strengthen a partner country's ability to deliver the same services itself, without foreign assistance. Failure to consider the sustainability of any progress achieved was acknowledged as short-sighted. Particular focus was placed on the importance of a well-functioning state, a marginalised priority in the practices of many development actors in previous years. Weak state capability came to be seen as a primary cause of slow development. This view is well-expressed in a recent USAID analysis: 'Successful development depends in large part on the efficiency, integrity and effectiveness with which a country raises, manages and expends public resources. Therefore, improving the formal and informal rules and institutions that govern these activities, and strengthening the related human and technological capacities, should be a major component of any development approach' (USAID, 2011).

Reduced costs: Increasing development value per aid dollar by reducing high administrative burdens

At the same time evidence began to emerge that the transaction costs of delivering aid through projects were becoming unacceptably high for countries with large numbers of them and a multitude of donors, each with its reporting and accounting requirements. Bringing down transaction costs became a key donor focus. Using country systems was one way of reducing the transaction costs associated with aid since there would be less need of separate project management, implementation planning and monitoring. This would free up government resources and save money since donors would no longer need to set up separate processes. By better coordinating their aid procedures, donors hoped to reduce the resources spent on administration.

We discuss each of these issues in turn. We suggest that the central motivating factor of one key element of the Paris Agenda – increased use of country systems – was sustainability. Our proposed research programme focuses primarily on this goal.

Just as the policies of the 1980s and 1990s underwent criticism, so has the focus on country systems defined at Paris. We look at these criticisms in section 1.3. The orthodox analysis to date is that where the Paris prescriptions on country systems have been implemented, they have worked to varying degrees, but that there has been surprisingly little implementation: that is to say, the direction of travel is right, but there has been little movement. We look at why commitments on country systems that seemed appropriate on paper have been so hard to implement in reality, and analyse whether it is the commitments themselves that may need modifying.

According to some critiques, the new consensus emerging from the Paris process focuses too exclusively on the government and state, and that the stricture to use country systems is another illustration of this. By contrast there is little emphasis in the Paris declaration on other parts of a functioning country, such as the private sector and civil society (although this was somewhat modified at Busan and Accra). Other actors that form part of a country's permanent institutional arrangement, within a government's policy, legal or regulatory framework, are also critical for poverty-reduction, economic growth, service delivery and mobilising private funding for local charitable activity. In cases of unrepresentative, unaccountable or ineffective governments, it may be important to focus efforts in these other sectors.

A second set of critiques coalesces around concerns that the Paris process is often perceived as a journey toward an ideal aid relationship, when no such ideal exists. Instead, the Paris Declaration, and the bureaucratic process accompanying it, was in essence a response to a set of problems that have dogged particular aid relationships for the past few decades. The portrayal of Paris as a blueprint may have undermined more context-appropriate attempts to make aid more effective, especially in two types of country that have emerged in the critiques as perhaps unfit/non-ideal for the Paris prescription: fragile states and middle-income countries and/or countries not dependent on aid.

While the Paris Declaration and its sister documents read as a set of reasonable shifts in direction, the evidence shows that donors have made far less progress than was expected in 2005. There are a number of reasons for this, but an important one is that donors have not fully internalised the change of mindset required to move from a results-based approach to a 'systems approach', and many are unwilling to contemplate it. Using country systems and actors requires a recalibration of the time horizon for meaningful impact to be achieved – a fundamental tension in development assistance. Moreover, donors may ultimately not be very effective at building institutions in societies they only partially understand; they may do harm as well as help. The measurement challenges of a systems approach are also more complex, and the challenges of persuading donor publics of its importance may be equally difficult.

Despite nominal reiteration at Busan and subsequent meetings, some aspects of the Paris Agenda, notably harmonisation, have been allowed to wither while new elements, such as transparency, have flourished. Crucially, the Busan era places fresh emphasis on bringing forward aid 'exit strategies', and focuses more explicitly on the role of civil society and the private sector than in previous statements of the aid-effectiveness agenda. In the final section of Part 1 we assess how well Busan responds to the problems so far delineated in this paper. We conclude there is still a lack of clarity in the theory of change behind the Busan manifesto, but that implicit in the new consensus is the idea that different aid efforts should complement each other, rather than always harmonise, in recognition of the need for more context-specificity in the future.

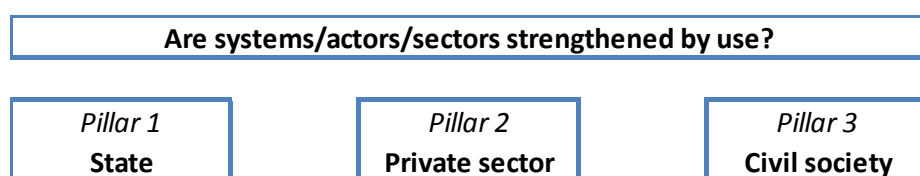
Part 2: Localising aid: An empirical inquiry

In Part 2 we set out an agenda whose benefits and challenges we recommend for analysis, and which we define as 'localising aid'. Localised aid is easy to define – an attractive characteristic given the complexity associated with the Paris indicators. It simply means aid that is transferred to and through recipient country partners. These entities may be public (ministries, parliament, official accountability bodies or local government) or private (civil society organisations, media, non-governmental organisations or the for-profit sector). We define two ways in which aid agencies give aid to country entities: as core support to the work of those

entities, usually with some conditions; or channelling money through them to complete a pre-agreed task, according to a specific contract.

We argue that the category ‘localised aid’ has not been treated coherently in research and policy to date. There has not been a concerted global effort to localise aid. This paper marks the start of a research programme funded by USAID, whose Implementation and Procurement Reform (IPR), with its dual emphasis on government systems (objective 1) and national, non-state actors (objective 2), has played a role in framing the localising-aid concept adopted by this paper. Our research will test the theory that localising aid to both state and non-state actors is a worthwhile policy initiative. There are many ways donors seek to strengthen systems and partners; this research limits its scope to assessing the development benefits of one particular approach.

While Paris very much focused on localising aid to the state sector, less attention is paid in international aid-effectiveness circles to how aid can support the development of non-state sectors. As such, a localising-aid research agenda sits neatly within the Paris/Busan Agenda, combining the traditional Paris interest in strengthening national systems, with an emerging Busan Agenda that seeks to include non-state actors as core development participants. We set out three pillars of research, corresponding to the state sector, private sector and civil society.



In section 2.2 we set out our preliminary understanding of a ‘whole-of-society’ approach to using country systems and actors, and explore these three pillars in more depth. While the state is critical for the provision and regulation of public services, it is not the only actor delivering programmes. Furthermore, domestic accountability mechanisms, both vertical (by society of state functions and other decision makers) and horizontal (state and quasi-governmental agencies charged with holding other bodies and private sector-actors to account), are necessary to support the provision of services. We tentatively set out an ‘ecosystem’ approach in which all parts need to thrive for the others to do so, and in which horizontal and vertical accountabilities are complementary.

There has been only limited focus on the role of the private sector – the second research pillar – in the context of aid effectiveness, and even less that distinguishes between local and foreign private sectors. We discuss the difference between untied aid and local procurement; formally untying aid and opening contracts to competition has not substantially altered the number of contracts awarded to local partners. We raise the prospect of ‘spending the development dollar twice’ by increasing its impact on the local economy through the multiplier effect, and give examples of where this appears to have been important. We also ask whether the distinction between direct donor funding to local private companies, and indirect through open international contractors, is significant.

Civil society organisations (CSOs), the third pillar, have a long history of engaging in development assistance. There is an extensive literature on their role as development actors and how international donors can best support them. However, the emergence of the Paris aid-reform agenda inspired a new wave of debate and practice around support to CSOs. Most

notably, the principle of alignment has encouraged some donors to use these and other funding streams to increase direct support to local CSOs, build their capacity to operate sustainably as independent actors (including through greater use of core support) and focus assistance on their role in holding governments accountable. Meanwhile, the principle of harmonisation has inspired experimentation with multi-donor mechanisms for delivering coordinated assistance to CSOs. However, the use of these modalities only gained traction among a relatively small group of donors. The limited evidence available suggests that more traditional models of CSO support – decentralised, uncoordinated and more project-focussed models – have continued to dominate. It is not clear whether current aid reform principles and approaches are relevant to CSOs and how they could be adapted to support CSO strengthening and effectiveness. This research pillar will assess the evidence as to whether transferring assistance to and through local CSOs helps to build their capacity and responsiveness to local priorities. We investigate the challenges of contracting local non-state actors directly, instead of through intermediaries.

In the final section, 2.3, we look at how country context, both donor and recipient, can be brought further to the centre of aid-effectiveness decisions. The Paris Agenda strongly implied that such support should increasingly be via state systems, but this uni-directional approach has been critiqued both in theory and practicality. We look specifically at what a more flexible approach might mean for the state sector, but a similar spectrum of options for donor support could be envisaged for the private sector and civil society. Our hypothesis is that, in reality, there is no such thing as full use of country systems, even with general budget support or cash-on-delivery aid. It is always something of a hybrid and aid-effectiveness principles should underlie the variety of possible developmental relationships that can exist between states. The need for different targets and priorities in fragile states is recognised in the Busan process with the emergence of a New Deal for Fragile States, but middle income/non-aid dependent countries may need alternative approaches. We expect different results depending on country type, of which we propose three for the purposes of this study: fragile, stable low-income and middle-income.

Localised aid would consider the importance of direct transfers to actors in each of the three sectors identified, based on the assumption that capable actors in each are required for the successful and sustainable delivery of public goods, with diminishing recourse to external support. An approach that assesses whether different donors could act differently, depending not only on recipient context but their own intrinsic advantages and limitations, might build on the programme-based approaches (PBAs) encouraged under Paris, but left out of the Busan targets. In section 2.3.2 we briefly discuss PBAs. They are envisaged both for the state sector and for private organisations, for profit and non-profit. Our research might build on such analyses.

Having identified the failure to understand properly the implications of a systems approach (narrow or broad) for donor risk and results frameworks as a blockage to progress, our final analysis looks at whether different donors, with different bureaucratic and political limitations, should favour modalities more appropriate to their strengths and weaknesses, rather than seek to conform to a uniform approach. Public expenditure in any country involves some degree of risk. Even within the borders of industrialised countries, public expenditures are vulnerable to fraud and waste despite well-developed systems of fiduciary control. However, risks are higher in countries where politics is driven by patronage and special interests, and where systems of public accountability are weak. Different modalities for providing foreign assistance to low-income countries have different risk profiles. Crucially,

fiduciary risk is not the only type, and aid agencies may need to take carefully calculated risks (as private companies do) in order to achieve more ambitious results. No modality is risk-free and there are trade-offs among each type of risk between different aid modalities. In this section we suggest a categorisation of risks: risks involving loss or diversion of funds and risks that funds will not produce the desired results.

Crucially, there are also trade-offs between different risks depending on the instrument chosen by the partner and recipient country; some instruments deliver short-term results, but do little to develop institutions; or damage what little capacity exists; or promote aid dependency. Others are more effective at building institutions and ensuring sustainability, but are less good in delivering short-term impacts. Incentives in aid agencies to minimise risk rather than manage it are profound, as is the tendency to seek out short-term and tangible results to report, rather than work on the harder task of promoting long-term development and capacity. Only a fundamental reappraisal is likely to overcome these substantial barriers and countervailing pressures.

In our conclusion we argue that if the first challenge for effective aid in the second decade of the 21st century is to learn the lessons of the past, the second is to apply them in a changed and rapidly evolving context. Overall growth trends in emerging and developing countries, along with the growing importance of private actors and the threat of calamitous climate change, have transformed the 'aidscape' and the new geopolitical context means that the interests and incentives of traditional donors, emerging donors and aid recipients (categories that are increasingly fluid) are changing. An important question in this research is not just whether using local actors strengthens them but how important that is in this changed context of development finance.

Introduction: Context of the research and definitions

Context of research

Ever since the modern era of aid giving began after the Second World War, donors have been concerned with improving their aid effectiveness. The most recent, and possibly most concerted, effort to this end has been the OECD-led Paris process. However, progress in implementing aid-effectiveness reforms has been slower than hoped. This ODI working paper is the first framing output of a USAID-funded research programme to investigate the development value of aid modalities, broadly defined as ‘using country systems’. The use of country systems has become emblematic of the modern era of aid effectiveness, a make-or-break issue for low-income countries at the Busan conference negotiations in December 2011,² despite being an area in which progress has been limited since similar commitments were made seven years ago at Paris. With donors reaffirming their commitment to Paris-style aid effectiveness at Busan, and to using country systems in particular (OECD, 2011b; OECD, 2012), there is a growing need to find ways to deliver aid that respect the principles of country ownership and alignment with country priorities and systems, while also addressing the growing political imperatives around risks and results, and the problems inherent in current approaches.

