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External support to national development efforts

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Heiner Janus

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Acronyms

AAA	Accra Agenda for Action
ACP	African, Caribbean and Pacific Group of States
AMC	Advance Market Commitment
BRICS	Brazil, Russia, India, China, South Africa
CSO	Civil Society Organisation
COD	Cash on Delivery
CPA	Country Programmable Aid
CRS	Creditor Reporting System
DAC	Development Assistance Committee
EC	European Commission
ECGIT	European Commission Governance Incentive Tranche
EU	European Union
FDI	Foreign Direct Investment
FSP	Principles for Good International Engagement in Fragile States and Situations
GAVI	Global Alliance for Vaccines and Immunization
GFATM	Global Fund to fight AIDS, Tuberculosis and Malaria
GNI	Gross National Income
GNP	Gross National Product
GPG	Global Public Goods
HIC	High-Income Country
HIPC	Highly Indebted Poor Countries
HLF	High-level Forum for aid effectiveness
IADB	Inter-American Development Bank
IATI	International Aid Transparency Initiative
IFM	Innovative Financing Mechanism
IMF	International Monetary Fund
INGO	International Non-governmental Organization
LDC	Least Developed Country
LIC	Low-income Country
MDG	Millennium Development Goal
MFF	Multi-annual Financial Framework
MIC	Middle-Income Country
MOFCOM	Ministry of Commerce
NGO	Non-governmental Organization
OCT	Overseas Countries and Territories

ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
PBA	Programme-Based Approach
PBIG	Post-Busan Interim Group
PCD	Policy Coherence for Development
PFM	Public Financial Management
PRSP	Poverty Reduction Strategy Paper
QuODA	Quality of Official Development Assistance Index
R&D	Research and Development
RBA	Results-Based Aid
SIDS	Small Island Developing States
SSC	South-South Cooperation
SWAp	Sector-Wide Approach
UN	United Nations
UN DCF	United Nations Development Cooperation Forum
UN ECOSOC	United Nations Economic and Social Council
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
WP-EFF	Working Party on Aid Effectiveness
WTO	World Trade Organization

Overview

This literature review provides an overview on current research regarding various forms of external support to developing countries and their development efforts. External support to developing countries has varied sources, and can have different characteristics and uses. Therefore, this review will first clarify some of the key concepts in development cooperation, analyze current trends and then present specific challenges that are particularly relevant for the future of development cooperation in the context of a possible post-2015 global development agenda.

In the first chapter, the review will present an introduction to various forms of external support. The main focus will be placed on external support delivered by governments. Hence the concept of Official Development Assistance (ODA) will be the starting point for the review. In addition, several other key concepts such as the 0.7 per cent target and the Millennium Development Goals (MDGs) will be introduced. Finally, key trends in aid since the adoption of the MDGs will be highlighted.

The second part of the analysis will focus on the impact of aid. In a first section the allocation of aid and the underlying motives of donors will be briefly sketched. Then, the discussion on the effects of aid on development outcomes and growth, including intended and unintended effects, will be summarized. In a final section of this part, the efforts of the international community towards improving aid delivery through the aid effectiveness agenda will be presented.

Turning to specific actors in the aid landscape several different groups will be characterized. The third part will begin with an overview of support provided by the European Union (EU) and European Member States. Next, the development assistance of non-traditional donors such as China, India and Brazil will be outlined. In addition, external support provided by a range of other actors, including private development agencies such as private foundations and international non-governmental organizations (NGOs) and global funds will be described.

Individual development actors use a variety of development approaches for delivering aid. Therefore, this review will emphasize different aid approaches in the fourth part. These aid approaches include aid modalities and instruments. In addition, results-based approaches and other innovative aid approaches will be highlighted.

In the final part, this literature review will take a forward-looking perspective to describe how aid is likely to develop and what the main challenges for the field of development cooperation will be. These discussions will especially be linked to the debate about a possible post-2015 framework for international development cooperation.

1 Key Concepts and Trends

1.1 Official Development Assistance (ODA)

A variety of terms describe different types of external support to developing countries' development efforts. For example 'aid', 'foreign aid', 'development assistance', or 'development cooperation' can be used. In this literature review these terms will be used synonymously to describe external support to developing countries provided by different actors, including governments and other actors. As a central category of aid, however, this review will focus on Official Development Assistance (ODA). Historically, most aid has been given as **bilateral assistance** directly from one country to another, but donors also provide aid as **multilateral assistance**, which pools resources together from many donors. Multilateral aid is commonly perceived to provide a more equitable distribution based on transparent criteria that are free from national preferences (OECD/DAC, 2011b). As a proportion of total aid it has grown from about one-fifth in 1970 to about one-third today (OECD/DAC, 2011b, p. 59).

ODA was first defined in 1969 by the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC), a group of 24 OECD members¹. Since then ODA has become the main measure used in practically all aid targets and assessments of aid performance. While the ODA definition has changed considerably over time, the OECD-DAC currently defines ODA as "those flows to countries and territories on the DAC List of ODA Recipients² and to multilateral development institutions which are:

- i.) provided by official agencies, including state and local governments, or by their executive agencies;
- ii.) and each transaction of which:
 - a. is administered with the promotion of the economic development and welfare of developing countries as its main objective;
 - b. and is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)"(OECD/DAC, 2008b).

The label ODA therefore has five components: the type of flow (equity, grants, loans or technical cooperation); (b) the source (official sector of donor countries); (c) the recipients (they must be on the DAC list); (d) the development/welfare purpose of the related transactions; and (e) their concessional character (World Bank, 2008a). The issue of defining ODA has a significant impact on the quantity and quality of aid, and hence has been subject of significant controversy among donors and scholars (Severino and Ray, 2009, OECD/DAC, 2011b) because of arguments regarding in- or exclusion of various elements in ODA accounting.

The official list of OECD-DAC recipient countries gained 15 new members between 1970 and 2010, while 50 countries were taken off the list over the same period (OECD/DAC, 2011b, p. 225). These adjustments reflect political changes on the one hand, such as the dissolution of the Soviet Union, and economic progress in former developing countries that 'graduated' from the list, including countries such as Portugal, Malta, Israel, Qatar and Singapore (OECD/DAC, 2011b, p. 225).

¹ Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States and the Commission of the European Communities. Eight members of the OECD are not members of the DAC, but have full observer status and participate in DAC meetings: they are the Czech Republic, Hungary, Iceland, Mexico, Poland, the Slovak Republic and Turkey. The main reason why these countries are not members is that they do not have major aid programmes.

² available at www.oecd.org/dac/stats/daclist

The list of activities to be considered as “promoting development and welfare” has been widened substantially over time and includes items such as cost of refugees in donor countries, imputed costs of students from developing countries, internally paid interest subsidies, promotion of development awareness, and recording of debt forgiveness on military debt and other non-ODA debt (World Bank, 2008a). On the other hand, ODA does not include private flows from corporations, charities and NGOs, and remittances.

In addition to the ODA definition, DAC members agreed to define “other official flows” (OOF) as money that comes from governments but does not meet the ODA criteria. These could be loans with a grant element less than 25 per cent, or they could be official bilateral transactions that are primarily export facilitating in purpose. Thus, according to the DAC, ODA excludes, by definition, export credits given by state-supported (official) export credit agencies primarily to promote exports. ODA also excludes government funds that support equity or portfolio investment in development countries, and military aid (Bräutigam, 2010a).

Overall, it can be recorded that it is contentious issue to discuss what items should or should not be counted as ODA. For the purpose of this literature review though, it is sufficient to be aware that there are ongoing debates around elements for inclusion in ODA, and further to take the current ODA definition as a starting point of analysis.

1.2 The 0.7 per cent target

Another key concept and main influence factor on ODA monitoring is the benchmark of 0.7 per cent of Gross National Income (GNI). The probably best known target in international aid proposes to raise ODA to 0.7 of donors’ national income. The origin of the target goes back to the late 1960s. After a series of earlier discussions about estimated capital inflows that developing economies would need to achieve desirable growth, the Pearson Commission, appointed by World Bank President McNamara, proposed a target of 0.7 per cent of donor gross national product (GNP) in a 1969 report (OECD/DAC, 2010). The 0.7 per cent target was first formally recognized in a United Nations General Assembly Resolution in 1970 and was built on the ODA definition of OECD-DAC.

DAC members generally accepted the 0.7 per cent target, with some exceptions: Switzerland, not a member of the United Nations until 2002, and the United States, who do not subscribe to specific targets or timetables but support the resolution’s more general aims regarding aid effectiveness (OECD/DAC, 2010). With the revised System of National Accounts in 1993, gross national product was replaced by gross national income (GNI). The target is therefore shown in terms of an ODA/GNI ratio.

Clemens and Moss (2005) argue that the origins of the target raise serious questions about its relevance since the 0.7 per cent target was calculated using a series of outdated assumptions and a flawed underlying a theoretic model. The authors calculate that using the same method adopted to arrive at 0.7 per cent in the early 1960s, and applying it to today’s conditions, it yields an aid goal of just 0.01per cent of rich-country GDP for the poorest countries and negative aid flows to the developing world as a whole (Clemens and Moss, 2005). The authors conclude that the target has been arbitrarily set with regard only to the donor side, and suggest that it would be better to estimate aid needs by starting on the recipient side with a meaningful model of how aid affects development (Clemens and Moss, 2005).

Others, however, point to the successes of the 0.7 per cent target as a campaigning tool and a method to lobby donor governments to meet aid pledges. Most prominently such pledges have been made in the United Nations Millennium Declaration and the Millennium Development Goals, which were later reaffirmed at the 2002 Monterrey Conference on Financing for Development (United Nations, 2002) and the 2002 World Summit on Sustainable Development when world leaders pledged to ‘make concrete efforts towards the

target of 0.7 per cent' of their GNI as aid (United Nations, 2011b). It still could be argued that no government in fact legally agreed to reach the goal of 0.7 per cent since the wording includes making 'concrete efforts toward the target' only. Also, the majority of donors continue to fall short of reaching the 0.7 per cent target. In 2011, the average for DAC members was 0.31 , and the DAC-EU members only fared slightly better with 0.45 per cent of their combined GNI, both figures still clearly distant of the 0.7 target (OECD/DAC, 2012a).

Yet, some countries explicitly commit to the target and actually reach or even exceed it, such as Denmark, Luxembourg, the Netherlands, Norway and Sweden in 2011, which in turn contributes to the continued relevance of the 0.7 target. And international policy makers, including European Commissioner Piebalgs continue to urge countries to achieve the 0.7 per cent target (European Commission, 2012a).

Apart from the numerical 0.7 per cent donor focused target, discussion in the aid community about more needs-based approaches have among other things also led to the adoption of the outcome-oriented MDGs.

1.3 Millennium Development Goals

The origin of the United Nations Millennium Development Goals (MDGs) and the Millennium Declaration (2000) can be traced back to a report of the Development Assistance Committee (DAC) of the OECD called "Shaping the 21st Century: The Contribution of Development Co-operation" proposing a set of development goals (1996). Therefore, from the beginning, the MDGs were linked to the need for donor financing and aid to developing countries. In particular the eighth goal, the so called global partnership for development, calls on developed countries to allow greater trade access, reduce debts and increase aid. Estimates for how much money would have to be mobilized for achieving the MDGs differ widely.

Several studies have calculated how much it would cost to reach the MDGs, and put the amount of additional resources needed every year in the range of \$40-70 billion (Clemens et al., 2007). These studies do not claim that expenditure is a sufficient condition for meeting the MDGs and recognize that other conditions such as growth, improved policies and institutions, have a significant influence on the achievement of the MDGs. Yet, putting a "price tag" on the MDGs might create the false impression that a set amount could facilitate achieving all the MDGs. The widely cited figure of \$50 billion in additional ODA comes from a commission led by former Mexican President Ernesto Zedillo (2001) that adopted a unit-cost approach, calculating the cost of delivering necessary services for achieving the MDGs. Another study by Devarajan, Miller and Swanson (2002) adopted two approaches for costing the MDGs. First, the study focused on resources required for reducing income poverty through increased economic growth, arriving at an estimate of an annual "financing gap" of \$54-62 billion. Second, they (Devarajan et al., 2002) used a unit-cost approach for meeting the specific goals in health, education and environment, finding that an extra \$35-75 billion is needed per year.

Two more recent studies by the OECD (Atisophon et al., 2012, OECD, 2012b) estimate that achieving the first six MDGs globally will require \$120 billion more to be spent every year on health, education and poverty reduction, but at the same time acknowledges that this amount cannot be met from aid alone at a time when donor countries' public finances are in trouble. Around half of this 'financing gap' is concentrated in 20 low-income countries, while the remaining half is needed for targeted social transfer spending in 79 other low-income countries and middle-income countries (OECD, 2012b). In addition, the authors (OECD, 2012b) calculate that if ODA alone could facilitate achieving the MDGs it would have to be tripled from its current level.

