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Localising aid: can using local actors strengthen them?

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

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

Executive Summary
ODI Working Paper 352

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.

Are systems/actors/sectors strengthened by use?

Pillar 1	Pillar 2	Pillar 3
State	**Private sector**	**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 as 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.

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Overseas Development Institute

111 Westminster Bridge Road, London SE1 7JD

Tel +44 (0)20 7922 0300

Fax +44 (0)20 7922 0399

Email publications@odi.org.uk

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