The term ‘localised aid’ is a new category that ODI proposes as a way to manage a broadening of the aid industry’s perspective within the spirit of the Busan outcomes, which seek to reposition the role of non-state actors alongside the state at the heart of aid effectiveness. As we explain in Part 2 of this paper, localising aid means, quite simply, channelling more aid to and through local actors, whether state or non-state. Aspects of just such an agenda were contemplated by the Paris Agenda, but not in such clear terms, nor with such specific emphasis on non-state actors. One spur behind proposing the new category is practical: USAID is committed to a major Implementation and Procurement Reform, which includes a target to give 30% of USAID aid to local entities, both public and private, by 2015 (up from 11% in 2011). As funder of this ODI research programme, one output USAID requires is evidence of the development value of its two primary objectives: i) increasing government-to-government (G2G) aid; and ii) increasing aid to national non-state actors (USAID, 2011).³ However, the usefulness of applying such a category to wider development and aid debates is immediately apparent.

The goal of ODI’s Localising Aid research programme is to draw together empirical evidence as to whether the policy of transferring more money to and through local actors/systems/institutions/processes has had, is having or could have significant benefits in terms of capacity and accountability, and in what circumstances. Preliminary investigation suggests that, despite continued enthusiasm for moving aid money into recipient-government systems, there is a limited evidence base for the developmental impacts of such an aid-effectiveness prescription, and that even the theory, or theories, of change (i.e. the logic behind the intervention) is often poorly elucidated. If aid agencies are to implement sometimes radical reforms successfully, in the face of hard questions from national stakeholders concerned about the loss of tied business or the increased risk associated with

² Personal communication from those present in the meeting

³ ‘Objective 1: Strengthen partner-country capacity to improve aid effectiveness and sustainability. Objective 2: Strengthen local civil society and private-sector capacity to improve aid effectiveness and sustainability.’ USAID, 2011.

more effective aid modalities, a stronger evidence base will form an important part of the picture.

The output of the proposed, year-long research programme will be an improved evidence base to support the development of aid-delivery options that credibly balance cost-effective and sustainable development results with multi-dimensional risks and political-economy factors in recipient and donor countries. It will draw on global data from US, European and multilateral donors as well as carrying out a number of in-depth case studies. This preliminary paper does not seek to present evidence, but rather to frame the enquiry on which we hope to embark. We are not offering any answers with this paper; we seek to summarise key aspects of the present state of the aid-effectiveness debate and set out tentative lines of new enquiry.

Definitions

The most contemporary definition of the term ‘country systems’ comes from the Paris Declaration on Aid Effectiveness (OECD, 2005), which refers to state institutions, including government (i.e. executive and civil service) and oversight institutions, such as parliament, the judiciary and independent institutions responsible for areas such as civil-service management, anti-corruption and human rights. The Declaration states: ‘Country systems and procedures typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring.’ It goes on to give the following examples of country systems: ‘Public financial management, procurement, fiduciary safeguards and environmental assessments’. In some usages, this definition is narrowed further; for instance, in the Paris targets and indicators, the section on ‘using country systems’ refers to public financial management (PFM) and procurement systems only. This has led to some definitional ambiguity over time (i.e. that ‘country systems’ refers primarily to financial systems). In other usages, the definition is slightly broader, allowing for both non-state systems and state systems (USAID, 2011).

For the purposes of this research we delineate clearly between three sectors: state, private sector and civil society. ‘Using systems’ commonly implies aid providers engaging with them financially and disbursing funds to and through them; in broader usage it may also mean engaging with them in a non-financial way. There is a large variation of types of engagement depending on the donor, recipient and system in question. ‘Localising aid’ is concerned primarily with financial transactions, although other ways of aligning with and using local actors will be relevant to the research.

1 From Paris to Busan: The conventional approach to country systems

1.1 1.1.1 Aid in the 1980s and 1990s: Policy lending and the rise of non-state actors

It is useful to define three eras of aid giving, each a reaction to the one that preceded it. Prior to the 1980s (the first era), the main modality for giving aid was project funding. Following a slow-down in economic growth in the developing world in the late 1970s, linked to steep rises in the cost of oil, collapsing commodity prices and reduced export earnings, developing-country governments sought urgent external grants and cheap loan financing to cover shortfalls in their access to foreign exchange. Donors, led by the World Bank and IMF, shifted focus towards programme and policy lending, increasing the proportion of grants and loans directly transferred to developing-country coffers under agreed conditions ('conditionalities'). This was the beginning of 'structural adjustment lending' – the second era of aid – so called because the conditions attached to aid were intended to lead to structural changes in recipient economies.

At first glance this direct support to government balance sheets may appear similar to the 'second generation' budget support that was *de rigueur* in some European donor agencies in the 2000s, but its purpose in fact was almost diametrically opposite. While modern budget support claims to strengthen the recipient government's ability to own, plan and implement its development strategy, adjustment lending in the 1980s and 1990s combined a scepticism of the ability of public institutions to lead development efforts – preferring private alternatives – with an aggressively interventionist approach to development policy. The means by which aid could support change in a country, therefore, formally became dual: it could make direct impacts in the way it was spent, and it could also play a part in pressuring countries to make policy reforms.

For some donors, including USAID, policy lending was never a significant share of the total, and project funding remained predominant. USAID programme assistance in the period included structural adjustment-type lending while the US Africa Bureau's distinctive African Economic Policy Reform Programme (AEPRP) had an idiosyncratic approach to engagement with country systems at sectoral level. In Zambia, for example, USAID analysis and programme assistance under AEPRP helped in the design and implementation of a 'safety net' programme to reduce the impact of IFI conditions on the poor.⁴

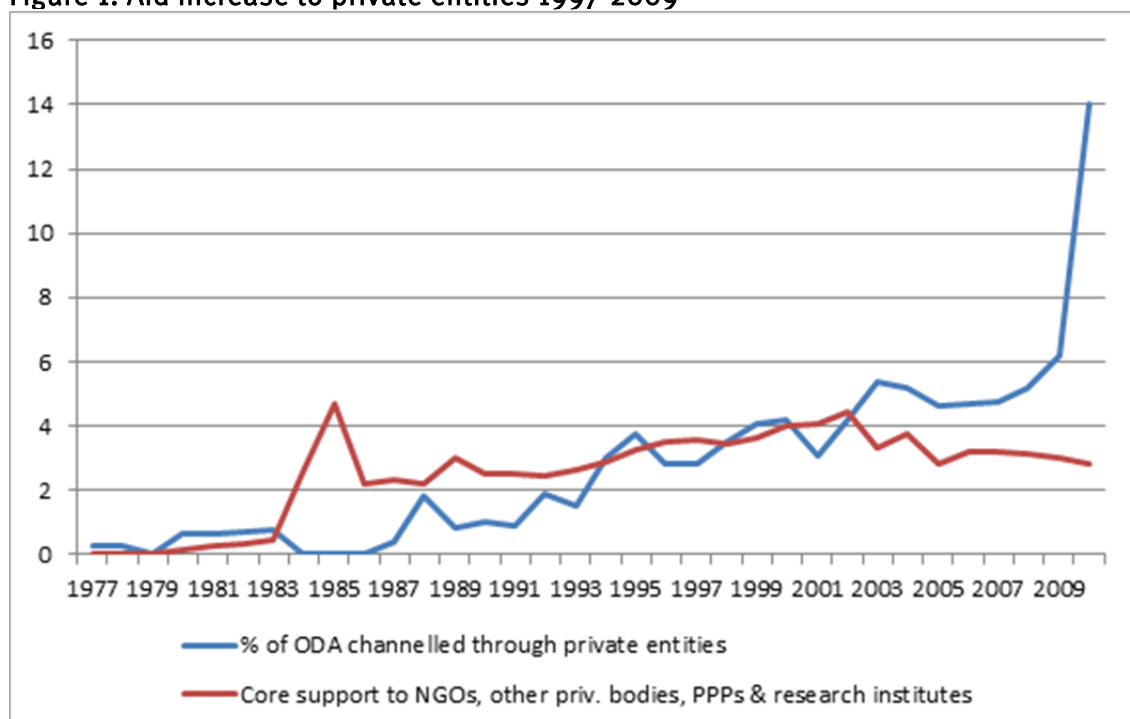
The rise of non-state aid organisations

During this same period the role of non-state entities, including for-profit and not-for-profit, national and international, took on growing importance in aid giving, both as recipients of aid (core support) and channels for it. Donors had been using private contractors for some time but their use significantly increased in the 1980s and 1990s even while the amounts remained fairly small, as Figure 1 shows (Raffer and Singer, 1996).⁵

⁴ Personal communication from USAID staff member?

⁵ The US government, for example, had recognised private and voluntary organisations as legitimate actors in delivering US foreign aid since the 1940s and by 1979 almost all DAC members had financing arrangements with NGOs (Raffer and Singer).

Figure 1: Aid increase to private entities 1997-2009



Source: www.oecd.org/dac/aidstatistics/

The reasons for increasing the use of private entities were related in part to the same ideology that underscored structural adjustment: the movement towards privatisation and away from state management that has characterised most donor's policies since the 1980s. CSOs were considered better able to reach grassroots and excluded communities at a time when the poverty focus of aid was gaining momentum; they had a track record in innovative service delivery and were strong advocates of participation and empowerment (Wilkinson and Hulme, 2012; Pact Inc. 2005). The delegation of projects to private-sector contractors could also entail a reduction in cost for donors if fewer civil servants were needed to manage projects. Donor business interests and lobbying also began to play an increasing role in decision making.⁶ The use of private entities also enabled donors to avoid working directly with autocratic governments (e.g. Haiti under Duvalier).

Critiques emerge

Aid began to fall back in the 1990s, both in real terms and as a percentage of rich-country GDP; by 1997 it was back at 1983 levels. Most analysts regard the declining need to make repayments to Cold War allies a major reason for the fall, but the failure of 1980s policies to halt growing poverty, especially in Africa, and the increasing number of analyses sceptical of the poverty-reduction impact of aid, were also important factors in the downward pressure on aid budgets. By the turn of the century, the main pillar of the preceding two decades of aid policy – structural adjustment lending and the conditions attached – found few defenders. Some thought it had simply not worked (i.e. reform cannot be bought against the will of the national leadership); others thought the neo-liberal policies associated with the Washington Consensus were simply wrong; and still others were concerned about the impact of strict conditions on democracy and sovereignty. Consensus seemed to be emerging that the role of a capable and accountable state had been overlooked by development practitioners who placed

⁶ <http://www.thedailybeast.com/newsweek/1995/05/28/more-bang-for-the-buck.html>

more weight on the ability of private entities (either the market, or voluntary organisations in cases of market failure) to resolve the barriers to progress in poor countries.

According to another analysis, the commitment that arose in the aid industry to work more thoughtfully with national systems did not emerge from the conclusion that aid had ignored state structures, but rather from a sense that it had harmed them (Harrold, 1995) – and, possibly, used them to provide a veneer of legitimacy for their ‘pet’ projects. The various ‘sector-wide approaches’ piloted from the early 1990s were already grappling with Paris-agenda issues, in terms of alignment and harmonisation.

1.2 Three drivers of the Paris reforms: Results, sustainability and cost

A changing global context led to rising aid levels in the 2000s, accompanied by a renewed commitment to aid effectiveness. The OECD's milestone publication, *Shaping the 21st Century* (OECD, 1996), set out the principles of country ownership and donor support to national development strategies that would lie at the heart of the third era of aid. In 2003 governments and civil society from around the world met in Rome to agree guidelines to improve aid mechanisms. Two years later, in March 2005, the Paris Declaration on Aid Effectiveness announced that 'while the volumes of aid and other development resources must increase to achieve [the Millennium Development Goals], aid effectiveness must increase significantly as well to support partner-country efforts to strengthen governance and improve development performance' (OECD, 2005). The Paris Declaration did not originate the focus on country systems, rather it crystallised a formal, high-level coalition around an idea that had been building for 10 years and was already being practised by some agencies as project aid began to be further criticised (Foster, 19XX) and sectoral approaches gained traction (Nabarro, DFID). The debt relief campaign of the 1990s highlighted the need for a more integrated approach to aid delivery which had to be under national government's control.

It is helpful briefly to summarise the process by which the Paris stipulations were intended to increase aid effectiveness, using the indicators as a guide. First, the recipient country has a development strategy endorsed by the World Bank (1). It demonstrates that it has reliable public financial and procurement systems (2a/2b). With those in place, donors align their aid with the priorities set out in the government's development strategy (3); coordinate their technical assistance with other donors (4); use the PFM and procurement systems (5a/5b); use no parallel project implementation units at all (6); disburse aid as committed (7); untie 100% of aid (8); and use common arrangements, and joint missions and country analytic work for their aid (9/10a/10b). Finally, each country has a results framework approved by the World Bank (11) and has in place a mutual accountability framework whereby recipients are able to hold donors to account for their commitments, just as donors have historically done for recipients (12) (Glennie, forthcoming, in eds. Desai and Potter).