Hence, the authors argue that the MDGs focus too narrowly on aid as the principal source of additional resources to contribute to MDG achievement, and point to other sources of finance

such as domestic tax revenues or private capital flows (Atisophon et al., 2012). Yet, the implications are different for different country categories. While upper middle-income countries could mobilise enough domestic resources to meet the MDGs, ODA will remain a primary source of finance for many low-income countries (OECD, 2012b). Using increased private capital for filling the financing gap of lower-income countries, the volatility of these flows has to be managed and it is necessary to adjust national development strategies to optimise the impact of private flows on development outcomes (OECD, 2012b).

MDG cost estimates have faced criticism from a range of scholars. Reddy and Heuty (2005, 2006, 2008) identified a series of problems with the literature on costing the MDGs, including the lack of a consistent cost concept, and the absence of considerations about economies of scale in MDG achievement. Clemens et al. (2007) raise the point that these costing studies should not be used as evidence that development outcomes can be purchased with more development assistance. They even warn about adverse consequences of such thinking, namely the possible costs of interpreting the MDGs too literally. First, Clemens et al. (2007) point out that costing the MDGs might contribute to raising unreasonable expectations about what is likely to be achieved within a short time period, as many countries will fail to meet the MDGs by 2015, despite achieving unprecedented progress across a range of development indicators. Second, the authors warn that a too literal understanding of the MDGs might also raise unreasonable expectations about the role of aid in the development process, ultimately causing donor fatigue and distracting recipient countries from domestic reform.

As an alternative interpretation of the MDGs, Clemens et al. (2007) argue that the MDGs should be understood as useful benchmarks that can raise public awareness about development issues and remind donors to increase their efforts regarding development assistance. In fact, there is general consensus among most scholars that the MDGs have successfully galvanized the international aid community and helped to reverse the aid declines after the end of the Cold War (Clemens et al., 2007). Beyond the aid community however, there is little awareness about the MDGs as a poll conducted by Eurobarometer (2009) documents. Being asked how much they know about the MDGs less than a quarter (24 per cent) of Europeans were aware of their existence, 19 of which were not really familiar with their content, and only 5 per cent of respondents knew what the MDGs really were (Eurobarometer, 2009).

Regarding the impact that the MDGs had on aid flows, Kenny and Sumner (2011b) find that the MDGs have played a role in increasing aid flows since 2000. Others also find that the MDG framework successfully mobilized support for development assistance and is backed by many development actors (Bourguignon et al., 2008, Moss, 2010). At the same time Kenny and Sumner (2011b) point out that the MDGs might only have had very limited impact on policies in developing countries and on the course of broad-based poverty reduction. These results relate well to the wider long-standing debate on the impact of aid in general, which will be discussed in section II under aid impact.

1.4 Trends in international development cooperation

Since the introduction of the MDGs multilateral and bilateral development cooperation have changed significantly. One main impact on the international landscape of development cooperation has been the global economic crisis that started in 2008. While the world has also witnessed other global crisis, including commodity and food prices, climate change and financial crisis, this part will focus on the repercussion of the global economic downturn on development cooperation and the changing global economic landscape in general.

Current portraits of the new economic landscape are bleak. Mohamed El-Erian (2011) describes the present situation of a low-growth and high debt new equilibrium in advanced economies as the 'new normal'. In similar fashion, Tyler Cowen (2011) analyses that all the 'low-hanging fruit were picked' and labels the current era as 'the great stagnation'. While the

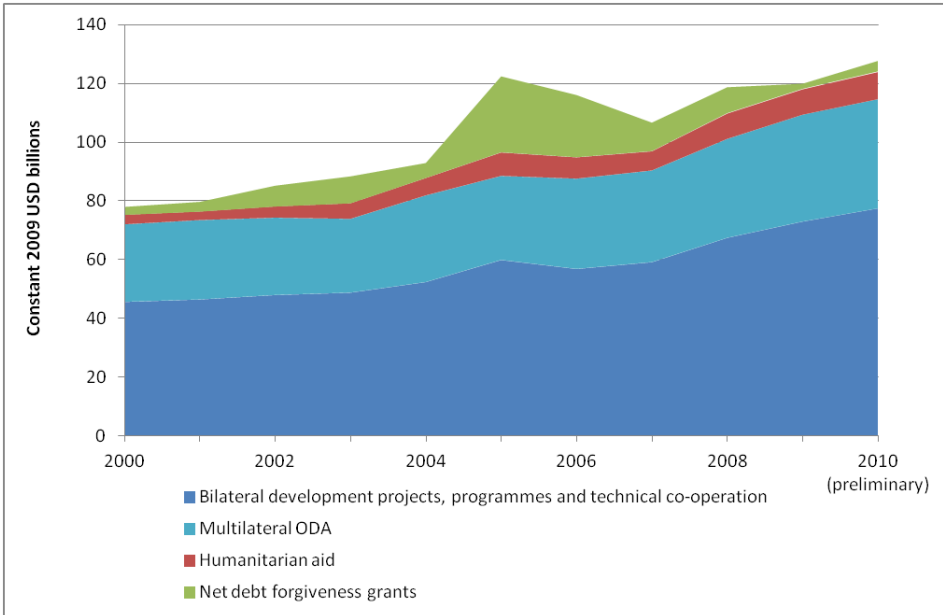
economic crisis has exposed deeper structural problems in most advanced economies, it has also amplified the ongoing shift of economic power to emerging economies such as China, India and Brazil.

Second, the aid landscape has witnessed continued differentiation and fragmentation. The numbers of actors in development cooperation is increasing. The number of ODA projects is increasing. But there are indications that on average donors have smaller project sizes (Birdsall et al., 2011a). With more players and more projects, aid is becoming less predictable, less transparent, more volatile and increasingly complex and costly for developing countries to manage. In particular, the characteristics of bi- and multilateral development cooperation are subjects to profound shifts.

Danny Leipziger (2011) highlights two major implications of this changing landscape for development cooperation. First, the advanced economies, including the OECD-DAC donors, are fiscally strapped and aid budgets are unlikely to be increased: the new mantra rather will be 'value for money'. For instance, Leipziger (2011) comments that it will be questionable whether the EU will be in position to continue its ambitious increase in aid commitments undertaken in the past decade. Second, the 'new'³ actors, such as the emerging economies or private providers of aid (e.g. philanthropic organizations), increasingly operate in different ways from OECD-DAC donors and do not necessarily adhere to similar donor standards.

1.4.1 Impacts of the economic crisis on ODA

The year 2010 was a record year as net ODA flows from DAC members reached \$128.7 billion (see chart I), representing an increase of +6.5 per cent over 2009, making 2010 the year with the highest real ODA level ever (OECD/DAC, 2011b). This even surpassed the volume provided in 2005 that was boosted by exceptional debt relief. Until 2011 aid had been steadily increasing for more than a decade and net ODA rose by 63 per cent between 2000 and 2010 (OECD/DAC, 2012a).



I Components of DAC donors' ODA (Source: OECD/DAC 2011)

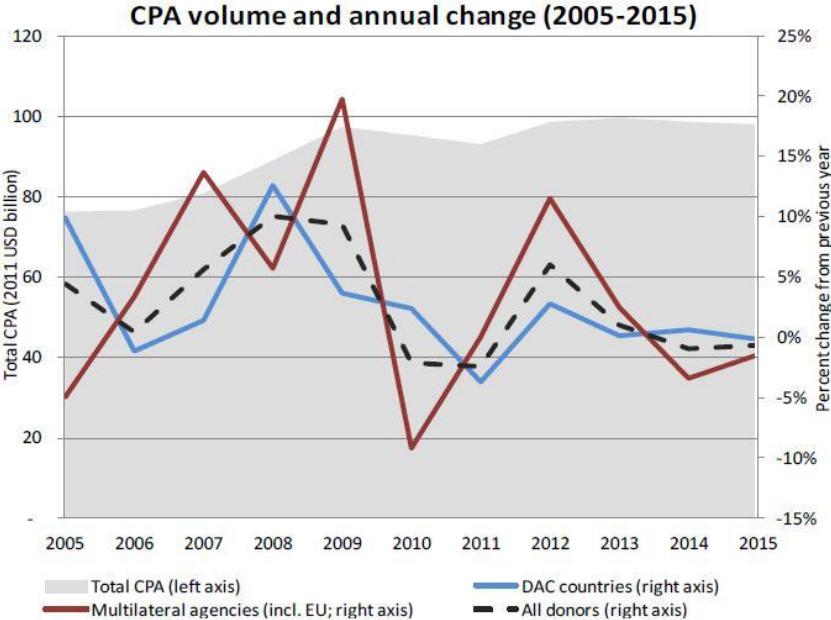
More recent figures, however, clearly show the impact of the financial crisis on ODA. In 2011, DAC donors provided \$133.5 billion of net ODA, representing 0.31 per cent of their combined

³ The term new does not necessarily denote that these actors have not been engaged in delivering aid before (which they have) but to contrast those actors against traditional OECD DAC donors. For a discussion of the term 'new donors' please see Davies (2011).

gross national income (GNI) (OECD/DAC, 2012a). This was a -2.7 per cent drop in real terms (adjusted for inflation and weaker currencies) compared to 2010. While some might consider this to be only a moderate decline, it still marks the first time in 15 years that ODA has decreased (Guardian, 2012). Research estimates by the World Bank (Dang et al., 2009) claim that banking crises in donor countries are commonly associated with substantial additional falls in aid flows. In most specifications aid flows from crisis-affected countries fall by an average of 20 to 25 per cent (relative to the counterfactual) and bottom out only about a decade after the crisis hits (Dang et al., 2009). The authors (Dang et al., 2009) estimate that the current financial crisis will depress aid budgets by 20 to 30 per cent over the next decade.

According to the OECD, **ODA fell in sixteen DAC countries in 2011** with the largest cuts recorded in Austria, Belgium, Greece, Japan and Spain. Still, the figures also show that a few donors managed to even increase ODA, namely Italy, New Zealand, Sweden and Switzerland. ODA from the fifteen EU countries that are DAC members was \$72.3 billion in 2011, which represented 54 per cent of total net ODA by all DAC donors (OECD/DAC, 2012a). DAC-EU members' ODA was 0.45 per cent of their combined GNI, above the DAC average of 0.31 per cent. Total net ODA by all 27 EU member states was \$73.6 billion in 2011, representing 0.42 per cent of their combined GNI, down from 0.44 per cent in 2010. Grants by EU Institutions to developing countries and multilateral organisations with a developmental focus totalled \$12.6 billion, representing a fall of 6.4 per cent in real terms compared to 2010, due mainly to the extension of policy dialogues for budget support operations with some countries (OECD/DAC, 2012a).

A recent OECD-DAC survey predicts that global country programmable aid (CPA)⁴, a subset of ODA over which partner country have significant command, is also entering a phase of stagnation and decline (OECD/DAC, 2012d). Overall, CPA has remained at about 41 per cent of donors' gross bilateral aid during the past decade (OECD/DAC, 2011b, p. 59).



II CPA volume and annual change (OECD/DAC, 2012d)

⁴ CPA is defined through exclusions, by subtracting from gross ODA aid that is unpredictable by nature (humanitarian aid and debt forgiveness and reorganisation), entails no cross-border flows (development research in donor country, promotion of development awareness, imputed student costs, refugees in donor country and administrative costs), does not form part of co-operation agreements between governments (food aid and aid extended by local governments in donor countries), is not country programmable by the donor (core funding to national NGOs and International NGOs), or is not susceptible for programming at country level (e.g. contributions to Public Private Partnerships, for some donors aid extended by other agencies than the main aid agency).

The updated 2012-2015 OECD survey (OECD/DAC, 2012d) provides a preliminary indication of the collective forward programming of bilateral and major multilateral donors up to the MDG milestone year of 2015 (see chart II). The main finding is that global CPA in 2011 is estimated at \$93.1 billion, which represents a decline of 2.4 per cent compared to 2010 (OECD/DAC, 2012d). The decline in CPA between 2010 and 2011 constitutes a reversal of previous trends and of the initial increases agreed to by donors at the onset of the financial crisis to reduce the effect of the downturn on developing countries (OECD/DAC, 2012d).

From 2013, global CPA is expected to stagnate and show stark regional disparities, with CPA to countries in Latin America continuing to decrease while CPA to the populous South and Central Asian countries (e.g. Bangladesh, Myanmar and Nepal) increases. For Africa, the survey indicates few changes in CPA, although recent events in Sahel and North Africa may result in some reprogramming of donor efforts.