Ownership and alignment

According to the 2002 Global Monitoring Report, by the end of the 1990s only about 30% of bilateral aid was available for flexible expenditures in developing countries, the rest being earmarked for specific, donor-decided expenditures, a decrease from 40% in the early 1980s (IMF-World Bank, 2004, quoted in Sagasti et al, 2005).

Country ownership is the backbone of the Paris Declaration. Donors agreed to design their interventions in such a way that they aligned 'to the maximum extent possible behind central government-led strategies or, if that is not possible, donors should make maximum use of country, regional, sector or non-government systems' (OECD, 2005). There is some ambiguity and flexibility in the original Paris Declaration as to how far the word 'country', when used with 'ownership' and 'systems', refers to government or broader societal processes. In more recent gatherings, 'country ownership' has been further defined as national or democratic ownership, implying that non-state actors should be involved in setting national objectives. However, 'country systems' remains tightly interpreted as meaning state and government systems, partly because of the way the targets have set the donor agenda, rather than the longer statements of intent. In the main they emanate from observing the dis-benefits of aid bypassing country systems and strategies, and other inefficiencies, such as tied aid and disharmony among donors. In other words, they are based on a 'negative' efficiency argument more than a

‘positive’ opportunity and outcome argument. This is an important point and may explain some of the lack of empirical evidence supporting the major changes set out at Paris (i.e. there is plenty of evidence of what does not work, but less of what does).

It is critical to note that the objective of increasing aid using country systems is only for aid ‘for the government sector’ (Paris) or ‘in support of activities managed by the public sector’ (Busan). In other words, there is no commitment to increase the amount of funds to the government sector, only to ensure that funds that are directed to the government sector use government systems (i.e. gradually reduce the parallel structures they have tended to develop, and work more closely with the strategies and systems managed by the host government). Theoretically, a donor could score 100% on this indicator without directing any money at all to the government sector (e.g. devoting all its aid to strengthening civil society).

Motivating factors

For the purposes of this research we set out three main groups of factors that can be identified for the shift in emphasis at Paris, all of which are relevant in varying degrees to ‘country ownership’ and alignment to ‘country systems’: **results**, **sustainability** and **reduced costs**. These three categories will be useful throughout this paper and the research programme as a whole as we assess which aid modalities and policies are most appropriate to achieve each of these objectives. While interconnected, their purposes can sometimes be in tension.

1.2.1 Results: Concern that poverty-reduction results were limited and slow

While it was recognised that sharing control and responsibility for development interventions with national governments might lead to a range of new risks and challenges, it was also acknowledged that donor attempts to force their own priorities on countries, rather than ‘working with the grain’ of local actors, had hampered development progress (Kelsall, 2008). It was therefore thought that integration of donor and recipient development objectives – with the latter taking the lead – would on the whole mean a higher probability of the most appropriate development objectives being fulfilled as fast as possible (see Box 1).

Box 1: Non-aligned aid in Rwanda

In the mid-2000s Rwanda was receiving close to \$50 million a year to fight HIV/AIDS but only \$1 million for the integrated management of childhood illnesses, despite a relatively low HIV/AIDS prevalence rate and a health strategy that emphasised the need to improve essential health services for infants and mothers.

In 2007, only 14% of total donor support for health was spent through the Rwandan Ministry of Health, with a further 12% going to local governments. The rest was directly managed by donors or the CSOs with which they worked (World Bank, 2007).

In a similar example, the budget for the US’s flagship vertical fund, the PEPFAR HIV/AIDS programme, constituted 125% of the Mozambican government’s total health budget in 2006, but none of it was spent using national systems (Eurodad, 2008).

1.2.2 Sustainability: Increasing recognition of the importance of strengthening local actors and procedures for the sustainability of development results

If there was dissatisfaction with the pace of development results, there was even more concern about their sustainability. Rather than just respond to the needs of the poorest by delivering services directly, donors wanted to use aid to strengthen the partner country’s ability to deliver the services without foreign assistance. Failure to consider the sustainability of progress achieved began to be considered short-sighted. From a more negative point of view, some

donor practices were viewed as actually harmful to the development of a recipient country's ability to emerge from aid reliance because they replaced, rather than supported, country mechanisms, systems and processes; many aid agencies adopted a 'do-no-harm' approach to mitigate this possibility. A particular focus came to be placed on the importance of a well-functioning state, an area considered marginalised in the theories and practices of development actors in previous years. The failure of the state began to be seen as the primary cause of slow development. The Commission for Africa, convened by Tony Blair in 2005, went so far as to assert: 'Africa's history over the last 50 years has been blighted by two areas of weakness. These have been capacity – the ability to design and deliver policies; and accountability – how well a state answers to its people' (Commission for Africa, 2005).

Evidence suggested that a large amount of aid was being spent outside recipient-government budgets, with donors setting up parallel structures, employing their own staffs, writing rules and developing their own sets of contacts and contracts. The benefits of setting up parallel systems were clear to donors who wanted quick results. But multiple channels made it harder for governments to achieve policy coherence, as well as making basic accounting harder, if not impossible. According to an evaluation in the early 2000s: 'The effectiveness of government systems is seriously undermined by the extensive reliance on parallel, non-government, project-management structure and special staffing arrangements.' Focusing on country systems would, it was argued, have a 'transformative effect on government systems and results' (Lawson et al, 2003).

Capacity development emerged as one of the most important aspects of this fresh focus on sustainability. According to some analysts, 'capacity is development' (UNDP, 2010). In other words, results achieved without related development in the local capacity to continue delivering those results without external assistance is not development at all, but isolated interventionism. While technical assistance had long been a major portion of OECD aid (around 30%), it was not considered to have had the requisite impact on capacity building given its financial importance, with some suggesting that much technical assistance substituted for, rather than built, capacity (ActionAid, 2006).

A particular problem with aid-dependent relationships was that host governments were at risk of being more accountable to external actors – from whom their development resources came – than to their own people. This threatened the important state-citizen relationship at the heart of any functioning nation, as accountability became skewed towards donor-specific mechanisms of accountability, corroding the normal structures of democratic accountability.⁷ Donor 'branding' also undermined the legitimacy of the state in the eyes of its citizens. In this context, it was thought that aid channelled through domestic systems would focus on the government's own accountability channels, rather than those of donors. Putting aid 'on budget' would improve the ability of parliament and the public to scrutinise expenditure decisions, while donors' concerns would shift from how well their particular project was faring to how well the government was managing development activities overall. Technical assistance would complement these gains in domestic accountability.

⁷ Somaliland is an interesting example of how these accountability relationships have developed without foreign assistance. It has many of the characteristics of a state but lacks international recognition. The elected government has negotiated a compact with business elites whereby they pay the equivalent of taxes in return for public services such as education (Eubank, 2010)

1.2.3 Reduced costs: Desire to increase development value per aid dollar spent, particularly by reducing high administrative burdens

Towards the end of the 1990s evidence began to accumulate that the transaction costs of delivering aid through projects had become unacceptably high for countries with large numbers of them and a multitude of donors, each with their own reporting and accounting requirements. Excessive fragmentation into myriad small projects was leading to excessive overhead and administrative costs, particularly when concern over fiduciary risks led to foreign agencies, CSOs and companies implementing them (see Box 2). While a project approach can only grow linearly, a programme approach can achieve economies of scale as institutions are developed and grow exponentially; the contrast between donor-driven 'quick impact projects' and the National Solidarity Programme in Afghanistan is a particular example of this (Ghani and Lockhart, 2009).

Box 2: Proliferation of projects, donors and associated administration costs

In the mid-2000s, there were 35,000 aid transactions a year worldwide, of which 85% were worth less than \$1m. Most African countries submitted around 10,000 quarterly donor reports annually (Manning, 2004).

- According to the World Bank there were more donors per country than ever before, with the average number tripling from 12 per country in the 1960s to 33 in 2007 (World Bank, 2007a).
- Donor activities tripled from around 20,000 in 1997 to nearer 60,000 in 2004, while their average size was cut from over \$2.5 million to a little over \$1.5 million in the same period (World Bank, 2008).
- In 2006, the United Nations Development Programme calculated that there were more than 1,000 financing mechanisms operating at a global level (UNDP, 2006).

The proliferation of donors led to significant problems for recipient countries:

- The Ghanaian Ministry of Health, for instance, had to manage 17 different donors (Eurodad, 2007).
- In Malawi in the 2000s, donors established around 70 different 'project units', almost half of which were run by USAID (Eurodad, 2008).
- In DR Congo, a country where government capacity is not strong, there were more than 30 donors in the health sector assisting 362 projects, of which 262 were less than \$1 million; and 305 projects in the justice sector, of which 199 had a budget less than \$1 million (McKechnie, 2009)
- The Tanzanian government declared a mission-free period every year so that civil servants could get on with their jobs. It received 541 donor monitoring missions in 2006, of which less than 20% were joint (with two or more donors) (Alexander, 2007).

Bringing down transaction costs became a key feature of the new era of aid effectiveness. Using country systems was one way of reducing transaction costs associated with aid for the recipient country since there would be less need for separate project management, implementation planning and monitoring. By better coordinating their aid procedures, donors hoped to reduce the resources spent by all parties on administration. Problems faced by recipients in meeting the disbursement and implementation requirements of different projects, along with supply-side institutional or political blockages, were leading to unpredictability in

funding levels. Many argued that adopting multilateral (e.g. pooling) approaches was one way to improve the situation.

Evidence suggested that tying aid to the purchase of goods and services from donor countries made it between 15-40% less efficient because it restricted competition and favoured more expensive contractors (ActionAid, 2005). It may also promote inappropriate technologies (i.e. technologies appropriate in industrial countries but not in low-income countries). Tied aid has also been promoted by business lobbies and was perceived as assistance to donor companies, rather than to the poor. Untying aid became another signature requirement of the Paris agenda.

1.2.4 The systems-sustainability relationship

The most important of the three rationales behind the focus on country systems is sustainability. According to the Paris Declaration: ‘Using a country’s own institutions and systems, where these provide assurance that aid will be used for agreed purposes, increases aid effectiveness by strengthening the partner country’s sustainable capacity to develop, implement and account for its policies to its citizens and parliament’ (OECD, 2005). In Table 1 below we characterise the 15 Paris indicators in terms of their contribution to each of the three motivating factors (1 is for primary objective, 2 is for secondary objective).

Table 1: Breaking down the Paris targets by main rationale

Target		Results	Sustainability	Reduced costs
1	Operational Development Strategies	1	1	
2a	Reliable PFM systems		1	
2b	Reliable procurement systems		1	2
3	Aid flows are aligned on national priorities	1	1	2
4	Strengthen capacity by co-ordinated support	2	1	1
5a	Use of country PFM systems		1	2
5b	Use of country procurement systems		1	2
6	Strengthen capacity by avoiding parallel PIUs		1	
7	Aid is more predictable	2	2	1
8	Aid is untied			1
9	Use of common arrangements or procedures	1	1	1
10a	Joint missions			1
10b	Joint country analytic work			1
11	Results-oriented frameworks	1	1	2
12	Mutual accountability	1	1	

Source: Authors’ own characterisation based on Paris Declaration and subsequent analyses

According to our analysis, the focus on strengthening PFM and procurement systems (i.e. a country’s financial systems), either through use or other forms of support, is concerned primarily with sustainability and has little to do with reducing poverty in the short term. Reducing costs is a secondary concern; there is some evidence that the use of country systems is cheaper for aid contributors (Foreign Policy, 2012), but other evidence suggests that it leads to increased costs in the short term (Tavakoli and Smith, 2011).

Box 3: Budget support

Budget support, either general (to the finance ministry) or specific (to service-delivery ministries), gained strong traction among European agencies even before the Paris agenda was formalised. Whereas previous programme aid had focussed on stabilisation and adjustment objectives, including balance of payments support, ‘new’ budgetary support focussed on poverty reduction and economic growth, with particular attention to institutional reform, aid effectiveness and technical assistance. Budget support was believed to have two types of transformational effect on country systems: first, systemic effects (i.e. the effects of a flow of funds that strengthens the system through its use); and, second, direct effects (i.e. the effect of technical assistance in addition to the funds). Their combined effects were supposed to strengthen the overall effectiveness of government institutions by supporting reform processes, particularly in public expenditure management, civil service reform and results-based management (Naschold et al, 2002; Nilsson, 2004; Lawson et al. 2011).

1.3 Critiques of the Paris approach to country ownership and institutions

The official OECD (2011a) analysis of progress against the Paris targets is in substantial agreement with an independent evaluation (Wood et al, 2011); when it has been implemented it has worked to varying degrees, but there has been too little implementation. Of the 15 targets, since 2007 significant progress had been made on four, significant worsening on one and no significant change on the remaining nine (see Table 2).

Table 2: Progress since Paris

Target		2005	2007	2010	Description
1	% of countries with national devt strategy rated "A" or "B"	17	24	37	Improvement, more than doubled
2a	% of countries moving up a measure on the PFM/CPIA scale since 2005	-	36	38	No significant change
2b	% of countries moving up a measure on the four-point scale since 2005	-	-	-	No data
3	% of aid for the govt sector reported on budget	42	48	41	No significant change, worse since 2007
4	% of technical co-operation in co-ordinated programmes	48	60	57	Improvement, but worse since 2007
5a	% of aid for the govt sector using country PFM systems	40	46	48	Slight improvement, mostly before 2007
5b	% of aid for the govt sector using country procurement systems	39	43	44	Slight improvement, mostly before 2007
6	Total number of parallel project implementation units (PIUs)	1817	1601	1158	General improvement
7	% of aid for the govt sector disbursed/recorded in correct fiscal year	41	46	43	No significant change, worse since 2007
8	% of aid that is fully untied	75	88	86	Improvement, but worse since 2007
9	% of aid provided in the context of programme-based approaches	43	46	45	No significant change, worse since 2007
10a	% of donor missions to the field undertaken jointly	18	20	19	No significant change, worse since 2007
10b	% of country analytic work undertaken jointly	42	42	43	No significant change
11	% of countries with transparent and monitorable performance frameworks	7	9	20	Improvement, almost tripled
12	% of countries with mutual assessment reviews in place	22	24	38	Improvement, almost doubled

Source: authors' summary and analysis of OECD 2011a primary data

Strikingly, evidence from the five years of implementation of the Paris Agenda suggests that donor usage has had little or no impact on country financial systems, and that there is little relation between the strength of those systems and donor decisions to use them. By 2010 only 41% of aid was considered aligned with country priorities – about the same as in 2005, but significantly worse than in 2007. Around 45% of aid to governments used recipient-country public financial management and procurement systems, a modest increase since 2005 (OECD, 2011). The degree of improvement in country PFM and procurement systems was also quite limited: while 20 out of 52 countries (38%) moved up the World Bank's Country Policy and Institutional Assessment (CPIA) scale, 13 of those moved up only a half point on the 6.0 CPIA scale over the seven-year period; 16 of the 52 (30%) showed backsliding: three fell back after advancing; and 13 declined from 2005. The structural problem in aid is that while new aid 'machinery' is being invented all the time, older organisations tend not to disappear, leading to an ever more complex landscape. According to the OECD report on aid flows to fragile states, only around 40% of aid partnerships are 'significant' (i.e. the partner gives more than its global share to a country, or is among the donors providing more than 90% of aid flows to the country) (OECD, 2009 a/b).

In this section we briefly summarise two critiques of the Paris approach to country systems, and to some extent the Paris agenda more broadly: first, that the role of non-state sectors deserves more attention; and, second, that country context, both recipient and donor, needs to be brought further into the discussion.

1.3.1 The role of non-state sectors deserves more attention

According to some critiques, the aid consensus emerging from the Paris process over-focuses on the government and state, and was perhaps overcorrecting for the state-deficient policies of previous decades. By contrast there is little emphasis on the other aspects of a functioning country, such as the private sector and civil society. It is now a commonplace that a strong and development-focussed state is a requisite for sustained development, and that aid should support that state (OECD, 2010a). But the non-state provision of goods and services is also important in most countries, while domestic accountability mechanisms, often involving non-state actors, are necessary to support the provision of services (Savigny and Adams, 2009).

While Paris does not, as is sometimes implied, insist that increasing quantities of aid should focus on state systems (it says that increasing quantities of aid to the government sector should use country systems), the failure to discuss non-state actors in the same depth as state actors has led to a dearth of information and ideas regarding how to use aid to support them. In cases of unrepresentative, unaccountable and ineffective national governments, in particular, this absence is surprising. A common critique of Paris is that support for *government* ownership should depend to some extent on the nature of the government and the policies it pursues (BOND, 2011) i.e. ‘ownership’ needs to be seen in the context of legitimacy (OECD, 2010a; Booth, 2011; Keane, 2009; and Collier, 2009).⁸ While the Poverty Reduction Strategy Paper (PRSP) processes sought to include civil society to some certain extent, the Paris Agenda failed to build on this trend, and PRSPs themselves have been heavily criticised for excluding parliaments (Piron and Evans, 2004).

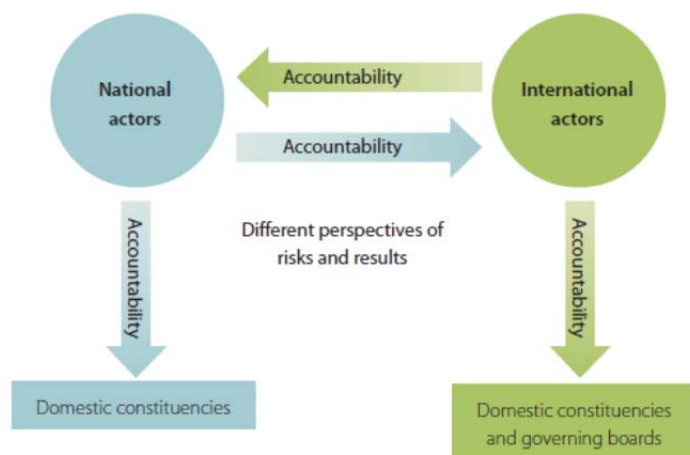
In some circumstances, then, rather than focusing on aligning more aid to government strategies and systems, donors might as well wish to support countervailing forces (i.e. non-state systems and actors) if, for example, the state is sufficiently strong, aid is already closely aligned with government plans, or in polarised societies where the government or public institutions may lack popular legitimacy (McGee and Heredia, 2010). In certain circumstances the use of political conditionality or selectivity may be an effective means of contributing to state-building goals by creating stronger incentives for governments to improve their performance. The focus on the state level may also have led to sub-state governments being neglected.

The problem of dual accountability

While donors are urged to help broaden participation in government processes, strengthen institutions and build accountable budgetary processes, few analyses wrestle with one of the central paradoxes of aid: that the act of aid giving can also undermine state capacity and accountability. This is a well-known area of concern in academia (Brautigam and Knack, 2004) and the problem of aid dependency has risen to the surface of the political agenda in the last few years (ActionAid, 2012). While limited efforts to increase ownership are likely to have some positive effects, as the problem is now better understood than previously, it is hard to see how the fundamental problem of accountability to donors rather than citizens (known as dual accountability) will recede as long as external actors provide large amounts of funding (Glennie, 2008; see Figure 2 which borrows a diagram from the 2011 World Development Report on fragile states to illustrate the problem). The power imbalances between donor and recipient may be intrinsic and not easily removable by better management. According to one Niger official: ‘These negotiations are *by their nature* unequal as we need the money’ (Eurodad, 2008).

⁸ OECD DAC, 2010a; Keane, J. (2009) *The life and death of democracy*. New York: W.W. Norton; and Collier, P. (2009) *Wars, guns and votes: Democracy in dangerous places*. New York: Harper Collins.

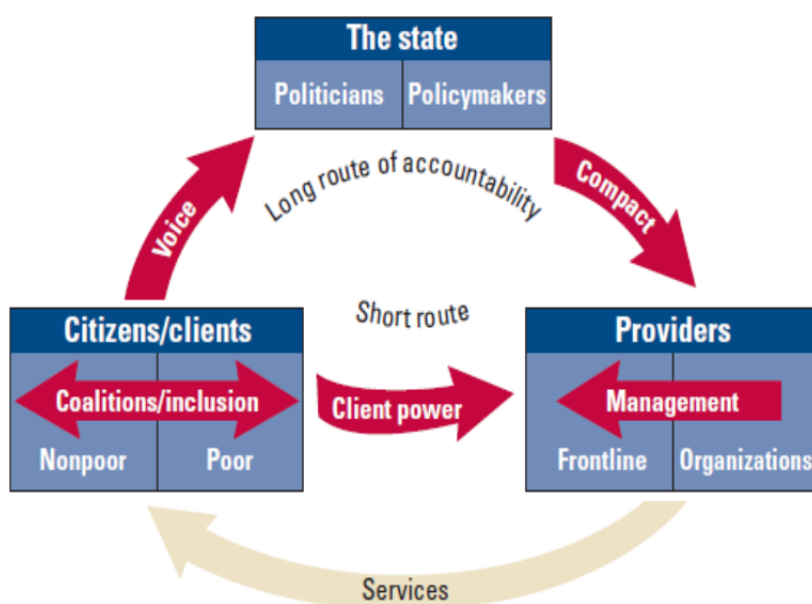
Figure 2: The dual-accountability dilemma for donors engaged in fragile and conflict environments



Source: World Development Report 2011

Issues of accountability and capacity can be mitigated by donor practices, however. The focus on accountability mechanisms to provide incentives for government to carry out its tasks effectively, including according a much higher profile to transparency as a *sine qua non* of effective aid, may be another important mitigating factor. At a recent ODI/UN Wider event, the role of state institutions (parliament) in holding the government to account was defined as ‘horizontal accountability systems’, while the function of non-state actors in holding the state (executive and parliament/judiciary) to account was described as ‘vertical accountability systems’ (UNU Wider, 2012). This builds on the concepts of ‘short-route’ and ‘long-route’ accountability to citizens and beneficiaries set out in the 2004 World Development Report (World Bank, 2004b) in which the accountability relationships between politicians, service providers and poor people were examined, as shown in Figure 3.

Figure 3: The framework of accountability relationships and key relationships of power



Source: World Development Report 2004b

1.3.2 Paris is not a blueprint

There is a tendency in international relations for context-specific declarations and decisions to gradually metamorphose into policy blueprints. When this happens the corrective qualities of such declarations, which serve an important temporal purpose, can instead become the problem since they are applied to situations for which they were not devised, and to which they do not pertain. A second set of critiques of the Paris agenda's colonisation of the aid-effectiveness discourse is that it is sometimes misconstrued as a journey towards an ideal aid relationship when in fact no such ideal exists; rather, the Paris Declaration and the bureaucratic process accompanying it were in essence a response to a particular set of problems that dogged aid relationships for the past two decades. Moreover, the issues that form the Paris Agenda were chosen not only because they were considered important to address, but because they were considered *feasible* to address through the international, bureaucratic process. This limited the ambition and depth of the analysis.

To treat the Paris analysis as archetypal is to mistake a fundamentally political (and, to a certain extent, lowest-common-denominator) process for a thorough analysis of the problems of aid. There is nothing inherently good or bad about using country systems (or, indeed, most of the Paris indicators). Even the principle of ownership – the cornerstone of the Paris Agenda – is open to question in some circumstances. The most important emerging donor in Africa today, China, has a wholly different approach to aid giving: tying aid and avoiding country systems. While China's approach is strongly criticised, there is no evidence that it is either worse or better than OECD approaches.

Recipient-country context matters

The treatment of the Paris Agenda as applicable across all contexts may have undermined attempts to make aid more effective in different types of country situations, particularly in fragile states, middle-income countries and/or countries less dependent on aid. While the Paris Agenda accepts that donors should not be encouraged to use weak country systems (particularly those associated with fragile states), instead of offering a modified prescription of the same medicine, it may be more appropriate to adopt a wholly different approach. The DAC-hosted discussion on fragile states, especially post-Accra, grew out of the critique that aid effectiveness in these countries was of a different magnitude than in more stable countries (OECD, 2009a).

Crucially, while there is certainly evidence that the use of country systems helps to strengthen them – and while it certainly seems logical – the evidence as it stands is inconclusive. The best available is to be found in an evaluation of general budget support in seven countries which finds that bringing funds on-budget 'has strengthened the budget process significantly' (IDD Associates, 2006).⁹ There is also evidence that technical support, for example, to PFM reform can lead to significant progress (De Renzio et al, 2011). However, there is equally concern, in some contexts, that too many donors using country systems may harm them; PFM reform in Ethiopia has been generally considered a success, but it was only made possible by the exit of most donors at the end of the 1990s, which allowed the government to manage a gradual reform without worrying about donor needs or objections (Bovard Peterson, 2011).

⁹ IDD Associates, 2006.

<http://www.oecd.org/development/evaluationofdevelopmentprogrammes/dcdndep/37426676.pdf>

One of the more surprising lessons of the first five years after Paris is that parallel PIUs remained important in many contexts, even preferred by recipient countries (Wood et al, 2011). The weak evidence for a causal link between improved systems and improved results may be a reason for the slow progress (i.e. donors remain unconvinced despite formal commitments). Moreover, if donors are using country financial systems but still taking most of the decisions, government simply becomes an implementing agency for them; using country systems then becomes a distraction from the real issue, which is the distribution of political and financial power in the country and between the country and its partners. So while recipient-donor coherence is crucial to a successful aid relationship, it does not necessarily entail a gradual increase in the use of government systems.

1.3.2.2 Insufficient account taken of supply-side barriers

A range of reasons are cited for donors' slow progress in using country systems (see Box 4 for the most recent OECD assessment), but the one that needs most attention is their failure to internalise the change of mindset required to move from a short-term results-based approach to a 'systems approach'.