In addition to this expected slow-down in ODA growth, another prominent trend has been the declining proportion of core contributions from bilateral donors to multilateral development institutions. Core multilateral contributions as a share of total ODA fell to a low of 28 per cent (\$36 billion) in 2009 from a peak of 33 per cent in 2001 (OECD/DAC, 2011a). At the same time non-core earmarked⁵ funding to multilateral organizations is growing faster than other components of ODA. It increased from \$13.4 billion in 2008 to \$15 billion in 2009 (Adugna et al., 2011, OECD/DAC, 2011a). This trend also reflects the increasing demand of donors to exert larger control over their ODA contributions, which is partly caused by the economic crisis and the need to justify ODA payments to domestic stakeholders in OECD-DAC countries. While bilateral donors call this trend the ‘multilaterilisation of bilateral aid’, multilateral organizations call this the ‘bilateralisation of multilateral aid’ (OECD/DAC, 2011a). As donors cut budgets and decide to concentrate on fewer partner countries, there are increasing incentives for the “bilateralisation” of multilateral contributions to maintain at least a presence a specific country, region, or thematic area (OECD/DAC, 2011a).

A negative consequence of this trend is that it can contribute to increased fragmentation of the aid landscape since decreasing amounts of resources are administered centrally. The problem emerging from the overall situation described above, is ‘too little aid from too many donors’ (OECD/DAC, 2011a).

1.4.2 Country classifications and differentiation

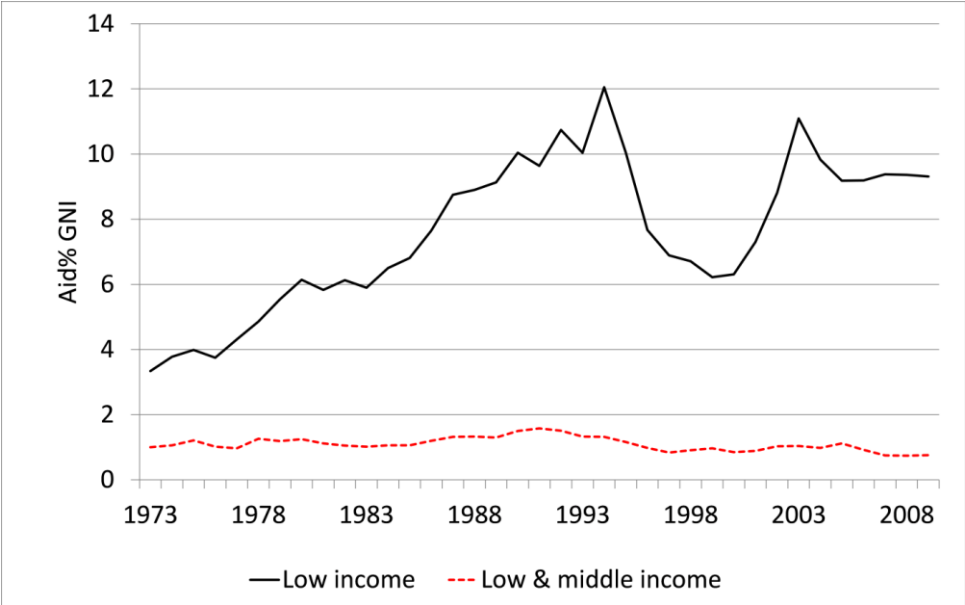
Changing geopolitical and economic realities continuously render the developing–developed country distinction obsolete. Many more nuanced ways of categorising countries according to a wide variety of criteria have been suggested in recent years: economic vulnerability, bribe payers, competitiveness, digital access, ease of doing business, food insecurity, governance, poverty and welfare (Harris et al., 2009). The following section will provide an overview on several suggestions for country classifications and implications for differentiation of donor engagement.

Harris et al.(2009), focusing on the perspective of European policymakers, provide an overview on recent debates around country classifications and suggests two main axes for classifying countries. The first axis is the **external capacity of states** to influence and work with other states, particularly regional neighbours, captured in the measurable concept of ‘anchor countries’ developed by the German Development Institute. The second is **internal state capacity**, as shaped by the sources of government income, in particular contrasting tax, aid, and oil, ultimately strengthening the capacity of poor countries to help themselves.

⁵ Earmarked funding refers to ODA allocated to multilateral development institutions for a specific purpose (e.g. a specific sector, theme, country or region).

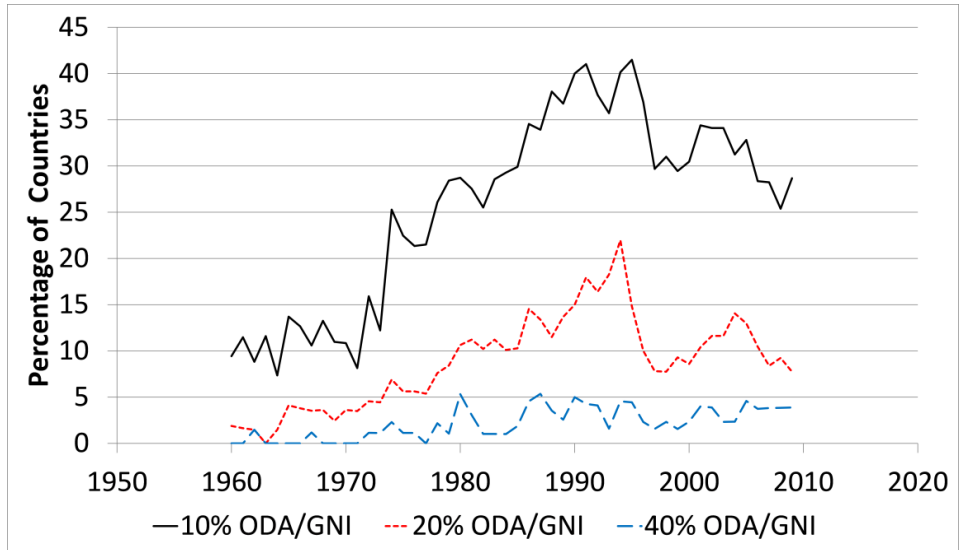
Overall, thinking along these lines would help European policymakers to better adapt their development assistance strategies (Harris et al., 2009).

Kenny (2012) adopts the conventional World Bank income categorization based on per capita GNI: high-income (HICs), middle-income (MICs), and low-income (LICs) countries. He shows the trend that for LICs and MICs net aid receipts as a percentage of GNI have recently hovered around 1 per cent, after continuously declining since the early 1990s (see chart III). But LICs as a single group still have average aid receipts worth 10 per cent of GDP and aid continues to be very important for these countries (Kenny, 2012).



III Aid as a Percentage of Recipient GNI (Kenny, 2012)

Over the past decade, there has been increased economic performance across the developing world and the number of countries where average incomes are below \$1,005 per person per year (the World Bank definition for LICs) dropped from 63 to 35 over the last 10 years (Kenny and Sumner, 2011a). This increased economic performance is reflected in the decreasing share of countries with aid to GNP ratios over 20 per cent and over 40 per cent (see chart IV). For those 35 low-income countries that remain, however, aid is still major source of finance, accounting for an average of about 10 per cent of gross national income.



IIIV Percentage of Recipient Countries Reporting ODA/GNI > 10/20/40 per cent (Kenny, 2012)

Adugna et al. (2011) further add to the debate on country differentiation between LICs and MICs, arguing that different development finance architectures have emerged in LICs and MICs, each with an emphasis on different sources of financing. The authors (Adugna et al., 2011) state that specifically LICs will continue to depend primarily on ODA grants – which represented nearly 60 per cent of the total net financial flows to these countries during 2005 – 2010, close to three times as important as worker remittances, and more than four and a half times as important as net FDI. In contrast, MICs will rely primarily on private flows (FDI and private debt financing), which over the period 2005-10 accounted for more than 60 per cent of the total net financial flows to these countries.

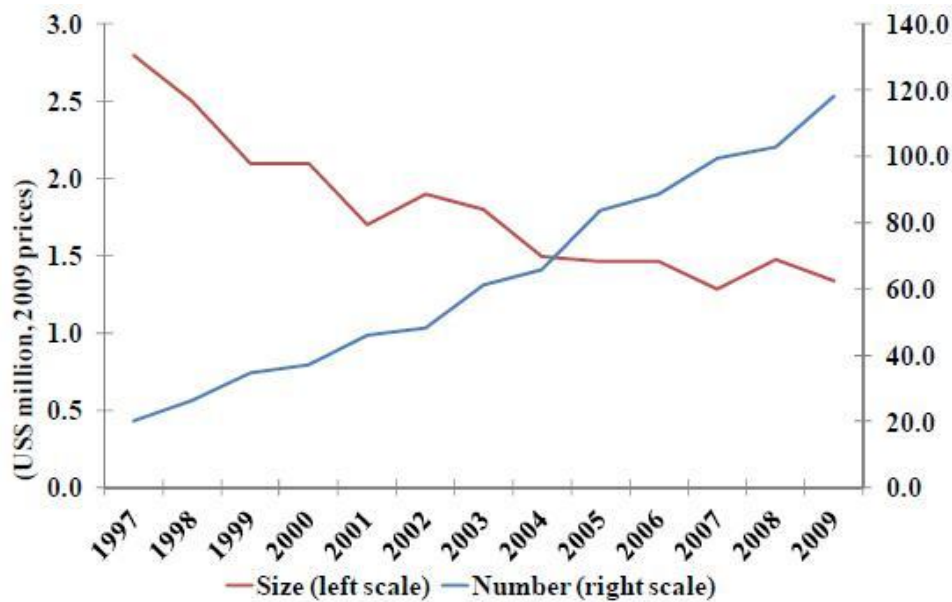
While the share of ODA grants in overall external financing for MICs is small (4 per cent), MICs still receive a significant portion of total ODA grants (40 per cent) (Adugna et al., 2011) and the future aid organisations in MICs raises questions. Sumner (2010b, 2010a) has shown that most of the world's poor today no longer live in LICs, but that MICs account for three-quarters of the world's poor. Carbonnier and Sumner (2012) give two major reasons for international aid organisations to stay in MICs. The first reason is to engage MICs in the design and implementation of global policies required to protect global public goods, arguably in the best interest of LICs and of DAC member, too (Carbonnier and Sumner, 2012). The second reason is to assist MICs in combating poverty at home, which often relies on redistributive policies that include social security and tax reform as well as improved, targeted public services (Carbonnier and Sumner, 2012).

Glennie and Prizzon (2012) suggest that the ratio of **recipient aid to GNI** is a more relevant measure than the traditional focus on aid as a proportion of donor GNI, symbolised by the 0.7 per cent target. The authors therefore classify recipient economies in four categories: High Aid Countries (HACs), Middle Aid Countries (MACs), Low Aid Countries (LACs) and Very Low Aid Countries (VLACs), on the basis of their net aid to GNI ratio above 10 per cent, between 2 per cent and 10 per cent, between 1 per cent and 2 per cent, and below 1 per cent, respectively (Glennie and Prizzon, 2012). As donors prioritise reducing aid to MICs, the authors warn that the majority of the world's poorest people live in countries where aid is relatively low (LACs and VLACs), while only about 15 per cent live in countries where aid to recipient GNI levels are high (HACs) (Glennie and Prizzon, 2012).

1.4.3 Aid proliferation and fragmentation

A major challenge emerging from the recent aid trends is **proliferation of aid**, an increase in the number of donors to a specific recipient country. Simultaneously, the **fragmentation of aid**, an increase in the number of projects and a decline in the amount per project, has also continued (Adugna et al., 2011).

The aid landscape is already highly fragmented – there are more than 80.000 ODA projects annually, being delivered by a minimum of 56 donor countries, 197 bilateral and 263 multilateral agencies (World Bank, 2008a). Moreover, the average number of bilateral donors per partner country has increased from 12 in 1960 to 33 in 2006 (World Bank, 2008a). While this basic setup could be managed in theory, in practice there is a lack of concerted and co-ordinated aid allocation practices. Each donor operates according to own priorities and incentive frameworks, leading to a situation where the complex and un-coordinated aid allocation patterns not only create gaps in the supply of aid across countries, but also overlaps in terms of the number of donors present at country level, including those that contribute relatively small amounts (OECD/DAC, 2011a).



V Number and average size of donor activities (Adugna et al., 2011)

Proliferation and fragmentation entail transaction costs for both donors and partner countries, and aid often underperforms because it flows through too many institutional channels (Acharya et al., 2006, Djankov et al., 2009, Anderson, 2011, Knack and Smets, 2012). Chart V shows the number of ODA projects in a year and the average amount of ODA committed per project. Fragmentation continues, as average volume of donor-funded activities continuously declined to about \$1.3 million in 2009 (see chart V) and the total number of activities reaching 120,000 in the same year (Adugna et al., 2011). This figure might be overstated as activities counted also include transactions to implementing organizations, but the overall trend is clear (Adugna et al., 2011).