Box 4: Main reasons for slow-to-no progress on use of country systems

In its pre-Busan analysis of the evidence, the OECD presented the following, mainly supply-side, reasons for the slow progress made in using country systems (OECD, 2011a).

- Donors fear financial misuse
- Donors fear loss of ability to directly or exclusively attribute development impacts to contributions
- Donors reluctant to lose control of development choices
- Donors tend to target risk avoidance rather than risk management
- Different donors have different risk tolerances – a system strong enough for one donor may not be for another
- Corporate policies, legal frameworks, organisational incentives and capacity issues are persistent bottlenecks within donor organisations. Formal rules on approaches to aid management in donor organisations may not have altered to the extent required or may not be communicated internally.
- Donors have not fully assessed/understood the variety of ways in which aid provided through different modalities, including project aid, can use partner-country systems, not just general budget support.
- In some cases, limited use of country PFM systems may reflect the country institutions' own preferences for parallel structures.

Paris implies that working with institutions is the best way to deliver results for poor people over the long term and to end aid dependency. However, this may be in tension with achieving greater immediate reductions in poverty, as USAID acknowledged recently: 'While using more in-country partners may mean sacrificing some immediate development impact, the long-term impact and sustainability of development outcomes will be strengthened' (USAID, 2011). The quickest way to achieve short-term results may be to bypass inefficient systems, which is precisely what donors are tempted to do. Major donors are elevating their 'results' rhetoric (e.g. the UK's development minister regularly insists that he wants every penny of every aid pound to have an impact), but the implication of a systems approach is that the risk/results

analysis will need to shift significantly. Profound changes in culture may be required as the aims of aid stop being specific poverty-alleviation or policy outcomes and become improvements in capacity and accountability (Morgan, 2005), but the Paris process tends to treat such outcomes comparably. The challenges implicit in measuring such an approach are more complex; persuading donor publics of its importance may also be difficult.

Added to this, donors often do not adequately understand a host country's political economy. Policies and procedures related to country systems as diverse as competition policy, procurement procedures and many other PFM procedures may seem technocratic and straightforward, but they have political implications of which donors may be unaware. The critique by many sociologists (including ODI's Africa Power and Politics Programme) that donors have a weak grasp of local political dynamics implies they should be more cautious in their analysis of country systems. Others wonder if donors even have the best interests of recipient countries at heart; in areas of geopolitical importance donors are as likely to act in their own strategic interest as in those of the host country. In other countries they may emphasise certain agendas for ideological reasons or to appease domestic constituencies. While some see this as a tractable problem, implying that donors should deepen their knowledge of country political contexts, others see it as intractable. State building is an endogenous process and countries design institutions that are legitimate with respect to their own history, culture, beliefs and public expectations; large external actors may ultimately never be good at building institutions in societies they only partially understand, and they can also do harm. Thus, donors as diverse as the Bill and Melinda Gates Foundation and China do not get involved in political economy, preferring practical support on issues they know well, such as basic health and roads.

1.4 Complementarity: The implicit guiding principle at Busan

The 4th High Level Forum on aid Effectiveness in Busan, South Korea in late 2011 sought to set out the critical issues for future phases of aid reform, based on a review of progress in achieving the targets established in the Paris Declaration and an analysis of today's development challenges. However, Busan suffered from trying to please too wide a range of stakeholders. While Paris, for its many faults, constructed a clear agenda for action, what emerged from Busan was a wide-ranging wish-list in which it is difficult to discern a clear direction of travel. Core principles underscore specific commitments and a range of voluntary building blocks then seeks to assemble coalitions of like-minded entities to progress specific agendas. While this may appear unsatisfactory, it offers possibilities for a more realistic attitude to aid effectiveness, based around complementarity (although this word is seldom actually enunciated), as opposed to the over-ambitious and possibly counter-productive harmonisation that was a key plank of Paris (see Glennie and Rogerson, 2011).

How does the Busan agreement differ from those emerging from Paris and Accra?

The OECD describes Busan as a 'turning point for development cooperation' (Killen, 2012). Despite being rhetorically reiterated at Busan and subsequent meetings, some aspects of Paris, such as harmonisation, have fallen away, while new aspects, such as transparency, have come to the fore (see Table 3).

Table 3: From Paris to Busan: Changing priorities

<i>Paris and Busan</i>	<i>Newly introduced at Busan</i>	<i>In Paris but dropped at Busan</i>
<ul style="list-style-type: none"> • Country results frameworks (with stronger emphasis on coordinated use by donors) • In-year predictability • Aid on budget • Mutual accountability (with stronger emphasis on inclusive approaches) • Strengthening PFM systems • Use of country PFM and procurement systems • Untying aid 	<ul style="list-style-type: none"> • Civil society-enabling environment • Private sector-enabling environment • Medium-term predictability • Application of aid transparency standards • Gender equality in public spending 	<ul style="list-style-type: none"> • Operational development strategies • Coordinated technical cooperation • Parallel implementation units • Use of programme-based approaches • Joint missions and analysis

Source: Authors' analysis based on OECD, 2005 and OECD, 2012.

The role of non-state sectors

Busan maintains the focus on sustainable and accountable state institutions as illustrated by the continued emphasis on the use of country financial management and procurement systems and country-led approaches to results monitoring and mutual accountability processes. More crucially, Busan talks explicitly of advancing aid exit strategies (indeed, the word 'aid' is becoming unfashionable in some quarters). But this time there is stronger recognition that development requires collaboration across a wide range of actors, not just the state. In 2008 the Accra Agenda for Action declared that both donor and recipient nations would 'deepen our engagement with CSOs as independent development actors in their own right, whose efforts complement those of governments and the private sector. [We] share an interest in ensuring that CSO contributions to development reach their full potential' (OECD, 2008). This emphasis goes further in the Busan agenda with a more explicit mention of an enabling environment for civil society and the private sector than was the case in Paris and

Accra. It is notable, however, that by dropping the indicator on programme-based approaches – which established guidelines for aid delivered through all groups of actors – important elements of a multi-sectoral approach to aid programming have been de-emphasised.

While untying aid retains its prominence in the Busan agenda, albeit with the same vague commitment to ‘continued progress’ as in Paris and Accra, there is a potentially significant change in emphasis in the Busan Outcome Document which, for the first time, recognises that untying presents ‘opportunities for local procurement, business development ...’ (OECD, 2011b, clause 18e). Untying aid by prioritising local partners (for profit and not-for-profit) in the implementation of programmes and projects will, it is argued, have greater developmental impact because a larger share of aid funds are likely to stay in the local economy, translating into jobs, incomes and local business revenue (Eurodad, 2011).

More context specificity

Although work is underway to analyse why more progress has not been made on the use of country systems, the broad sub-text from Busan is ‘more of the same’. The Manila Statement on Effective States, which predates Busan, sums up the attitude that with some revision the same approach might work in coming years, despite not having done so previously: ‘We call for development partners to have reasonable and realistic demands and expectations on country systems, as well as to acknowledge progress made in strengthening country systems. With this in mind, we call for a common agreement that could promote the progressive use of country systems for aid over time ... We recognise that mechanisms for country and development partners to jointly assess risks and work collaboratively to manage them, and risks related to their use should be a key element of a post-Busan effective states agenda.’

While a global monitoring framework remains with generalised targets, there is more emphasis on country-specific, aid-effectiveness priorities, implying substantial opportunity for variable approaches. Bottom-up and more flexible use of aid modalities are promoted rather than top-down blueprints; this is illustrated by the de-emphasis of indicators on specific aid modalities (e.g. the use of programme-based approaches and the focus on technical cooperation) and the emphasis on transparency, accountability and results monitoring as tools for identifying what works and promoting it. Concern about Paris’ failure to differentiate between country contexts is partly answered by the call for a New Deal for Fragile States, implying different priorities for donors working with this country type. There is little recognition that non-aid-dependent, middle-income countries may also require more specific measures.

While the OECD is aware of supply-side barriers to progress, there is little in Busan that acknowledges the gravity of the problem. If anything, the tension between the ‘results agenda’ and a systems approach is even starker, with the results target moving from being the penultimate of 15 targets after Paris to first place in the list after Busan. That is one of Busan’s key outcomes for many OECD donors, who need to demonstrate the impact of their aid to electorates generally suffering slow or no growth. There is, however, language in the Busan Outcome Document about managing ‘rather than avoiding’ risk, which implies recognition that there has been too much risk avoidance in the past (OECD, 2011b, clause 18a). It is worth noting that this results focus is similar in some ways to a ‘what works’ approach, which might de-emphasise specific predetermined modalities in favour of focusing efforts on who can deliver results in a given context.

2 Localising aid: An empirical enquiry

2.1 Introduction to localised aid

In this paper we have discerned three eras of aid: pre-1980, 1980-2000 and 2000 to the present. We have discussed the latest period at some length, describing how it responded to perceived problems in the aid practices of major donors, but has failed to live up to expectations, prompting revisions and re-commitments at the Busan Aid Effectiveness Forum in November 2011. However, Busan only partially responded to the problems identified in the Paris approach to aid effectiveness in general and country systems in particular, and it charts an inconclusive way forward that appeases a range of stakeholders. Just as after Paris (Booth, 2011), there are a number of competing perspectives in this period of post-Busan uncertainty. No single approach is appropriate for all donors and all contexts; complementarity, rather than harmonisation, may well be the new watchword.

- Evidence linking use of country systems to their strengthening has still not been well articulated
- There is no clear strategy for strengthening non-state sectors of society
- There is no acknowledgement of the specific needs of other types of country, apart from fragile states (e.g. middle-income countries)
- There is little recognition that the strengths, weaknesses and appetite for risk of different donors should be factors in modality choice.

In Part 2 of this Working Paper we set out one possible agenda whose benefits and challenges we recommend for analysis, and which we call ‘localising aid’. Localised aid is easy to define – an attractive characteristic given the complexities of the Paris indicators. It simply means aid that is transferred to and through recipient country partners. These national entities might be public (government ministries, parliament, official accountability bodies and local government) or private (CSOs, media, professional CSOs and business). There are two ways in which aid agencies give to national entities: core support to their work, usually with some conditions; or channelling money through them to complete a pre-agreed task, usually according to a specific contract.

The category ‘localised aid’ has not been treated coherently in research and policy to date and, perhaps surprisingly, there has been no concerted global effort to implement it. This paper marks the start of a research programme funded by USAID, whose Implementation and Procurement Reform, with its dual emphasis on government systems (objective 1) and national non-state actors (objective 2), has played a role in inspiring the localising-aid concept. Our research will test the theory that localising aid to state and non-state actors alike is a worthwhile initiative. There are many ways donors seek to strengthen systems and partners; this research limits its scope to assessing the benefits of one particular approach.

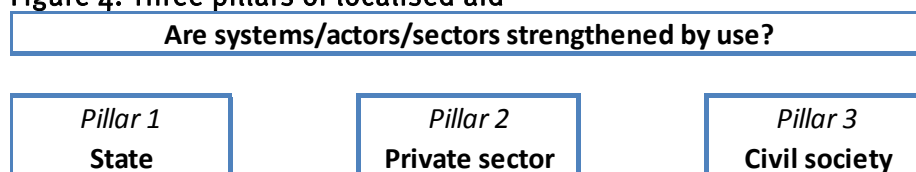
While Paris focused on localising aid to the state sector, there has been little discussion in aid-effectiveness circles of how aid can support non-state sectors. A localising-aid research agenda therefore sits neatly within the Paris/Busan Agenda, combining the traditional Paris interest in strengthening key national systems with the emerging Busan Agenda, which seeks to include non-state actors as core development participants.

In section 1.2 above, we argued that, of the three motivating factors behind the Paris process, the most important for the stipulation ‘to use country systems’ was sustainability; the same is true of localising aid. Working with and through national institutions; strengthening them and the bodies that hold them to account; supporting the local private sector, local media and local civil society – all these are investments in processes, capacity and the sustainability of progress. For that reason, **sustainability**, capacity, institutional effectiveness and reduced reliance on external assistance are the core development objectives we will test for in our research, with **results** and **reduced costs** as secondary research areas.

Three pillars of the research

We propose three pillars for our research: state, private sector and civil society (see Figure 4).

Figure 4: Three pillars of localised aid



Research pillar 1: Using country (state) systems

Analyse currently available evidence and increase the evidence base in regard to whether using country (state) systems contributes to making them more capable and accountable?

Research pillar 2: Using the local private sector

Assess whether using private-sector actors strengthens them and the private sector more broadly; compare the approaches of key donors.

Research pillar 3: Using local civil society

Assess which approaches to using local civil-society actors are most likely to strengthen them and the sector more broadly.