Donors have to maintain minimum in-country presence at various phases of their respective projects and partner countries often carry the administrative burden of co-ordinating various donors (OECD/DAC, 2011a). Regarding global areas most affected by fragmentation, a recent OECD-DAC study finds: 'The most worrying trend is seen in low-income countries (LICs) with the least institutional capacity to manage an increasing number of financially less-significant actors'. More than 80 per cent of all LICs have experienced an increase in the number of donors since 2004, and in some countries the number of donors has increased by more than 50 per cent" (OECD/DAC, 2011a).

Apart from the adverse effects of fragmentation, the increasing number of donors can also be an opportunity in cases where a growing amount of non-ODA financing becomes available for development projects. Apart from multilateral organizations, a rising number of other actors are involved in development cooperation. One group are **private donors** who increasingly engage in development cooperation, for example through public-private partnerships and **private philanthropy**, which being increasingly recognized as a key partner (Kindornay and Besada, 2011). Edwards (2011) estimates that philanthropic foundations have contributed between \$7.0 billion and \$9.5 billion to 'international' or 'development'-related activities in 2009, with approximately two-thirds coming from the USA. By far the largest contribution to these totals comes from the Bill and Melinda Gates Foundation, which spent \$2.5 billion on 'global health and development' in 2009 (Edwards, 2011).

Civil society organizations, including international and national **non-governmental organizations (NGOs)** are also making significant contributions to development cooperation. Since the 1950s there has been exponential growth in the number of NGOs operating internationally, and Hammad and Morton (2011) estimate that the number of NGOs has

grown from approximately 985 in 1954 to more than 21.000 in 2003. In terms of resources some of these NGOs have budgets that rival those of OECD-DAC donors.

Another important group of actors are the **emerging economies**, including China, India and Brazil. These emerging powers do not necessarily follow the aid practices developed by Western donors, but instead are injecting new ideas about development cooperation, such as South-South Cooperation (SSC). The amounts of resources are difficult to assess since most of these figures are not reported in an official manner. A recent report (2012) by the Global Health Strategies initiative (GHSi) estimates that from 2005 to 2010, Brazil's foreign assistance spending grew each year by around 20.4 per cent, India's by around 10.8 per cent to \$680 million in 2010, China's by around 23.9 per cent to \$3.9 billion, and South Africa's by around 8 per cent (Global Health Strategies initiatives, 2012).

Overall, the data availability on these estimated resources is weak and these numbers have to be treated cautiously, but Prada et al. (2010) arrive at a rough estimate of total non-OECD-DAC ODA in the range of \$28-\$29.5 billion annually. Compared to \$128.7 billion of total ODA by DAC members in 2010 these non-ODA resources would amount to about 22 per cent.

While this part has provided a first overview of the fragmented aid landscape in terms of increased numbers of actors and approaches, the challenges that these trends imply will be analyzed in greater detail in parts 3, 4 and 5. But before turning this part a general introduction and update on the discussions around the impact of aid, including questions of aid allocation, aid effects and aid effectiveness, will be provided.

2 Aid Impact

The objective of this part is to provide an overview on several discussions in the field of development cooperation that can be subsumed under the heading 'aid impact'. This section will begin with a brief introduction on international aid allocation patterns and the underlying donor motives. Subsequently, the wider discussion on the effects of aid, including intended and unintended effects, will be presented. Finally, an overview on the international aid effectiveness agenda, which developed out of the need to further improve aid delivery of international donors in cooperation with partner countries, will be discussed.

2.1 Aid allocation patterns

The literature on empirical evidence for aid allocation of donors can be roughly divided into three groups of main determinants for aid allocation: self-interest of donors (self-centered motives), recipient needs (includes altruistic motives of donors) and merit-based (rewarding performance on specific indicators). These motives do not have to be and in fact are not mutually exclusive, yet a long-standing debate on the relative weighting of each of the three factors – self-interest, need, and merit - in determining aid allocation has developed.

In an influential study Alesina and Dollar (2000) find that from 1970 to the mid-1990s the direction of foreign aid has been dictated as much by political and strategic considerations, as by the economic needs and policy performance of the recipients. Further, the authors suggest that colonial past and political alliances are major determinants of foreign aid. Temple (2010) adds that during the Cold War aid has been directed towards regimes allied with the West and that since the early 2000s aid to Afghanistan and Pakistan has been greatly increased and strategically reconfigured around the "war on terror". Therefore, **self-interest of donors**, in this case political considerations, is identified as the main determinant of international aid allocation patterns.

In another study Berthélemy (2006) shows that among various self-interest motives commercial interests in particular are the strongest factor in determining aid allocation, even outweighing geopolitical motives. Overall, the exact quantification of donor self-interest is difficult to determine, but several studies confirm that self-interest outweighs other allocation factors (Berthélemy and Tichit, 2004, McGillivray, 2004, Berthélemy, 2006). While the possible effects of such self-interest dominated aid will be discussed in the next part, it can be noted that there might be conflicts with other motives of aid, such as promoting economic growth or improving social indicators.

Another group of studies suggests that other motives apart from donor self-interest are significant. In general, these studies present aid allocation patterns to be more diverse and complex. Isopi and Mavrotas (2006) find that estimates of aid allocation for individual donors vary significantly among different donors, and that apart from self interest **recipient needs** are an important factor for many donors in allocating aid. These recipient needs are primarily centered on promoting economic growth or improving social indicators. Claessens et al. (2007) confirm that donor behaviour is highly heterogeneous and observe that since the late nineties, bilateral aid responds more to economic needs and the quality of a country's policy and institutional environment and less to debt, size and colonial and political linkages. In similar fashion Canavire et al. (2006) find that poorer countries clearly received more aid from both bilateral and multilateral donors in the period 1999-2002. Headey (2008) ascertains that multilateral donors tend to give aid to countries with greater need and are less influenced by strategic considerations than bilateral donors. In another study Sawada et al. (2008) demonstrate that both multilateral and bilateral aid generally show aid allocation patterns that are consistent with the theory of poverty targeting. And some studies point out that there is an ongoing trend away from self-interest towards more needs-based allocation (Canavire et al., 2006, Claessens et al., 2007).

The third group of literature on aid allocation patterns describes **merit-based** factors as an explanatory factor aid allocation patterns. The rationale behind allocating aid based on merit is that governments need to have relatively sound institutions and good standards of governance to effectively spend aid and improve the impact of aid. This rationale, initially put forward in a World Bank study on 'Assessing Aid' (1998) started an academic debate (Burnside and Dollar, 2000) and increasingly became accepted among policy makers. Therefore, merit-based allocation has become an observable factor in aid allocation decisions (Claessens et al., 2007). Yet, in one study Hoeffler and Outram (2011) measure merit by a combination of growth, democracy and human rights indicators of partner countries, and find that for allocation decisions the merit factor has been rather insignificant. The issue of merit-based criteria for allocating aid also reflects a larger discussion among scholars and policy makers on the overall effects of aid, especially those effects on poverty reduction. The question of donor motives and patterns of aid allocation is inherently linked to the question of the effects of aid, which will be discussed in the next section of the review.

In summary, the literature on aid allocation patterns indicates that aid is primarily allocated according self-interest motives of donors. On the other hand, there are also signs that donor motives have become more heterogeneous and more based on recipient needs over recent year. Also, in a smaller amount of cases allocation decisions can be merit-based. In total, the complexity and diversity of donor motives were underscored as a main feature of allocation patterns. Going beyond differences in allocation patterns among donors, there are also scholars, who point to the importance of understanding various aid channels or different types of aid providers within countries and multilateral organizations (Nunnenkamp and Öhler, 2011). Moreover, Faust (2011) adds that differences in political transparency in donor countries explain a large part of varying aid allocation patterns and that donors with higher levels of political transparency tend to allocate aid more according to recipient needs and institutional performance.

2.2 Aid effects

This part will investigate the theoretical underpinnings and evidence of the effects of aid on development. As described, the aid landscape today is characterized by a complex interplay of actors and a variety of trends and dynamics. Accordingly, the assessment of aid effects has become more complicated, also because there is more evidence on the intended as well as unintended effects of aid.

Regarding the intended effects of aid, donors emphasize three main categories. First, there is **humanitarian aid**, used to alleviate suffering for instance in an emergency situation; second, there is **social service aid**, used for providing services like and education, health, water and sanitation; third, there is **development aid** used for promoting economic growth and sustained prosperity. These intended effects are often interconnected with a range of other motives in different patterns of aid allocation by individual donors. Still, this section will introduce some of the empirical studies that have been undertaken to examine the impact of aid on development. As economic growth is generally seen as a necessary condition for poverty reduction, the impact of aid on economic growth is central in the development policy field. The impact of aid on growth will therefore be the main focus of this part. The comparatively less contentious impacts of humanitarian aid and social service aid will be briefly introduced first.

2.2.1 Humanitarian and social service aid

Humanitarian aid to countries facing natural or civil crisis situations is intended to save lives, reduce suffering and maintain human dignity (Riddell, 2007, p. 325). Assessing the impact humanitarian aid, similar to social service aid and development aid, faces methodological problems such as a required baseline data, careful monitoring after aid was provided, and attempting to identify a link between the outcomes achieved and the aid that is provided (Riddell, 2007). In addition, humanitarian aid involves a plethora of actors (e.g. international, national, government, military, private, individual, etc.), and a myriad of circumstances under which it is provided, including preparedness for events, immediate response to them, the provision of basic needs and the first elements of recovery.

There is also a blurring of lines between humanitarian aid, investments in disaster preparedness, recovery programming, and long-term development spending (Global Humanitarian Assistance, 2012). The annual Global Humanitarian Assistance Report (2011) provides an overview on the landscape of humanitarian aid and current trends. For this literature review humanitarian aid will not be explored in further detail because the review focuses on development aid mostly. But overall it can be concluded that humanitarian aid is successful in saving lives and contributing to restoring livelihoods, and an assessment of the impacts of humanitarian aid largely faces similar issues that the evaluation of social service and development aid encounters (Riddell, 2007, p. 352).

Regarding the impact of aid on social services, there is extensive evidence to show that aid does reach intended beneficiaries and provides them with key services. Quality of life outcomes in developing countries have increased significantly over the last decades as a result health and education services being cheaper and more widely available, which to a great extent was supported by aid (Fielding et al., 2006, Kenny, 2011). For example, about 80 per cent of the world's children now get basic vaccinations, saving about 3 million lives a year, and over half of vaccinations in low-income countries are financed by foreign aid (Politi and Thomas, 2010). Mishra and Newhouse (2007) uncover a statistically significant effect of health aid on infant mortality in analyzing data from 118 countries between 1973 and 2004. And Dreher et al. (2008) show that aid in about 100 countries over the period 1970-2005 significantly increased primary school enrolment. Gomanee et al. (2005) and Morrissey (2010) largely confirm these findings by showing that aid contributes to human development in other ways than by increasing growth. The authors posit that aid can enhance human

development by financing public expenditures that increase welfare indicators (Gomanee et al., 2005).

Further, an increasing number of rigorous microeconomic impact evaluations, including the use of randomized control trials, have demonstrated the potential for well-designed project interventions to generate results (Banerjee and Duflo, 2008, Duflo and Banerjee, 2011, Karlan and Appel, 2011). Evaluations like this enable analysts to identify the effects of individual programmes, financed partly or wholly by aid. Overall, some of the interventions will have modest expected payoffs compared to a change in growth rate, but not enough is known currently about the true extent to which addressing humanitarian and social service aid affects growth rates (Temple, 2010).

Bearing these success stories of aid in mind, the impression that aid would be seen as a generally positive influence might arise. Yet, there is an ongoing debate on the overall costs and benefits of aid. On the one hand, most project-related aid efforts on the micro-level are clear on the positive impact of aid as a summary by Riddell (2007, pp. 180-185) on the high success rates indicated by project evaluations demonstrates. On the other hand, macro-level studies provide no such clarity on the aggregate effects of aid. A famous summary of this seemingly contradictory situation is the term 'macro-micro paradox' that was coined Mosley et al. (1987). The following section will further examine the related issues in discussing positive and negative impacts of aid by introducing the aid-growth debate.

2.2.2 Impacts of aid on growth

The relationship between aid and growth has been subject to a range of empirical cross-country regression studies. Overall, it can be acknowledged that there are difficulties in establishing any clear relationship between aid and growth. Recent studies continue to both challenge and support the claim that aid has a significant impact on growth. There are three main views in the empirical literature. The first view proposes that aid in overall has a positive effect on growth (Hansen and Tarp, 2000, Clemens et al., 2004a, Dalggaard et al., 2004, Minoiu and Reddy, 2010). The second view is that aid either has no effect or in limited cases even negative effects on growth (Easterly et al., 2003, Doucouliagos and Paldam, 2008, Rajan and Subramanian, 2008). The third view takes a more qualified stance and points to specific circumstances that determine the impact of aid on growth.