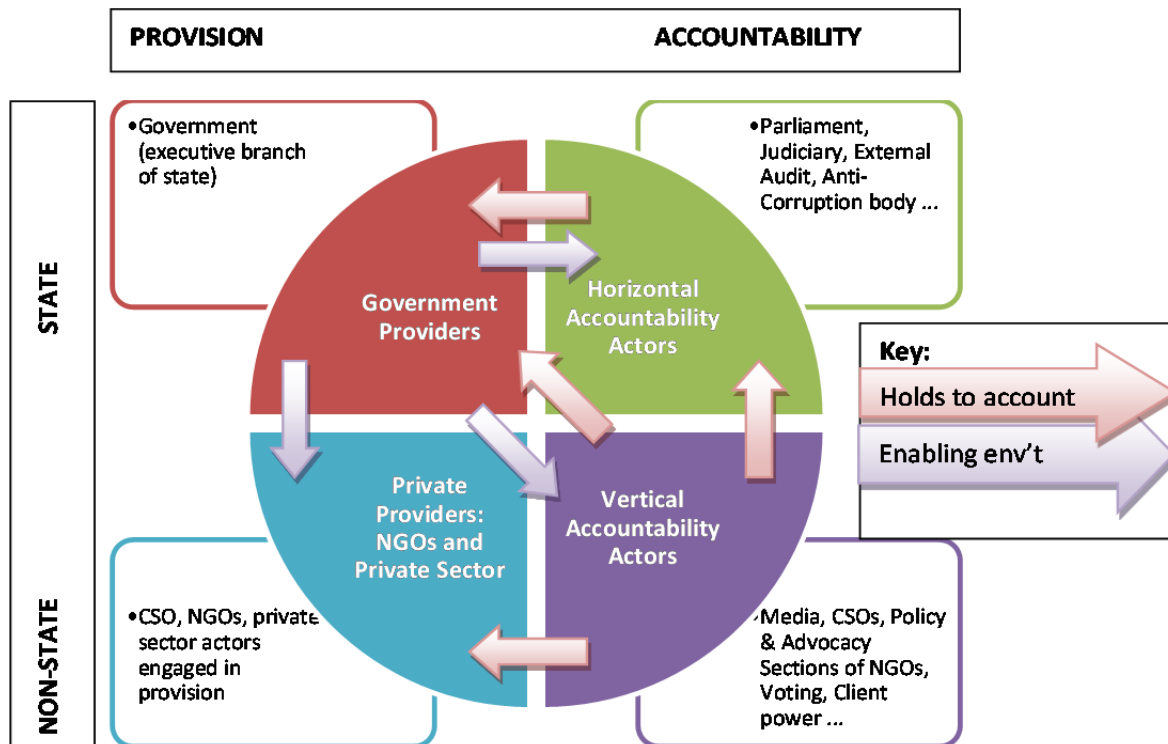
In the following section (2.2) we set out our preliminary understanding of a ‘whole-of -society’ approach to using country systems and actors, and explore these three pillars in more depth. Then (2.3) we present a preliminary analysis of how recipient and donor context could be taken into account more systematically to ensure effective aid modalities, using the state sector (on which more evidence and discussion is available) as an example.

2.1.1 A ‘whole-of-society’ approach to using country systems and partners

While the state is critical for the provision and regulation of public services, there are two main critiques of focusing the use of country systems too narrowly on the state or government alone. First, the state is not the only actor delivering programmes; non-state provision of key goods and services is an important part of the development process in most countries, both in terms of a thriving private sector and because non-state actors, such as CSOs, are often key providers of basic public services, such as education or health care. Second, domestic accountability mechanisms, both vertical (by society of state functions and other decision makers) and horizontal (state and quasi-governmental agencies charged with holding other bodies and private sector actors to account) are necessary to support the provision of services, whether by state or non-state actors. This leads us to develop a broader set of country systems than those which are the focus of Paris.

Figure 5 is a tentative and heuristic attempt to depict how different types of country systems have distinct characteristics but work together as parts of a whole. It can be considered a type of ecosystem, a whole-of-society approach in which all parts need to thrive. In any given context, different parts of the ecosystem may require more or less support.

Figure 5: Four types of actors in a sector quadrant of the country ‘ecosystem’



Source: M. King drawing on analysis in World Bank 2004b, UNU Wider 2012, O'Donnell, 1994

The left column of the quadrant covers the provision of public and private goods and services, whether by state or non-state actors. There is a spectrum of possibilities between these two options, including government contracting non-state actors; even when provision is entirely private, the state usually has a regulatory or enabling role (e.g. a good business environment for the private sector, or coherent regulation for non-state provision of public services, such as private schools).

The right column shows the accountability actors. In terms of **horizontal accountability**, parliament can hold the executive to account for its performance, and debate and approve laws implementing new policies and the annual budget. The judiciary can provide judicial oversight, while audit bodies and other state agencies (such as anti-corruption commissions) can publicly review government performance. In terms of **vertical accountability**, citizens vote in elections, the media informs the public about relevant issues, and civil society and private sector organisations engage in policy debates. Both these systems can inform service providers and keep them in check – whether state or non-state – to be better informed and engaged with the issues raised by the groups most affected by their actions.

2.1.2 Research pillar 1: Using country (state) systems

In this area of research we will look at evidence linking the use of state systems to the strengthening of those systems. In particular, does using country (state) systems strengthen or

hinder domestic accountability mechanisms and domestic capacity; and how important is it compared with other means of strengthening systems? We will be interested, as secondary questions, in the other benefits or dis-benefits of using state systems, and whether further localisation to sub-national systems might lead to strengthening at those levels as well. It may also look at humanitarian aid, which generally does not use country systems

Our definition of state and government systems goes beyond the narrow definition that prioritised PFM and procurement systems and will consider all systems that make up the ‘policy cycle’: identify issues; policy analysis; policy instruments; consultation; coordination; decision; implementation; and evaluation.¹⁰ These systems can be separated into three primary categories (policy, financial systems, implementation and performance) and broken down further into more specific sets of activities. The list is neither intended to be normative nor exhaustive, merely illustrative of the different types of systems used in a country. There will, of course, be feedback between implementation, performance evaluation and future policy development, but as the feedback loops between the different systems will be complex and unpredictable (e.g. see Ramalingham and Jones et al 2008), we have used a table rather than a cycle for the sake of simplicity. A fourth group of systems, accountability systems, plays a role at each phase of the process, holding delivery actors to account for their actions and sharing information. Table 4 lays these systems out, summarising the role of the state and the accountability mechanisms carried out by state (horizontal) and non-state entities (vertical).

Table 4: Breakdown of the role of the state and accountability mechanisms in country systems

	Role of state	Accountability mechanisms
POLICY SYSTEMS		
National policy: National development plan and results framework	The overall government development programme usually takes the form of a vision and strategic plan with a range of priority areas for intervention. This often, but not always, includes specific activities and responsible bodies, and indicators to monitor progress in outputs and outcomes. Plans for specific government policies may also be articulated in sector plans, developed by ministries. This strategic document is also linked to the medium-term expenditure framework (MTEF) and budget, which is usually detailed for the year ahead and indicative for subsequent years. Underlying assessments that inform policy choice could be carried out by the state itself or by non-state actors under contract to the state e.g. poverty assessment, environmental assessment, etc. Policy analysis could be carried out by state (civil servants) as well as non-state actors (e.g. think-tanks, universities) under similar arrangements. However formulation of public policy is the ultimate responsibility of the government, which is accountable to citizens whose views are represented by the legislature and civil society organisations.	Vertical and horizontal: The national strategy could be developed through a consultative process with the public and CSOs. It would usually be publicly adopted by the government and legislature.
Choice and design of policy instrument that will implement policy	Government policies that require a legal framework can be described in new and existing laws and regulations for particular sectors. Government develops instrument to implement policy in consultation with service providers, perhaps set out in legal framework.	Vertical: Beneficiaries and CSOs are consulted in design of instrument at community and national level. Horizontal and vertical: Government laws on national policy will be debated and agreed in public by the legislature. Media, CSO and private-sector organisations engage in public

¹⁰ We also draw on the ‘policy cycle’ literature, which sets out several additional phases and has the following order: identify issues; policy analysis; policy instruments; consultation; coordination; decision; implementation; and evaluation. See Althaus, Bridgman and Davis (2007) and CABRI (2008).

		debate around the new laws. Judicial review of laws may be carried out as a challenge.
Budget preparation: planning and agreeing the amount and content of expenditure in different sectors and regions	Government officials prepare macro-economic and fiscal forecasts to provide an overall budget envelope for allocation. Government ministries prepare submissions of costed programmes, Finance ministry (usually) manages budget process to agree allocation of funds within overall budget ceiling to different ministries and programmes.	Horizontal: Budget goes to the legislature where it is debated and passed. Vertical: CSOs, CSOs and media engage in public debate.
FINANCIAL SYSTEMS		
Budget execution: Treasury and in-year expenditure control and cash management	Domestic revenue paid to government and disbursed using government cheques and bank transfers. Non-state providers contracted by government use own financial systems for managing funds they receive and disburse.	Horizontal: Private sector and individuals pay taxes that are transparent and predictable.
Budget execution: Procurement	Government prepares bid documents, receives tenders, evaluates and selects a bidder; and negotiates and signs a contract with chosen contractor. Private sector and third sector bid and contract for public-sector tenders.	Vertical and horizontal: There may be some rules whereby procurement records and decisions are made public and can be scrutinised. E.g. external auditors may audit contracts issued by government.
Accounting and financial reporting	Government accountants record financial transactions in government system and use this information in regular reports, including end-of-year financial reports. Non-state providers contracted by government use their own financial systems for managing funds they receive and disburse.	Vertical and horizontal: External actors scrutinise financial reports, including media and parliament.
Auditing	Government internal auditors audit government financial transactions and produce internal reports. Non-state providers contracted by government use their own financial systems for managing funds they receive and disburse.	Vertical and horizontal: External audit carried out by supreme audit institution and scrutinised by parliament, media and CSOs.
IMPLEMENTATION AND PERFORMANCE SYSTEMS		
Management of delivery actors	Government manages contracts with delivery agents (which could be a non-state provider) and sets performance and incentive structures to achieve desired policy and intended outcomes. Note: this is called a 'compact' in WDR 2004.	
Front-line delivery: who delivers or is contracted?	Government ministry/agency delivery, or contracted in or out under government management or regulation. Non-state provider who is contracted carries out service-delivery responsibilities.	Vertical: Direct beneficiaries use client power to hold service providers to account via the 'short accountability' route (WDR, 2004) – i.e. bottom-up performance monitoring. Horizontal and vertical: For government-managed projects, beneficiaries/public can use 'long accountability' via national government and top-down management.
Reporting and evaluation of results	Activities implemented under the national strategy are monitored against the strategy's results frameworks and government issues regular reports on outputs and outcomes. Activities funded by the government budget are reported in Budget Performance Reports, including performance against set targets and indicators as agreed during the budget process.	Horizontal and vertical: Parliament, CSOs, media, scrutinise results reports. External auditors also carry out audit of reports.

2.1.3 Research pillar 2: Using the local private sector

There has been little focus on the role of the private sector in the context of aid effectiveness and even less distinguishing between local and foreign private sectors. The purposes of aid to support private sector actors are multiple and range from spurring economic growth as a step toward poverty reduction, to build the capacity of a market system. According to Davies (2011) in a paper based on interviews with key constituencies, new models of aid that provide incentives for entrepreneurs in developing countries are needed to spur innovative solutions

for how to improve people's lives. Furthermore, it was stated that 'too much focus is on developing policies targeting governments in donor-assisted projects, whilst aid is rarely targeted at businesses to develop new models which can solve the challenges aid wants to address, including reducing poverty'. Respondents stressed the need to link domestic businesses with the international value chain.

Donors have made good progress since passing recommendations to untie aid in 2001, though food aid and technical assistance were specifically excluded from commitments. However, formally untying aid and opening contracts to competition has not substantially altered the number of contracts awarded to local partners. Eurodad (2011) estimates that roughly 60% of aid is still informally tied; even when open and competitive bidding is used, contracts are predominantly awarded to firms from the country of the donor.

An area worth exploring in this research pillar is whether more localised aid will have a greater multiplier effect on the host economy, with impacts for economic growth and job creation. According to research by the Peace Dividend Trust in a report entitled *Spending the development dollar twice* (PDT, 2009), the local economic impact of aid is higher when funds are channelled through government or other local partners (see Box 5). Can local partners provide the necessary goods and services as requested, and what are the different approaches of bilateral and multilateral organisations in contracting local, private-sector partners? How might other transfers of resources to the private sector (e.g. remittances, foreign direct investment and foreign trade) relate to aid in the development of capacity?

Box 5: Local procurement: spending the development dollar twice

Afghanistan: In the Afghanistan Compact (2006) donors agreed not only to increase aid channelled directly to government through core budget support, they also stated that where that was not possible they would seek to support local, non-state implementing partners by: increasing the use of Afghan national partners and qualified local and expatriate Afghans; increasing local procurement of supplies; and promoting the participation of the Afghan private sector and South-South cooperation in bidding processes in order to overcome capacity constraints and lower the costs of delivery.