2.2.2.1 Theories on aid and growth

One reason why empirical studies based on cross-country data offer such diverse results can be found in the different underlying econometric models, varying methodologies and theoretical paradigms adopted over the years of debate.

Since the 1940s a common theory in the development economics literature points to capital scarcity as the main reason for a lack of economic growth: the so called 'capital bottleneck theory' (Domar, 1947, Harrod, 1948, Chenery and Strout, 1966, Meier and Stiglitz, 2001). According to the capital bottleneck theory external finance or aid can provide developing countries with capital to overcome capital shortage and unlock their growth potential. In particular, it was assumed that donors could calculate the financing gap - the difference between the level of savings and the level of investment - for a targeted growth rate and fill it with aid (Meier and Stiglitz, 2001).

Two specific capital gap theories are particularly prominent in the literature on the aid and growth relationship. First, the Harrod-Domar (Domar, 1947, Harrod, 1948) growth model assumed that in many developing countries savings are too low to generate a targeted growth rate and therefore foreign aid is needed to relieve the savings constraint and increase investment (Mercieca, 2010). In addition to a savings gap, Chenery and Strout (1966) identified a foreign exchange gap, addressing that developing countries often do not have

the necessary export earnings to generate investments. These gap models have been criticized for various reasons, but mainly because they assume that investment is the only factor in increasing growth (Harms and Lutz, 2004). Indeed, there are other factors apart from closing these financing gaps, and aid could also improve growth through more indirect channels that are often difficult to measure. For instance, aid could increase worker productivity by investing in health or education or aid could pay for transferring technology to developing countries, but there is less systematic evidence on these channels (Radelet, 2006).

2.2.2.2 Positive aid-growth relationship

Following capital gap theories many empirical studies have focused on the aid, savings and investment relationships and often found positive effects of aid on growth (Papanek, 1972, Papanek, 1973, Gupta and Islam, 1983, Levy, 1988). A survey of these studies found that overall aid is believed to increase total savings, but not as much as the aid flow, suggesting that a proportion of aid is consumed rather than invested (Hansen and Tarp, 2000). Closely linked to the arguments for a positive effect of aid on growth is the concept of 'poverty traps', the idea that developing countries can be stuck in a low growth and low productivity equilibrium. Based on the financing gap models Sachs et al. (2004) and Sachs (2006) have argued that a significant increase in aid is needed, 'a "big push" in public investments to produce a rapid step increase in Africa's underlying productivity'. According a transition out of the 'poverty trap' could be induced by aid would start a period of increased growth.

Later, studies departed from only testing linear relationships between aid and growth because it was recognized that capital gap theories are too simplistic and quality of investments vary too widely across different policy environments. In particular, several studies adapted the models they applied to allow for diminishing returns to aid. The rationale behind this adapted approach is that not necessarily all aid will be invested since a significant proportion of aid is intended to subsidize consumption activities, such as food aid or aid for delivering social services. Following this approach of considering diminishing returns to aid a series of studies since 2000 continued to confirm that on average higher aid lead to more growth (Hansen and Tarp, 2000, Dalgaard and Hansen, 2001, Lensink and White, 2001, Clemens et al., 2004b, Dalgaard et al., 2004, Arndt et al., 2009, Minoiu and Reddy, 2010). This group of studies also benefited from the availability of panel data, allowing and analysts to compare changes both across and within countries over time (Arndt et al., 2009).

Moreover, some of these studies (e.g. Guillaumont, 2009) already addressed criticism to account for other factors that impact growth besides aid, such as education, research and development, incentives, prices the policy environment in general, and tried to better account for these broader effects. This was often done by introducing 'control variables'. However, the selection of specific variables and the robustness of results obtained have again led to debate on the validity of findings. A common problem is data mining, the trying of different control variables until the intended result is achieved (Deaton, 2009).

Another caveat in the empirical studies is the problem of reverse causality. In many cases poor countries might not demonstrate poor performance despite receiving more aid, but rather receive more aid because they are performing poorly (Arndt et al., 2009). Again, while some studies account for this factor, a lot of studies do not deal with this issue as it is not immediately obvious how to disentangle these effects (Deaton, 2009). Moreover, the choice of time-frame (short, medium, or long-term) and the availability of data are common problems in empirical cross-country studies about aid and growth.

2.2.2.3 No aid-growth relationship

On the other hand, a series of studies, many of them also adopting capital gap models but using different assumptions and econometric models reached the opposite conclusion: aid

has no effect on growth and may actually undermine growth. Several reasons for this claim are presented in the literature. Early fundamental criticism of aid in general was put forward by Bauer:

If all conditions for development other than capital are present, capital will soon be generated locally, or will be available to the government or to private businesses on commercial terms from abroad, the capital to be serviced out of higher tax revenues or from profits of the enterprise. If, however, the conditions for development are not present, then aid – which in these circumstances will be the only source of external capital - will be necessarily unproductive and therefore be ineffective. Thus if the mainsprings of development are present, material progress will occur even without foreign aid. If they are absent, it will not occur even with aid. (Bauer, 1972, pp. 97-98)

While this paradox at the time was not backed by empirical evidence it can be seen as a starting point for a series of studies. According to Bauer, capital should be forthcoming from other sources than aid, if the conditions for capital accumulation were in place. Otherwise aid would have no effect on growth. In fact, many empirical studies later reached the conclusion that there is no relationship between aid and growth (Mosley, 1980, Mosley et al., 1987, Boone, 1994, Boone, 1996, Kanbur, 2000, Easterly, 2007a, Easterly, 2007b, Doucouliagos and Paldam, 2008, Rajan and Subramanian, 2008)⁶.

According to these studies there are several reasons why aid has no effect on growth as well as conditions under which aid could have adverse effects. Aid can i) be wasted and encourage corruption, ii) keep bad governments in power and postpone reform, iii) be ineffective due to limited capacity of the recipients, iv) reduce domestic savings, including private and public savings, through impact on interest rates and government revenues, and v) undermine private sector incentives for investment (Radelet, 2006). These adverse effects can be broadly summarized as unintended consequences of aid that often depend on circumstances. These aid effects dependent on circumstance have been discussed widely in the literature and will be explored in further detail below.

2.2.2.4 Summary on relationship between aid and growth

In summary, there is no simple relationship between aid and economic growth. There are inherent difficulties in using cross-country regressions to assess the impact of aid on growth and most results of empirical studies are extremely sensitive to methodological choices, (Roodman, 2007). It is difficult to entangle the effect of aid empirically as there are numerous possible determinants of growth, many of which are highly correlated with each other and difficult to distinguish statistically. Roodman assumes that 'statistical noise tends to drown out the signal' and cross country studies have yet to reveal under which conditions aid works and under which it does not. Overall, it can be concluded that growth might not happen because of aid, but that aid can make a difference.

Another concern is that aid can be an unhelpful analytical category, as it represents an artificial aggregate of various specific programmes across a range of sectors (Temple, 2010). In addition, not enough is known about how aid for social services and aid for growth purposes relate to each other, and whether they might enforce each other. A research priority should therefore be to 'explore channels and intermediating relationships, and the effect of aid on a wider range of outcomes: not only social indicators, but also governance, conflict, public expenditure, taxation, sectoral structure, political outcomes' (Temple, 2010, p. 4449). Bourguignon and Sundberg stress the need to better clarify relationships between donors, policy makers, policies and outcomes to reshape knowledge on the impact of aid (2007).

⁶ Doucouliagos and Paldam perform a meta-analysis of 68 studies on the aid-growth link, and conclude that aid's impact on growth is nonexistent. However, Mekasha and Tarp re-examine key hypothesis of this study and find contrary results, namely that the effect of aid is positive and statistically significant.

The statistical and methodological difficulties in establishing a clear relationship between aid and growth should, however not be interpreted as evidence that aid cannot be effective. Nor does the inconclusive evidence on the effects of aid on growth mean that donor countries are powerless to promote sustainable economic growth in developing countries. Still, when assessing the impact of aid a wider range of consequences seems to be important.

2.2.3 Aid effects conditional on circumstances

In light of the opposing views on the aid-growth relationship a series of studies propose to depart from the dichotomous debate described above and consider the broader circumstances under which aid is provided. While this literature strongly overlaps with the aid and growth literature, there are also many connections to broader topics including governance, local institutions and political economy for instance.

A landmark publication was the World Bank Report 'Assessing Aid' (1998) which questioned the traditional approaches to aid and conditionality and advocated moving towards more **selectivity**. Hence, a new strand of research has focused on analyzing in what circumstances aid can have a positive or negative impact on growth. This conditionality perspective turns the spotlight on key factors that cause aid to work or fail, and can be further grouped into two categories: i) studies that identify **country specific factors** and ii) studies that point out **donor specific characteristics**. An additional category for considerations will be iii) **unintended effects of aid** that can undermine the effectiveness of aid.

2.2.3.1 Country circumstances

As described above in the context of patterns of aid allocation, there is research that has influenced policy makers to allocate aid according to the quality of local policies and circumstances of partner countries. According to this reasoning aid is only effective in the right policy environment. At the same time, in countries with a deficient and instable policies aid would be ineffective. This thinking was stimulated by Burnside and Dollar (2000) who showed that 'performance-based allocation' of aid (also called **aid selectivity**) leads to a greater impact of aid on growth. Van de Walle (2005) and Collier (2007) have further argued that aid should be more **conditional** on improvements in governance such as mechanisms for accountability, transparency and recognition of human rights, rather than requesting specific economic reforms.

Other researchers have followed in this direction, proposing different country characteristics that might affect the aid-growth relationship. These factors include: export price shocks, climate shocks, the terms of trade, macroeconomic policies and trade policies, institutional quality, warfare, type of government and the location in the tropics (Collier and Dehn, 2001, Guillaumont and Chauvet, 2001, Collier and Dollar, 2002, Collier and Hoeffler, 2002, Burnside and Dollar, 2004, Chauvet and Guillaumont, 2004).

However, some of these studies have not proven to be statistically robust. In particular, Easterly, Levine and Roodman (2003) found that the original Burnside and Dollar results did not hold up to robustness checks and other studies confirmed this (Hansen and Tarp, 2000, Dalgaard and Hansen, 2001, Roodman, 2007). These debates on methodological issues again underscore the limitations of statistical evidence in establishing causal relationships between aid and growth.

Nevertheless, the view that aid works better in countries with good policies and institutions has become widely spread among policy makers and has influenced allocation decisions. Another outcome of the Burnside and Dollar study has been that researchers afterwards gave new attention to specific conditions for aid effectiveness and rules for aid allocation.

Examples of research on modified frameworks for allocations are provided by Wood (2008) and Cogneau and Naudet (2007).

2.2.3.2 Donor characteristics

Apart from country circumstances and questions of conditionality and selectivity of aid, many studies have argued that donor practices strongly influence the effects of aid. First, allocation decisions and the underlying motives can have an effect on aid effectiveness (Kilby and Dreher, 2010). Another example of potentially adverse effects of donor behaviour is tied aid, which is linked to the purchase of particular goods and services from the donor country. Tied aid is generally seen as inefficient and one widely cited criticism claims that tying aid reduces the real value of aid by 15-30 per cent (Temple, 2010).

Further, analysts argue that donors have large bureaucracies and poor monitoring and evaluation systems that undermine the effectiveness of their own aid programmes (Radelet, 2006). Several authors highlight the negative consequences of poor coordination among donors (Torsvik, 2005, Knack and Rahman, 2007).

A common explanation for a lack of coordination are agency problems that can be analyzed within an principal-agent framework, based on the idea that the donor, conceptualized as the principal, cannot perfectly observe the actions and type of the aid recipient, conceptualized as the agent (Bigsten et al., 2011). Apart from the traditional donor and recipient model, several other potentially problematic principal-agent relationships emerge along the aid delivery chain, including between: donor government and donor country citizens; donor and implementing agency, recipient government and local citizens (Gibson, 2005). Two main problems arise from this setting. First, the recipient may act in ways that do not conform well to the interests of the donor, the so called moral hazard problem. Second, the recipient may be of the sort that the donor would have liked to avoid, the so-called adverse selection problem. The literature broadly concludes that these problems can only be partly mitigated provided that some form of conditionality is applied to the recipient agency (Svensson, 2000, Azam and Laffont, 2003, Bourguignon and Platteau, 2012).

Another set of problems is connected to volatile and unpredictable aid flows that can destabilize partner governments. For instance, Eifert and Gelb (2008) cite evidence on budget instability in Africa induced by volatile aid flows and Celasun and Walliser (2008) highlight budgetary complications of unpredictable aid. Birdsall (2004) further formulates a list of 'donor failures', including impatience with institution building, collusion and coordination failures and failures to evaluate results of donor support.