Tanzania: AtoZ, a Tanzanian textiles company, produces over 30 million bed nets annually, which are distributed to 26 African countries thanks to an innovative procurement scheme supported by UNICEF and the Acumen Fund. AtoZ currently provides employment to around 7,000 staff, mostly women, who support 25,000 dependants. AtoZ also provides housing and health services to many of its employees, as well as on-the-job training. In addition, ancillary local businesses benefitted significantly from the operation of the factory, according to research. However, some international purchasers of bed nets are required to use fully competitive procurement procedures, meaning that AtoZ's business remains insecure (SOAS, 2011).

World Food Programme: In the 1980s the World Food Programme (WFP) purchased less than 10% of its food from outside donor countries. However, by 2010 it was purchasing food from 76 developing countries and spending 66% of its \$1.25 billion budget in developing countries. WFP reports that, since the programme was launched, over 1,000 farmers' organisations representing more than 1.1 million farmers have been identified to participate, and that farmers' incomes have risen as a result (WFP, 2011).

2.1.4 Research pillar 3: Using local civil society

CSOs have a long history of engaging in development assistance and an extensive literature details their roles as development actors and how international donors can best support them. However, the emergence of the Paris aid reform agenda inspired a new wave of debate around donor support to CSOs. Most notably, the principles of ownership and alignment encouraged donors to introduce country-level funding modalities that increase support to local CSOs, build their capacity to operate sustainably as independent actors (including through greater use of core support) and focus assistance on their role in holding governments accountable. The principle of harmonisation has inspired experimentation with multi-donor mechanisms to deliver this assistance (Scanteam, 2007).

Some elements of this agenda have gained wide support among donors, and bilateral donors now tend to see the development of strong civil society as an end in itself (Griffin and Judge, 2010). Core support to national CSOs rose to a high of 3.5% of total bilateral ODA in 2000, falling since then to under 2% in recent years. The country that consistently gives the largest proportion of its bilateral aid as core support to national CSOs is Ireland, about 16% in 2010. However, the use of these new country-level modalities only gained traction in a relatively small group of donors (essentially the Scandinavians, UK, Ireland and one or two others) and it is not clear how prominent they have become.

DFID, for instance, has made a commitment to use up to 5% of all budget support to strengthen local democratic institutions, CSOs and enterprises as part of scaling up work on empowerment and accountability. Irish Aid has several mechanisms for funding local CSOs, including direct funding; and Irish CSOs play an important role in Irish Aid achieving its civil society objectives as mediators with local CSOs. Several strategic CSOs (including Christian Aid, Concern, GOAL, Self Help Africa and Trócaire) receive annual core programming support totalling EUR56 million in 2010 (Irish Aid, 2011). The limited evidence available suggests that more traditional models of CSO support – uncoordinated and project approaches delivered mainly through ICSOs – have continued to dominate (Scanteam, 2007) and initial enthusiasm for these new approaches may not have been sustained even by their main sponsors.

Among the challenges facing this new generation of systemic funding modalities for CSO support are criticisms that it is unsuitable to apply the Paris principles to them. Some CSOs argue that centralising and coordinating CSO funding has hampered efforts to develop a diverse and dynamic CSO community and favours more established CSOs (Scanteam, 2007; Tembo et al. 2007). Importantly, there have not been significant efforts to test the impacts and potential benefits of these emergent approaches to supporting CSOs. Although the 2008 Accra Agenda for Action brought greater attention than Paris to the role of CSOs in delivering development assistance, debate around CSOs has since focussed on how they can improve their own effectiveness as development actors (Open Forum, 2010). Some developing-country governments regard CSOs as political competitors, particularly those engaged in advocacy, and have tried to limit their activities. Challenges identified in the literature include limited absorption capacity, restrictions by host governments and the danger that donor funding, while increasing capacity, may cause them to grow away from the poor that they serve (Pact, 2005; NAO, 2006).

It is not clear if current aid-reform principles and approaches are relevant to CSOs and how they might be adapted to strengthen CSOs more effectively. This research pillar will assess whether transferring assistance to and through local CSOs helps to build their capacity to better respond to, and align with, the priorities of the constituencies they represent?

Discussions on the merits of using international CSOs to deliver aid are fairly extensive, but there is limited comparable evidence on using local CSOs. A recent study by the Harvard Kennedy School in Pakistan found a discrepancy between locally funded local CSOs and foreign-funded CSOs, with the latter having ‘low organisational performance and almost no civil society value’ (Naviwala, 2010). Foreign-funded CSOs were found to be more materially driven and more responsive to foreign donors than local CSOs. Is direct granting more effective at strengthening civil society partners than out-sourcing to donor contractors, and what are the challenges of contracting local, non-state actors directly instead of through intermediaries? Can capacity and administrative constraints be mitigated through technical assistance and innovative financing arrangements? The Naviwala study found, for example, that using other CSOs as intermediaries and giving small grants with low reporting requirements helped maintain close community links without increasing transaction costs. What other over-arching principles are relevant to building the sustainable capacity/systems of CSOs? How important would localising aid be among them?

2.2 Bringing country context (donor and recipient) to the centre of aid-effectiveness decisions

Once the various roles of different actors in the ecosystem are developed, donors need to look at how best to apply support. The Paris Agenda strongly implied that such support should be via government systems, but this uni-directional approach has been critiqued in terms of theory and practicality. A Localising Aid framework would re-assess the range of ways donors can engage depending on recipient-country context and, crucially, the limitations and advantages specific to each donor. In the following sub-section we look at the state sector, but a similar spectrum of options for donor support could be envisaged for the private sector and civil society.

2.2.1 Donor options to support country (state) systems

Once the various state systems have been analysed, donors need to decide how to best to apply their support. The OECD identifies six categories of financial aid instruments in common use: General Budget Support (GBS); Sector Budget Support (SBS); Government-Managed Pooled Funds; Jointly-Managed Trust Funds; Project Support; and Support to and through non-state actors (OECD, 2011c).¹¹ However, USAID's principal form of government-to-government (G2G) assistance at present is a seventh instrument called Fixed Amount Reimbursement Agreement, which establishes a reimbursement schedule with the government for a particular undertaking (see Box 6) – an approach that resembles the cash-on-delivery model promoted by the Center for Global Development (Birdsall and Savedoff, 2010).

Box 6: Using the state to engage non-state local partners in Liberia

In September 2011 the Government of Liberia and USAID signed a Fixed Amount Reimbursement Agreement (FARA) for \$42 million over four years to improve health care in accordance with Liberia's National Health Plan (Center for Global Development, 2012). The FARA is a US assistance mechanism whereby a host government is reimbursed for delivering specific tasks in the health sector. In this agreement the Ministry of Health and Social Welfare (MOHSF) is the implementing partner, contracting local community health volunteers to expand community-based services to improve access in lieu of opening new health facilities, and to engage community leaders to support an enabling environment for increased utilisation of priority health services (USAID Liberia website, liberia.usaid.gov). Prior to the FARA agreement, this intermediary role was played by a US-based implementing partner, John Snow Inc. The FARA agreement with the MOHSF is on-budget cash on delivery aid; uses government systems; and engages non-state local partners in the delivery of services.

Table 5 below takes the example of one particular country system (budget preparation) to assess a range of donor financing modalities which engage with that system to a greater or lesser extent (the same exercise could be carried out for other systems). This is a tentative approach that will be further developed in the next phase of the research if it proves useful.

¹¹ Advisory services, technical cooperation and military cooperation are different, but Paris principles may still be relevant. See OECD 2011c, chapter 4, part II, p.83.

Table 5: Range of donor options in engaging with country systems

<i>System</i>	<i>↔ Range of donor options ↔</i>		
	<i>Donors use country systems</i>	<i>Partial use of country systems</i>	<i>Alternative donor system</i>
<p>Budget preparation: planning and agreeing the amount and content of expenditure in different sectors and regions.</p> <p>Government officials prepare macro-economic and fiscal forecasts to provide an overall budget envelope for allocation; government ministries prepare budget submissions of costed programmes; finance ministry (usually) manages budget process to agree allocation of funds within overall budget ceiling to different ministries and programmes.</p>	<p>For GBS, funds are 100% fungible with government resources and follow the same process of expenditure. Key difference between GBS and domestic resources is that the timing and amount of disbursement is dependent on government-donor negotiation (rather than economic conditions and government policy). This affects the accuracy of fiscal forecasts for GBS</p> <p>For SBS and pooled funds, a specific amount of aid is allocated to a ministry or sector. The level and programme activities (or potential range of activities/criteria i.e. earmarking) are decided through government-donor negotiation. This amount, while information on it could be captured in the budget document, is not entered into the budget negotiation for allocation between sectors. However governments can strategically allocate away from a funded sector/activity so fungibility remains high.</p>	<p>Information sharing: donors submit raw data on their expenditure plans for the next government fiscal year to budget officials who enter it into their information systems and make up part of the tables of the budget document.</p> <p>Shadow-alignment: Donors publish their expenditure plans for their programmes in the next government fiscal year(s) using the same timing, format and classification of expenditure, on the same day as the budget is published – but without the government or inputting the data</p> <p>Funds used in country may be strongly earmarked to a particular project, or a set of results.</p>	<p>Each donor, project or programme has its own systems and timing for preparing and agreeing budget plans and programmes. This could be taking place in a PIU located inside a government ministry, or through a CSO, CSO or private-sector body which has been contracted by the donor to deliver a programme.</p> <p>Donor overall ceilings are decided in a range of ways, e.g. using allocation rules like CPIA scores. Funds are allocated between sectors.</p> <p>Funds may be 100% earmarked to a particular project</p>

While incomplete, using the above tables provides insights on a number of important issues by implying how aid providers can play different roles in the process of developing and implementing public policy.¹²

- The two outer columns ('donors use country system' and 'alternative donor system') represent extremes that are rarely used. Most structures are somewhere in between. We have illustrated this with one middle column but there could be more as this is effectively a spectrum of options that questions the binary concept of using country systems, as opposed to not doing so. In reality, there is no such thing as full use of country systems; even with general budget support or cash-on-delivery aid, it is always hybrid.
- While some understand the Paris Declaration as a blueprint, in fact no model aid relationship exists given the diversity of donors and recipients, and the ever-changing global and domestic contexts. On the contrary, aid-effectiveness principles should underlie the large variety of possible developmental relationships that can exist between states. Use or non-use of country systems may not necessarily therefore be uni-directional i.e. from right to left in table 5; different contexts may require a different mix. The need for

¹² For simplicity, this table does not include activities that are conceived and provided purely by private-sector or third-sector actors with only weak state engagement (i.e. activities that are found only in the non-state implementation box of the quadrant). A similar table could be set out for these activities if required.

different targets and priorities in fragile states is recognised in the Busan process, with the emergence of a New Deal for Fragile States, but middle income/non-aid dependent countries may also need alternative approaches. We expect different results depending on country type, of which we propose three for the purposes of this study: fragile, stable, low-income and middle-income.

- It may be that external actors can strengthen country systems even by engaging in a light-touch way (e.g. shadow alignment with the country's medium-term financial framework and budget); or by engaging with non-state actors or accountability mechanisms. Donors who engage intrusively may weaken country systems or slow progress.