In addition, donors have become increasingly aware of the need to promote local 'ownership' of reform efforts in partner countries financed by aid. The argument for ownership usually stresses that reforms should focus on longer-term perspectives and place more emphasis on dialogue and evolution, instead of donors focusing on specific year to year changes only (Morrissey, 2005). One practical application of moving towards greater ownership have been Poverty Reduction Strategy Papers (PRSP), used by the International Monetary Fund (IMF) and the World Bank since 1999. These approaches, together with other aid approaches, will be highlighted in greater detail in part 4 on aid approaches.

2.2.3.3 Unintended effects of aid

There are various circumstances under which large-scale foreign assistance may also have wider impacts that are detrimental to long-term development and undermine intended effects of development aid. In the following sections a brief overview on cases where aid can be ineffective or have unintended detrimental effects on development will be highlighted.

Beginning with the problem of **wasted aid and instances where aid is connected to corruption**, there are several views to consider. First, some critics argue that foreign aid could foster corruption by increasing the size of resources fought over by interest groups and factions (Lane and Tornell, 1996, 1999). Keefer and Knack (2007) show that public investment is dramatically higher in countries with low-quality governance and limited constraints on government, which is likely to reflect that these governments use public investment to increase their rent-seeking and extract benefits. On the other hand, there are arguments that aid could actually lower corruption through conditionality and liquidity effects (Tavares, 2003). While it is sometimes argued that more corrupt governments therefore receive less aid, there are also contrary findings to this notion. One study states that during the 1980s and 1990s corrupt governments actually received more aid (Alesina and Weder, 2002). Later, Isopi and Mattesini (2010) confirmed that with a few exceptions most donors still do not consider the level of corruption as a factor in their allocation decisions. With these diverse views to consider several studies provide an overview on the many forms of political corruption, their adverse effects and possible ways for addressing these (Van de Walle, 2005, Pande, 2007, Olken and Pande, 2011).

The problem of aid negatively influencing political leadership is another possible adverse effect of aid (Bräutigam and Knack, 2004). Analysing the effect that **governance** can have on economic growth and development in Africa, the authors confirm prior studies (World Bank, 1998, World Bank, 2006) which argue that aid is more likely to have its intended impact where good governance and policy provide a solid foundation for development. Broadly defined, governance refers to the selection and monitoring of governments and the effectiveness of a government in implementing policies (Busse and Gröning, 2009). Busse and Gröning examine the impact of aid flows on governance and find that aid has a negative rather than a positive influence on governance, confirming earlier results by Bräutigam and Knack (Bräutigam and Knack, 2004). Hence, the authors conclude that the international community and aid-dependent countries alike should respond to the challenge of weak states by providing better incentives for good governance (2004).

A related unintended adverse effect of aid can be the **prolonging of political reform**. Some researchers (Moss et al., 2006) suggest that states which can raise a substantial proportion of their revenues from the international community are less accountable to their citizens and under less pressure to maintain popular legitimacy. Klingebiel and Mahn (2011) also warn about situations where governments are not accountable to their domestic principals but rather to donor governments. In such situations characterized by a lack of **domestic accountability** states are less likely to have the incentives to cultivate and invest in effective public institutions, and substantial increases in aid inflows over a sustained period could have a harmful effect on overall institutional development (Moss et al., 2006). Another argument is that growth induces socioeconomic change and as a result supports political leaders that want to preserve power and use aid funds contrary to public interests (Adam and O'Connell, 1999, Van de Walle, 2005, Putzel, 2010). Similarly Casella and Eichengreen (1996) have suggested that foreign aid may be counterproductive, if it delays the adoption of stabilization policies and policy reforms.

In reference to **limited capacity of partner countries**, there are arguments that demands of multiple donors overwhelm partner country capacities and undermine long-term development of local institutional capacity (Kanbur, 2000, 2006). Closely linked is the issue of **absorptive capacity**, the ability of partner countries to use additional aid without pronounced inefficiency of public spending and without induced adverse effects (Bourguignon and Sundberg, 2006). Bourguignon and Sundberg (2006) provide an overview on different conceptions of absorptive capacity, possible risks and ways to better manage limited capacities. Adopting a broader notion of absorptive capacity, including disbursement constraints, broader macroeconomic considerations, quality of institutions and decreasing returns of aid, Guillaumont and Jeanneney (2007) argue that capacity constraints can be removed through improving aid modalities. Such improvement would include a better balancing between

productive and social activities financed by aid, using aid as insurance against exogenous shocks, allocating more aid to least developed countries (LDCs), and finally applying performance-based conditionality rather than traditional conditionality (Guillaumont and Jeanneney, 2007).

The next potentially adverse effect of aid on growth is the **undermining of private sector incentives for investment**. One famous subcategory of this problem is the 'Dutch disease' effect, a situation where external transfer drive up real exchange rates that in turn hurt export industries and overall productivity growth. Rajan and Subramanian (2008, 2011) have observed that aid inflows can have systematic adverse effects on a country's competitiveness reflected in lower relative growth of exportable industries. Similarly, Praty and Tressel (2006) find evidence for Dutch disease effects of aid in certain conditions, and show that recipient countries can smooth aid-driven fluctuations of the trade balance and support export levels by adjusting the net domestic assets of the central bank. But the evidence is mixed overall, and other studies suggest that potential adverse effects are usually offset fairly quickly (Nyoni, 1998, Sackey, 2001, Atingi-Ego, 2005).

In sum, there are many documented examples of possible unintended consequences of aid but not enough evidence to determine whether they are sufficiently common and significant to out-weigh the benefits of aid, and panel data rarely supports the claim that aid is actively harmful (Temple, 2010, p. 4448). If these effects are disproportionately worse at high levels of aid, then there may be diminishing marginal returns from aid, and this could imply a limit on the amount of aid that developing countries can absorb before it starts to do more harm than good. There are several ways to address these unintended consequences of aid and internationally agreed agenda for better aid effectiveness sets out some necessary steps, which will be described in the next section.

2.3 Aid effectiveness agenda

The problems described above are well-known among development policy makers and have inspired international efforts towards addressing problems of aid effectiveness. The Paris Declaration (PD) on Aid Effectiveness of 2005, the Accra Agenda for Action (AAA) of 2008 and the Busan Declaration of 2011 aim to address problems in aid delivery and implementation. These international agreements, endorsed by donors, recipient countries and international organizations, are organized under the auspices of the OCED. Progress, however, has been mixed.

2.3.1 The Paris Declaration

The landmark agreement in international debates on aid effectiveness was the Paris Declaration on Aid Effectiveness. The declaration consists of a series of commitments designed to improve the delivery and use of aid, aimed at getting the best impact out of aid resources (Groff, 2011). The declaration also recognised that significant efforts would be required by both donors and partner countries to ensure that aid is effective in helping to meet development goals, including the Millennium Development Goals (MDGs). Over 100 donors and developing countries committed to the declaration, and also committed to holding each other accountable for implementing the principles of the declaration (OECD, 2012a).

In particular, the PD placed an emphasis on shared responsibilities for implementing a set of actions to strengthen ownership (1), alignment (2), harmonisation (3), managing for development results (4) and mutual accountability (5) (see chart VI).



VI The Paris declaration pyramid (OECD, 2012a)

In addition to these five principles, the PD set 12 indicators for monitoring progress: 1) Operational Development Strategies; 2a) Reliable Public Financial Management Systems; 2b) Reliable Procurement Systems; 3) Aid flows are aligned on national priorities; 4). Strengthen capacity by co-ordinated support; 5a) Use of country Public Financial Management systems; 5b) Use of country procurement systems; 6) Avoiding parallel Project Implementation Units; 7) Aid is more predictable; 8) Aid is untied; 9) Use of common arrangements or procedures; 10) Joint Missions; 10b) Joint country analytic work; 11) Results oriented frameworks; 12) Mutual Accountability (OECD, 2012a).

The aid effectiveness agenda can be linked to the MDGs, and especially MDG 8, 'forming a global partnership for development', which encourages wide participation and close collaboration between all development actors. This process of coordinating the global partnership is managed by the DAC Working Party on Aid Effectiveness (WP-EFF), an international group of policy makers and aid practitioners from donor and developing countries (Groff, 2011). Since its inception in 2003, it has evolved into the international partnership for aid effectiveness with 80 participants including bilateral and multilateral donors, aid recipients, emerging providers of development assistance, civil society organisations, global programmes, the private sector, and parliaments (OECD/DAC, 2012c).

The findings of the 2008 Survey on monitoring the Paris Declaration (OECD/DAC, 2008a) showed that progress towards the targets established for 2010 had been insufficient. Thus, the Accra Agenda for Action, agreed at the High-level Forum in Accra in 2008, set out priorities for accelerating and deepening the implementation of the PD principles (OECD, 2012a). For instance, this included the commitment of donors and developing countries to 'complete good practice principles on country-led division of labour' and to 'start dialogue on international division of labour', recognizing the need for better coordination among donors and partner countries (Reisen, 2009). It also accorded greater recognition to the role played by a range of stakeholders, beyond donor and developing country governments.

At the Fourth High-Level Forum on Aid Effectiveness (HLF4) in November-December 2011 in Busan several additional agreements were recorded. One important outcome⁷ was that 'new donors' such as China, India, Brazil and other have signed the Busan outcome document and agreed to principles, commitments and actions agreed in the outcome document on a voluntary basis (Birdsall, 2011). Despite the non-binding nature of this agreement it marks a first step towards the 'New Global Partnership for Effective Development Cooperation' (Barder, 2011).

Looking forward, the WP-EFF will be replaced by the new Global Partnership for Effective Development Co-operation in 2012. Also addressing the request for broadening membership

⁷ See Barder, Birdsall, Klingebiel and Leiderer for an overview on Busan outcomes

this new partnership – jointly supported by the OECD and UNDP - will aim to ‘forge stronger and more inclusive partnerships for effective development’ (OECD/DAC, 2012c). The WPEFF is tasked to agree on light working arrangements for the Global Partnership by June 2012 and currently the Post-Busan Interim Group (PBIG) is leading efforts to develop the post-Busan working arrangements (OECD/DAC, 2012e).

2.3.2 Implementation of the Paris Declaration

The track record of implementation of the Paris principles is moderate. The latest OECD report on the PD ‘Aid Effectiveness 2005-10: Progress in Implementing the Paris Declaration’ (OECD, 2012a) draws on the results of the 2011 Survey on Monitoring the PD, and builds on similar surveys undertaken in 2006 (OECD/DAC, 2006a) and 2008 (OECD/DAC, 2008a). In total, 78 countries and territories volunteered to participate in the final round of surveys, which looked at the state of play in 2010 and covered information relating to over \$ 70 billion of aid. The results are sobering. At the global level, only one out of the 13 targets established for 2010– co-ordinated technical co-operation (a measure of the extent to which donors co-ordinate their efforts to support countries’ capacity development objectives) – has been met, albeit by a narrow margin (OECD, 2012a).

Nonetheless, it is important to note that considerable progress has been made towards many of the remaining 12 targets, in particular towards putting sound national development strategies in place and adopting higher quality results-oriented frameworks (OECD, 2012a). Chandy (2011a) also complements that principles of the declaration have been established as a touchstone for effective recipient-donor relations in any setting. In his view the PD provides a common agenda for both global and country level dialogue on aid effectiveness and has inspired attempts to localize global commitments through country-based action plans. Further, Chandy (2011a) acknowledges success of the PD in featuring a set of time-bound global targets, requiring the establishment of a monitoring framework and an agreed set of performance indicators. This approach has promoted greater accountability, knowledge and learning within the aid system and the evidence generated through the monitoring survey has injected an element of rigor to aid effectiveness discussions, which historically were rather vague (Chandy, 2011a).

On the other hand, little progress has been made towards capturing aid data more systematically, adopting common agreements, reducing aid fragmentation, improving aid predictability and strengthening mutual accountability (OECD, 2012a). In addition to the official monitoring surveys, other studies echo the bleak voices on progress on implementing the international aid effectiveness agenda. Nunnenkamp et al. (2011) argue that despite recent shifts in aid priorities, such as the rising importance of general budget support that contributed to reduced levels of aid fragmentation, aid fragmentation still persisted after the PD.

Addison and Scott (2011) summarize that the main reason for the slow pace of change can be found in DAC donors having different objectives when allocating and delivering aid, pursuing multiple objectives and often aiming not just to reduce poverty. In essence, they feel that the PD put forward a bureaucratic solution to what are largely political problems as they deem politics and associated incentives to largely determine progress (Addison and Scott, 2011).

2.3.3 Ways forward

There is a multitude of proposed ways forward. Roughly these proposals can be divided in to suggestions that focus on individual principles of the PD (Bigsten et al., 2011, Booth, 2011a), suggestions that focus on external factors (International Dialogue on Peacebuilding and Statebuilding, 2011), and suggestions that combine both (Addison and Scott, 2011, Chandy, 2011a, Kharas et al., 2011).