2.2.2 Re-emphasising programme-based approaches?

While the Paris Agenda emphasised spending aid on the top row of the quadrant in Figure 3 (i.e. via state institutions), localised aid would consider the importance of direct transfers to actors in each of the four quadrants, based on the assumption that capable actors in each quadrant are required for the successful and sustainable delivery of public goods with diminishing need for external support. An approach assessing whether different donors could act differently, depending not only on recipient context but also their own advantages and limitations, might build on the programme-based approaches (PBAs) encouraged under Paris, but left out of the latest Busan targets. In the last Paris monitoring survey, PBAs are described as follows:

'PBAs are a way of engaging in development cooperation based on the principles of coordinated support for a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme *or a programme of a specific organisation*. PBAs share the following features: (i) leadership by the host country *or organisation*; (ii) a single comprehensive programme and budget framework; (iii) a formalised process for donor coordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement; (iv) and efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation. Donors can support and implement programme-based approaches in different ways and across a range of aid modalities, including budget support, sector budget support, project support, pooled arrangements and trust funds.' (OECD, 2010c, emphasis added)

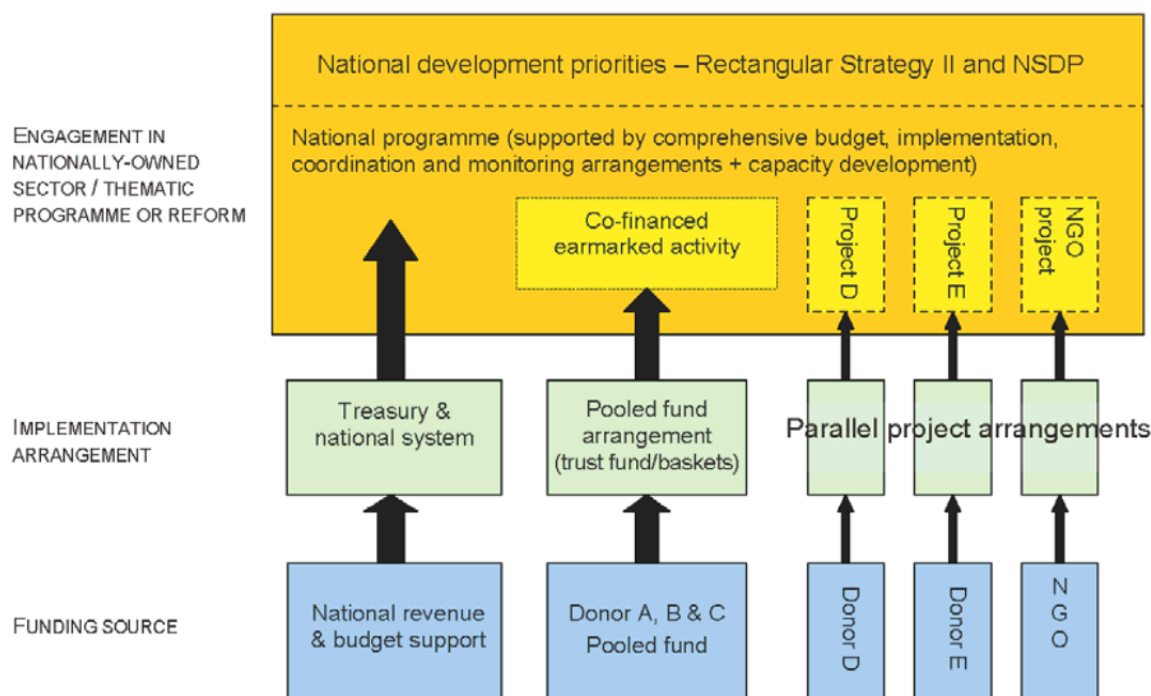
PBAs are envisaged not only for the state sector but also for private organisations, whether for profit or non-profit. A recent paper by the Cambodian government emphasises the need for government leadership in its analysis of what a PBA is: 'A

PBA is defined in terms of its objective. This is usually stated as an effort by government to lead a sector (e.g. health), thematic issue (e.g. gender) or a reform programme (e.g. public financial management, decentralisation) in a coordinated way to achieve results in an efficient and sustainable manner' (GDCC, 2010, emphasis in original).

The Cambodia paper sets out a useful diagram in which a range of modalities and development actors work together to achieve an agreed result (see Figure 6). Starting in the blue section on funding sources, some donors engage in budget support, others pool their funds and still others are engaged in parallel projects. At the outcomes end of the diagram, in

orange, separate projects can support national development priorities as much as state-led work.

Figure 6: ‘A PBA is a policy-driven arrangement that accommodates all partners and financing modalities’



Source: GDCC 2010

Our research might build on such analyses but with specific particularities. For example, we would particularly focus on whether localising aid (i.e. giving it to and through local entities) is an important part of such approaches, and what impacts it can hope to achieve, with other modalities entering as comparators but not primary areas of research. We might ask whether there are some instances where projects do not have to fit with national priorities to be valuable for development (for example, where the government is not pursuing developmental activities, or is seeking to undermine legitimate actors, such as CSOs).

2.2.3 Donor context: The risk/results nexus

We have identified a failure to understand the implications of a systems approach (narrow or broad), for both donor risk and results frameworks, as a major blockage to the use of country systems. An innovative and even provocative part of our research will be to assess whether different donors, with different bureaucratic and political limitations, might be better using modalities more appropriate to their strengths and weaknesses, rather than seek to conform to a uniform approach.

Any public expenditure anywhere involves some degree of risk. Even public expenditures within the borders of industrialised countries are vulnerable to fraud and waste despite developed systems of fiduciary controls, although risks are higher in countries where politics is driven by special interests and systems of public accountability are weak. The different modalities for providing foreign assistance to low-income countries have different profiles of risk. Crucially, fiduciary risk is not the only type, and aid agencies may need to be able to take

more risks (as private companies tend to do) if they are to have a chance of achieving the objectives they seek. No modality is risk free and there are trade-offs in each type between different aid modalities. Here we suggest considering risk under two broad headings: risks that involve the loss or diversion of funds; and risks that funds will not lead to desired outcomes.

Category 1 risks: Loss of funds

Risks involving loss or diversion of funds are the most common concern of the public and politicians. They include:

- *Fiduciary risks* that funds will not flow to their intended purpose due to fraud or corruption. This is most common in the procurement and financial reporting process, but can also exist during project implementation (World Bank, 2007b).
- *Waste of the aid provider's resources.* Examples of waste include projects for which there is limited demand; facilities designed to standards inappropriate to the country; shoddy construction; contracting processes that enable contractors to make excess profits; and lack of complementary expenditures.
- *Capture of programmes and resources by parties and special interests.* Constituencies with an interest in benefitting from aid programmes can effectively hijack the programme, sometimes legally. Aid programmes can become supply-driven and oriented to the interests of CSOs and contractors in partner countries, or parties in the recipient country may align the programme to their particular interests. Donors may use scarce time and legal resources to push through legislation of low interest to the recipient country.
- *Fraud and corruption by staff in the donor agency or partner* are risks that can be exacerbated by specific aid modalities. For example, pressure to deliver results quickly and visibly, particularly when accompanied by incentives to cut corners, for example on procurement, may increase this risk.

Category 2 risks: Waste of investment (i.e. failure to make achieve change)

While the first set of risks is often the most tangible, it is not always the most important given the ambitions of most agencies to achieve some transformational change in the lives of poor people. A second set of risks concerns whether funds will achieve the desired outcomes and includes:

- *Lack of results leading to poverty reduction.* Much foreign assistance is designed to reduce poverty, as measured by the Millennium Development Goals. There is a risk that foreign assistance might not achieve these outcomes at country and global levels.
- *Lack of results leading to sustainable policies and institutions.* Adequate policies and institutions are pre-requisite for permanent reductions in poverty and helping countries to become more self-reliant. Building institutions is one basis for transition from state fragility

to resilience (OECD, 2011c; World Bank, 2011). However, establishing credible institutions in fragile states may take decades.¹³

- *Slow delivery of results.* Results are sought sooner rather than later and, in practical terms, more people will be raised out of poverty or more lives saved if foreign assistance can facilitate faster results. However, controls to reduce fiduciary risk may have the adverse effect of slowing the speed at which results can be delivered.¹⁴
- *Aid dependency* arises when the recipient country requires high levels of assistance indefinitely to enable public services to be provided or to avoid outbreaks of armed violence. It can undermine the development of a capable and accountable state (Glennie, 2008).

Trade-offs

Crucially, there are trade-offs between different sets of risk depending on the instrument chosen by the partner and the country. As we have seen, some instruments can deliver short-term results, but do little to develop institutions, damage the little capacity that exists or promote aid dependency. Other instruments are more effective at building capacity and ensuring sustainability, but are less productive in delivering short-term impacts. While instruments that bypass government systems may appear to have lower fiduciary risks, they may entail greater waste or simply make fiduciary risk outcomes less visible. For example, contracting out programme delivery to a private-sector contractor may entirely satisfy the procurement and transparency requirements of a donor country, but if the prime contractor then sub-contracts the work, there is a risk that the sub-contracting process may be inefficient or that sub-contractors might indulge in fraud and corruption. Although the risk may be transferred from the aid agency to the prime contractor, the former is still carries reputational risk that may be difficult to control.

Nearly all risks can be partially reduced by actions to mitigate them. For example:

- Better programme design and management can reduce the risk of waste and capture by special interests. Well-designed projects using the flexibility available in instruments such as MDB financing can lead to short-term as well as long-term impacts (e.g. by financing rehabilitation using emergency-response rules).
- The lack of institutional development impact of short-term instruments can be mitigated partially by parallel programmes of technical assistance, although the record of technical assistance that is not integrated with incentives and ‘learning by doing’ is not good.
- Good management and attention to the internal culture of the aid agency can reduce the risk of staff misconduct and reputational risk.

Whether to aim for short-term impacts, at the risk of slowing institutional development and creating aid dependency, or to work for longer-term development results is essentially a political decision. Attitudes to time are a defining feature of any culture; people in poor countries are often more patient than their partners in donor nations. There is a large spectrum

¹³ World Bank (2011) p.11 shows that it took an average of 36 years for the fastest 20 countries to cross a threshold of government effectiveness.

¹⁴ A paper by a former USAID administrator (Natsios, 2010) sets out how controls and compliance authorities within international partners create risk aversion that leads to transformational development opportunities being missed.

of potential aid instruments, each with its own profile of risk. We can tentatively evaluate the potential risk of using a number of instruments (Table 6) ensuring that we balance Category 2 ‘results risks’ with Category 1 ‘funds risks’.

Table 6: Risk profiles of different aid interventions, possible matrix (heuristic)

Risk		Particular aid intervention		Comments
		Unmitigated	Mitigated	
Funds risks	Fiduciary	High	Mod. High	Mitigation depends on partner or government controls
	Waste	Mod. High	Mod. Low	Extent depends on programme design
	Special interest Capture	High	Mod. High	Extent depends on programme design
	Staff fraud and corruption	Mod. Low	Low	Risk depends on extent of staff involvement, mitigated by partner controls
Results risks	Long term development results	High	Mod. High	Mitigation based on quality of programme design
	Institutional results	High	High	Mitigation depends on complementary support to institutional development
	Slow delivery	Mod. Low	Low	Risk lowered by quality of programme design and management
	Aid dependency	High	Mod. High	Partly mitigated by programme design

Source: Authors’ proposal

The biases and incentives within aid agencies to minimise risk rather than manage it are profound, along with the tendencies to seek out short-term and tangible results to report rather than work on the harder task of promoting longer-term development. It is possible that only a fundamental reappraisal will overcome the substantial barriers and countervailing pressures.

3 Conclusion

In this paper we have summarised the main antecedents and critiques of the Paris approach to using country systems, now the standard approach in contemporary policy debates. And we have tentatively laid out a research programme that builds on Paris and Busan, but recognises the critiques of both. If the first challenge for effective aid in the second decade of the 21st century is to learn the lessons of the past, the second is to apply those lessons in a changed and rapidly changing context.

At the Fourth High-Level Forum on Aid Effectiveness in Busan, adherents reaffirmed their commitment to Paris-style aid effectiveness, but they did so in a context significantly different from when the commitment was first made in 2005. The overall growth trends in emerging and developing countries, along with the growing importance of private actors and the threat of climate change, have transformed the ‘aidscape’ (Kharas and Rogerson, 2012). While DAC countries are still by far the biggest source of aid (reduced in 2011 for the first time since 1997), few analysts expect major increases in the short term. The new geopolitical context means that the interests and incentives of traditional donors, emerging donors and aid recipients (categories that are increasingly fluid) are changing. The direction of travel may no longer be as appropriate as a decade ago, and adherence to the principles signed in far-flung conference rooms is even less likely than a decade ago. As one ODI expert put it, signing a piece of paper only very marginally increases the cost of non-compliance; other costs may be significantly greater. These changes are so significant and permanent that it may not be an exaggeration to view the present era as a new (fourth?) era of aid, requiring quite distinct ideologies and approaches.

Major claims are often made for the impact of shifting to one aid modality or other – in this case, a move towards supporting and strengthening country systems and partners – but without a more complete analysis of broader political problems, including aid dependency, it is unlikely that any recommendations emerging from international summits will have the desired effect. Even in the best-case scenario, proponents of the Paris/Busan country systems analysis may, therefore, be exaggerating the impact that the reforms can feasibly achieve, given that deep-seated problems are related to aid quantity and economic issues, rather than technocratic improvements in aid-delivery modalities. At best, such improvements might marginally mitigate negative impacts; a more radical overhaul would be needed to achieve serious change.

According to one ODI assessment of sector budget support, change has to be wholesale for it to have an impact: ‘The evidence that transaction-cost savings were undermined by the existence of other aid modalities was supported by more recent findings on Sector Budget Support: “Where SBS has involved multiple donors, there was a sense that SBS has led to a relative reduction of transaction costs. If the same aid had been provided through separate projects, transaction costs would have been higher. The relative gains in transaction costs were drowned out when SBS was accompanied by large project flows, which was especially common in the health case studies”.’ (Williamson et al. 2010, cited in Smith and Tavakoli, 2011).

All of the above implies that donor objectives in the realm of systems and institutions should be significantly more modest than in the realm of MDG-style poverty outcomes. In other words, the question worth asking in this research is not just if using local actors strengthens them,

but *how* important it is. Would the benefits of localising aid on a medium to large scale be undermined if other donors in the recipient country did not implement similar reforms, or would they still hold? Do the benefits hold regardless of the changing global landscape, or are they dependent on it? And are the benefits worth the costs in terms of political capital in donor constituencies and of a possible increased risk?

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