Regarding individual principles of the PD, some authors highlight the central importance of **'ownership'**. Booth (2011a) argues that the effectiveness of aid depends critically on whether or not a country's leadership is really committed to development, a fact that cannot be taken for granted. Next, external actors have then to find a useful role in assisting developmental country leaderships in establishing and maintaining ownership. This can be done by paying more attention to reforming the non-aid policies of developed countries which affect the economic and political systems of developing countries in negative ways, and acknowledging that country leaders typically face difficult collective-action problems in moving towards a more developmental politics (Booth, 2011a).

A study (Bigsten et al., 2011) estimated potential monetary benefits of continuing to implement principles of the PD and AAA for the EU and EU member states. As a results, the authors suggest that savings on transaction costs could be €0.7 billion, gains from the untying of aid could be €0.8 billion, and gains from reducing aid volatility would be €1.7 million, overall summing up to a total amount €3.2 billion per year in direct savings (Bigsten et al., 2011). The indirect effects on partner countries' institutions and economic growth are also estimated, although a most difficult cost to estimate, and the authors calculate savings of €1.808 billion in indirect effects, adding up to a total amount €5 billion per year (Bigsten et al., 2011). A commentary on the study has broadly confirmed robustness of the results, and even hints that overall the potential savings might be underestimated since the authors only focused on narrow sub-set of the PD and AAA commitments (Prizzon and Greenhill, 2012).

Turning to the most recent HLF4 in Busan, a notable outcome was that a number of countries and international organisations⁸ endorsed an agreement on a new global direction for engagement with **fragile states**, the 'New Deal for Engagement in Fragile States' (International Dialogue on Peacebuilding and Statebuilding, 2011). A group of 19 fragile and conflict-affected countries, known as the g7+⁹, states that more than 1.5 billion people live in fragile and conflict-affected countries, and are caught in cycles of poverty and violence. The New Deal for Engagement in Fragile States therefore sets out five goals — legitimate politics, justice, security, economic foundations and revenues and services — to give clarity on the priorities in fragile states (International Dialogue on Peacebuilding and Statebuilding, 2011).

This builds on previous agreements, including the 'Principles for 'Good International Engagement in Fragile States and Situations (FSP)' (OECD/DAC, 2007) by OECD DAC Development Ministers and Heads of Agencies in April 2007 and additional OECD work (OECD/DAC, 2008c). Overall, the principles provide an important complement to the Paris Declaration by reinforcing its messages on alignment and harmonisation, providing guidance on applying its principles in fragile situations, and extending the framework for aid effectiveness to encompass whole-of-government approaches and policy coherence in the political, security and development nexus (Manning and Trzeciak-Duval, 2010). However, a recent monitoring survey (OECD, 2011) has shown that of 13 countries under review in 2011 international stakeholder engagement is partly or fully off-track for eight out of ten of the FSPs.

Another comprehensive proposal for taking the aid effectiveness agenda forward is put forward by Kharas et al. (2011) in the form of ten recommendations, including establishing a

⁸ Afghanistan, Australia, Austria, Belgium, Burundi, Canada, Central African Republic, Chad, Democratic Republic of Congo, Denmark, Finland, France, Germany, Guinea Bissau, Guinea, Haiti, Ireland, Japan, Liberia, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sweden, Switzerland, Timor-Leste, Togo, United Kingdom, United States, African Development Bank, Asian Development Bank, European Union, OECD, UN Development Group, World Bank

⁹ Afghanistan, Burundi, Central African Republic, Chad, Côte d'Ivoire, Democratic Republic of the Congo, Ethiopia, Guinea Bissau, Guinea, Haiti, Liberia, Nepal, Papua New Guinea, Sierra Leone, Solomon Islands, Somalia, South Sudan, Timor-Leste, Togo.

three-tiered approach to aid effectiveness principles, adding more Northern and Southern civil society representation to the OECD/DAC, adding better private sector representation to the OECD/DAC, promoting aid coordination led by aid recipient governments, providing broad-based, long-term support to fragile states, further mainstreaming the capacity development perspective in policies of partner countries, and finally linking aid and climate change financing in a “resources for development” framework.

2.3.3.1 Transparency and new initiatives

Other fundamental pillars of the international aid effectiveness reform debate are transparency initiatives and other fora for aid effectiveness discussions outside the OECD. The most important attempt to bring greater transparency into the international aid system is the International Aid Transparency Initiative (IATI) founded in 2008, which aims at improving transparency of aid activities, so that aid agencies may become more accountable to their own constituencies and to recipients of foreign aid (Faust, 2011). IATI is a voluntary, multi-stakeholder initiative that includes donors, partner countries and civil society organisations that has developed and agreed a common, open, international standard – the IATI standard (IATI, 2012). It is designed to complement DAC’s Creditor Reporting System (CRS) database, and although governed independently, IATI is still tied to the follow-up process of Accra led by the Working Party on Aid Effectiveness (Walz and Ramachandran, 2011). The total number of signatories is 27 and IATI signatories already account for 80 per cent of official development finance (IATI, 2012).

Another important initiative is AidData (Tierney et al., 2011), an independent initiative dedicated to collecting project-level data from all multilateral donors and non-DAC bilateral donors to provide a more complete picture of development finance flows and activities (Prada et al., 2010). Other reporting notable transparency initiatives from civil society organisations are Publish What You Fund (2012), Development Gateway (2012) and aidinfo (2012). In addition, it is being recognized that improving the quality and impact of development cooperation requires the active engagement of a network larger than the traditional providers of ODA and their recipients, including networks of civil society organizations (CSOs) such as “Better Aid” (United Nations, 2011a). Similarly, a coalition of CSOs created the Open Forum for CSO Development Effectiveness which, at its first global assembly in Istanbul in 2010, adopted a set of eight CSO development effectiveness principles (the “Istanbul Principles”) on issues including human rights, gender equality, democratic ownership and environmental sustainability (Open Forum for CSO Development Effectiveness, 2012).

Turning the spotlight on donors’ aid quality, Birdsall et al. (Birdsall et al., 2012) have developed a indicator for assessing quality of ODA (QuODA). The index examines 31 donor countries and 152 bilateral and multilateral agencies, analyzing which countries and agencies provide “higher quality aid” and what each can do to improve on the basis of quantifiable indicators. Recent results indicate that the transparency of donors as well as the reduction of burdens on recipient countries showed improvements; but there was no net change in efficiency and donors became less selective, by recipient country and by sector (Birdsall et al., 2012). Another initiative is the Commitment to Development index developed by Roodman (2004, 2005) for rating rich countries based on how much their government policies facilitate development in poorer countries and provoke debate on which policies matter and how to measure them.

Commenting on the QuODA and Commitment to Development indices Easterly and Williamson (2011) observe that there is a trade-off between a broader concept that provides a more comprehensive picture, on one hand, and the lack of clarity of the precise definition or measurement of a broad concept, on the other. Easterly and Williamson therefore put forward their own ‘Aid Best Practices’ approach for monitoring donors’ performance. In general, Easterly and Williamson (2011) regard the trend of increasing donor monitoring

initiatives as an acknowledgment that direct measurement of the impact of aid dollars on the intended beneficiaries are not promising since there are simply no reliable impact measures available across agencies and countries. Hence, an assessment of donor performance might offer a useful proxy for estimating aid impact.

Apart from these initiatives, there is also an alternative institutional platform for discussing aid effectiveness, namely the United Nations Development Cooperation Forum (DCF). The DCF was mandated by the 2005 World Summit and had the first biennial meeting in July 2008. The DCF is hosted by the UN Economic and Social Council (ECOSOC), and represents a more neutral forum than the OECD-DAC, as it brings together member states, development-related UN bodies and civil society organizations (Prada et al., 2010). But the DCF has not yet risen to the challenge of coordinating donor more effectively and remains largely overshadowed by the DAC's Working Party on Aid Effectiveness and the High Level Forums (Kindornay and Besada, 2011).

3 Aid Actors

3.1 European Union and Member States

ODA from the fifteen EU-DAC members was \$72.3 billion in 2011, which represented 54 per cent of total net ODA by all DAC donors, and total net ODA by all 27 EU member states was \$73.6 billion in 2011 (OECD/DAC, 2012a). Hence, the European Union and its 27 Member States remains the world biggest donor, providing more than half of global official aid. 16 Member States managed to increase their aid in 2011, three of them are ranked among the five largest donors worldwide and four of them have already reached the target of spending 0.7 per cent of their GNI on aid (European Commission, 2012a).

After growing for three consecutive years in 2011 EU official aid declined by about €500 million compared to 2010. This represents a drop from 0.44 per cent of GNI in 2010 to 0.42 per cent in 2011. In 2005, EU Member States had pledged to increase ODA to 0.7 per cent of GNI by 2015 and included an interim target of 0.56 per cent ODA/GNI by 2010 (European Commission, 2012a). Current figures now indicate that most European countries will fall short on these pledges (European Commission, 2012b).

Turning to the European Commission (EC) policies, there are two main guiding frameworks for EU development policy: the European Consensus on Development (European Commission, 2006) and the Lisbon Treaty (European Union, 2007). According to the Lisbon treaty the primary objective of development cooperation policy, defined in Article 208, is 'the reduction and, in the long term, the eradication of poverty' (European Union, 2007). The European Consensus on Development indicates that the priority for ODA is 'support to the least developed and other low-income countries (LICs) to achieve more balanced global development' (European Commission, 2006). Yet, the Consensus also stresses that 'Development aid will continue to support poor people in all developing countries, including both low-income and middle-income countries (MICs)' (Article 10) and that the 'the EU also remains committed to supporting the pro-poor development of middle-income countries (MICs), especially the lower MICs, and our development assistance to all developing countries will be focused on poverty reduction' (Article 24).

A more recent strategic document put forward by the EC is a Communication on titled "Increasing the Impact of EU Development Policy: An Agenda for Change" (European Commission, 2011a). This document represents a proposal from the Commission to the European Council and Parliament, which will inform Member States' political statements in May 2012. Three main focus areas can be listed: (1) the attempt to boost joint work between the Commission and member state development agencies; (2) the proposal to focus aid on

two areas – good governance and human rights with stricter aid conditionality; and sustainable growth with emphasis on the private sector; (3) the introduction of differentiated development partnerships, implying that more advanced countries will no longer receive aid (Koch et al., 2011). While several of the intentions expressed in this document should be applauded, there are shortcomings in the document regarding a more extensive discussion of policy coherence between aid and other European policies affecting developing countries (Koch et al., 2011).

As a member of the OECD-DAC, the EU also participates in the OECD-DAC peer review process (OECD/DAC, 2012b). The latest peer review of the EU aid programme provides a comprehensive overview, and concludes that EU institutions have already taken positive steps toward more effectiveness, but more progress in a number of areas is needed (OECD/DAC, 2012b). The review particularly points to a need for: clearer reorganization of various EU institutions, strengthened knowledge management, better communication of results, better approach to aid programming in post-crisis contexts and a better framework for policy coherence for development (PCD) (OECD/DAC, 2012b).

Prior, critics have already pointed out that money spent as EU aid continues to be poorly targeted at tackling poverty as only 46 per cent of EU aid reached lower income countries in 2009, compared with 58 per cent of EU member state governments' aid (Booth and Herbert, 2011). Further, Booth and Herbert (2011a) claim that geographical proximity and ties with former colonies continue to determine the destination of much of the Commission's foreign aid since between 2000-2009, as developing European countries received \$10.49 per capita a year, while Sub-Saharan Africa received only \$3.94 per capita. Turkey was the top recipient of EU aid in 2009 and other European neighbours - Kosovo and Serbia - were also in the top ten recipients (Booth and Herbert, 2011).

On the institutional architecture of the EC for financing development cooperation, Gavvas et al. (2011b) provide an overview on the Commission's proposal for the Multi-Annual Financial Framework (MFF), a spending review. The MFF constitutes a critical process for identifying new priorities for EU external action and for defining the instruments needed to strengthen the EU as a global development actor (Gavvas et al., 2011b). The authors argue that the EU should continue to align development assistance with the following EU comparative advantages in development cooperation: '(1) economies of scale in funding instruments; (2) its range of policy responsibilities; (3) its specific experience of inter-state, supra-national integration; and (4) the fact that it is an international community based on agreed common principles, including poverty reduction, human rights, conflict prevention and the provision of global public goods, set out in a legally binding framework' (Gavvas et al., 2011b).

In addition, Gavvas (2012) highlights that the EC has decided to apply a differentiated approach for engaging with different partner countries. Countries that represent more than 1 per cent of the world's GDP or are upper-middle-income countries according to the OECD DAC will be excluded from receiving bilateral aid. Hence, as of 1 January 2014, 19 countries will no longer be eligible for EC bilateral aid and the EC will 'save' around 2 billion Euro that will benefit other development cooperation instruments instead (Gavvas, 2012). The countries affected are: Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, India, Indonesia, Iran, Malaysia, Maldives, Mexico, Panama, Peru, Thailand, Venezuela and Uruguay. Several caveats are attached to this decision, including arbitrary cut-off points, focus on income-measures only, and political influences (ACP countries are excluded) (Gavvas, 2012). Yet, such considerations regarding country classifications represent a larger trend among 'traditional donors' to rethink allocation decisions.

On the other hand a number of MICs increasingly engage in development cooperation as donors, while continuing to receive ODA. Surveying the literature it can be found that estimates of annual aid flows from 'new donors' (so-called non-traditional or non-DAC donors) vary greatly and are somewhere between \$11 billion and \$41.7 billion, or 8 and 31

per cent of global gross ODA (Walz and Ramachandran, 2011). The following sections will divide non-DAC donors into three groups: Emerging donors (reporting to DAC), providers of South-South Cooperation (not reporting to DAC) and private donors.

3.2 Emerging donors

Emerging donors include countries with aid programmes that report to the OECD-DAC. The notion of emerging donors can be misleading as it combines various groups of non-DAC donors into one category, but an effort will be made to provide some distinctions.

A large subgroup of these donors is formed by **EU Member States**. Some of their strategies and institutions for development cooperation are similar to those of DAC members, and the group consists of the 12 newest member states of the EU: Bulgaria, Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovenia, and the Slovak Republic (Zimmermann and Smith, 2011). These states have adhered to the 2005 European Consensus on Development (European Commission, 2006), and committed to increase their net ODA volumes to 0.33 per cent of GNI by 2015 (Zimmermann and Smith, 2011).

In addition, eleven **other states** – Chinese Taipei, Iceland, Israel, Kuwait, Liechtenstein, Saudi Arabia, Russia, Thailand, Turkey, United Arab Emirates – also report to the DAC and can be considered emerging donors, too (Walz and Ramachandran, 2011). While the EU emerging donors provide the bulk of their aid through multilateral channels (mostly through EU institutions), Turkey and Israel for instance provide 90 per cent of their aid bilaterally (Zimmermann and Smith, 2011).

With the collapse of the Soviet Union, Russia went from being one of the largest sources of international aid in the world to being an aid recipient in the 1990s. In the 2000s, however, Russia became a re-emerging donor (Global Health Strategies initiatives, 2012). While Russia is also part of the BRICS (Brazil, Russia, India, China, South Africa), it is different from the other BRICS in several regards. Unlike aid from the other BRICS Russia channels a large amount of aid through multilateral institutions (Eurasian Economic Community, World Bank, UN), is committed to increase aid to 0.7 per cent target and has aligned its aid programme with the principles of DAC donors (Walz and Ramachandran, 2011). There are no time-series data on **Russian** aid, but according to a recent estimate Russia provided \$785 million in 2009, up from level of about \$100 million in 2005 (Adugna et al., 2011). Other estimates put the level of Russia's foreign assistance between \$400 million to \$500 million currently (Global Health Strategies initiatives, 2012). Nearly one-half of Russian development cooperation is directed to poor countries in neighbouring regions.

Turning to the main three **Arab donors** – Kuwait, Saudi Arabia and United Arab Emirates – who report to the OECD-DAC, it can be recognized that they provide more than 90 per cent of all aid from Arab donors. Kuwait, Saudi Arabia and United Arab Emirates had a combined average of 1.5 per cent of GNI between 1973 and 2008, and share similar financial mechanisms and modalities for aid to developing countries (Walz and Ramachandran, 2011). Their bilateral aid is channelled through three funds: The Saudi Fund for Development (SFD), the Kuwait Fund for Arab Economic Development (KFAED) and the Abu Dhabi Fund for Development (ADFD) (Prada et al., 2010). In general, these programmes provide financing at highly concessional rates and recent review calculated that these three funds have made cumulative commitments of \$28.1 billion (Nielson et al., 2009). A shared characteristic across all three funds is their high concentration in infrastructure projects (transportation, energy generation and supply and water supply and sanitation), which received 65 per cent of total funding over the period 1998-2007 (Nielson et al., 2009).

In addition to bilateral funds, these countries, along with other Arab donors, have established several multilateral Arab funds such as the Islamic Development Bank (IsDB), the Arab Fund (AFESD), the OPEC Fund, the Arab Monetary Fund and the Arab Bank for Africa (BADEA),

which channel around 14 per cent of the Arab countries' bilateral programmes (Villanger, 2007). Arab aid is distinct from traditional DAC aid as it remains primarily concentrated regionally and is more influenced by cultural ties and social solidarity. There are, however, major information gaps about their modalities, allocation patterns and use of specific instruments and conditions (Shushan and Marcoux, 2010). Walz and Ramachandran (2011) also assume that still a significant share of flows are not reported to OECD-DAC.

3.3 Providers of South-South Cooperation

This group does not report development assistance to DAC and includes several new development partners, such as China, India, Brazil, South Africa and Venezuela. While South-South Cooperation is by no means a new form of development cooperation, it has received renewed attention due to the emergence of new geopolitical realities (Kragelund, 2010). The modern SSC approaches (ECOSOC, 2008, Rowlands, 2008, Grimm et al., 2009), differ from those of traditional DAC donors in five main respects.

First, providers of SSC are generally reluctant to describe themselves as donors or to use the terminology of 'donor' and 'recipients'. Instead, they are guided by principles of solidarity, equality, mutual benefit/cooperation, and non-interference in the internal affairs of another country – and they do not attach policy conditions on governance, economic policy and institutional reforms to their assistance (Mwase and Yang, 2012). Second, SSC is often delivered in ways consisting of both ODA and non-ODA components. The mix between concessional and non-concessional funding often makes it difficult to get a clear picture of the scale of aid from these countries (Adugna et al., 2011).

Third, in most cases SSC focuses on infrastructure development and productive sector investments (Kragelund, 2010). This is in contrast to ODA from the traditional DAC donors, where the focus of assistance is mostly on social sector, such as health, education, and social protection (Kragelund, 2011, Walz and Ramachandran, 2011). Fourth, the great majority of their aid is bilateral and usually provided without policy conditions, in the form of in-kind grants or (mainly) loans for projects or technical cooperation (Adugna et al., 2011). In contrast to assistance from DAC donors, programme and budget support is not frequent, but project assistance is almost always tied to the purchase of goods and services.

Finally, providers of SSC tend to focus their cooperation on neighbouring countries or countries with shared cultural ties (although there are exceptions such as China which operate in a vast array of partner countries across the globe), but are also increasingly providing humanitarian assistance in response to emergencies and disasters world-wide (Dreher et al., 2011, Mwase and Yang, 2012).

In regard to links of SSC with the Paris Declaration and Accra Agenda for Action, the 'special status of SSC' was recognized in the Accra declaration (paragraph 19 of the AAA) and three areas of work were established: (1) adaptation of the principles of effectiveness of aid to SSC; (2) enrichment of the debate on effectiveness with a systematization of the experiences; and (3) identification of areas where SSC complements North-South cooperation (Prada et al., 2010). At the 'High-Level Meeting for South-South Cooperation and Capacity Development' (Bogota, 24-25 March 2010), the main SSC donor countries indicated the importance of systematizing SSC experiences, but were also critical of applying only DAC criteria to identify what constitutes official aid in the context of SSC.

This is raising fundamental issues in current debates on SSC. Perceived strengths of SSC are that recipient needs may be better understood by other Southern countries that have experienced overview similar situations (Kharas et al., 2011). Language and cultural familiarity also might make knowledge transfers more effective and costs could be lower (Kharas et al., 2011). But SSC often attracts criticism for contributing to greater donor fragmentation and often being a top-down process driven by political considerations rather

than development needs. In addition, there is concern that governments of countries with weak rule of law, particularly those with natural resources, are induced to circumvent governance reform, and ignore human rights or environmental standards (Manning, 2006, Naim, 2007, Chileshe, 2010). However, others do not find evidence for these claims (Woods, 2008, Kragelund, 2010, Paulo and Reisen, 2010). The most significant constraint for bringing more clarity to this debate remains the lack of information about the potential of SSC.

3.3.1 China

China has a long history of providing foreign assistance: since 1950 the country has committed various forms of aid to more than 160 countries and 30 international organizations (Global Health Strategies initiatives, 2012). The publication in April 2011 of China's first White Paper on Foreign Aid (The People's Republic of China, 2011) marks a major step toward improving the understanding of the role of Chinese aid. The paper provides an overview of policies, sectoral, geographical, and income level distribution as well as modalities of Chinese aid. It does not provide annual data on aid volumes, but indicates that between 2004 and 2009 China's aid grew by nearly 30 per year (The People's Republic of China, 2011). Based on various other official and unofficial sources, aid from China is estimated to have quadrupled over the period from 1999 to 2009, rising from \$0.5 billion in 1999 to \$1.9 billion in 2009 (Adugna et al., 2011).

But the figures are difficult to calculate. The concessional level of Chinese bilateral loans is at the centre of the debate about the size of its aid programme, especially regarding consistency of loan terms for investments and project support (Lancaster, 2007). Further complicating the matter China bundles its financial commitments to include support on trade, investment and aid. In addition, the structure of payments of some concessional loans involves in-kind repayments with natural resource exports (Zweig and Jianhai, 2005, Zafar, 2007). Finally, China's financing usually requires no less than 50 per cent of procurement of Chinese equipment, materials, and services (Chahoud, 2008). All these factors make it very difficult to arrive at a confident estimate of the size and percentage of China's ODA-like resources and explain the variances in estimates that have been made.

China's cooperation programme is highly complex, using a variety of instruments that differ greatly in size, purposes and conditions. In general, China has its' own definition of which funds constitute foreign aid, which is different from the ODA definition by the OECD/DAC. For example, the DAC counts the value of debt relief and scholarships as ODA, but does not count assistance in support of private investment as ODA (Bräutigam, 2010a). China does not count the value of debt relief and scholarships for students studying in China as aid, but includes military aid, and loans for foreign-aided joint ventures and cooperative projects in its' definition of aid (Bräutigam, 2010a)

Aid is provided in the form of grants (40 per cent), 20-year interest-free loans (30 per cent), and concessional loans (30 per cent) (The People's Republic of China, 2011). These three main modalities of aid are provided by different institutions: (1) grants for trade financing and investment projects, granted by the Ministry of Commerce (MOFCOM); (2) zero-interest loans, also by MOFCOM, often converted into debt cancellations; and (3) concessional loans by the Ex-Im Bank, whose interest rate is subsidized with MOFCOM's resources (Prada et al., 2010). In addition, China provides debt relief, which Chinese authorities do not account as aid (Guoqian, 2007). Often Chinese cooperation involves simple turnkey projects: a building, a bridge, or a health clinic (Bräutigam, 2010a, Davies and Woetzel, 2010).

Particular research attention has been paid to China's relation with Africa. In 2009, almost half of that aid was directed to Africa and about a third to Asia (The People's Republic of China, 2011). Bräutigam (2010a) finds that by relying on Chinese sources for figures on concessional loans and external assistance, but using DAC reporting categories, it can be estimated that China's aid to Africa was approximately \$1.4 billion in 2008, making China

one of Africa's main bilateral donors, but by no means the largest. Bräutigam (2008, 2010b), and Davies et al. (Davies, 2007, 2008) provide overviews of China's African aid programme. All studies outline the general concerns raised by Chinese aid practices, particularly the issues of governance and corruption, debt sustainability, and aid effectiveness. Also, one study (Davies et al., 2008) notes that China has increasingly aligned its statements on partnership with Goal 8 of the United Nations' Millennium Development Goals, but recommends that China practices greater transparency in its aid and finance agreements.

3.3.2 Brazil

Brazil is both a recipient of foreign assistance and a donor. However, the foreign assistance Brazil receives has steadily decreased over the last decade. In 2009, the country received \$338 million in assistance (Global Health Strategies initiatives, 2012). The Brazilian Institute for Applied Economic Research and the Brazilian Agency for Cooperation (ABC) have estimated that Brazilian foreign aid was around \$362 million in 2009 (Zimmermann and Smith, 2011). Further, Brazilian contributions to multilateral organizations increased by 31 per cent over the period from 2005 to 2009, reaching \$248 million (at 2009 constant prices). Of total multilateral aid, about 30 per cent were allocated to Mercosur's structural fund for competition, social cohesion and institution-building (Paraguay, Uruguay, Brazil and Argentina); about 20 per cent to the Inter-American Development Bank's concessional window; and the remainder to other development banks, and UN agencies (Adugna et al., 2011). Nearly half of Brazil's aid is delivered in the form of technical cooperation and knowledge transfer. Sources that include technical cooperation estimate that total ODA from Brazil was more than \$1 billion in 2010, with \$480 million delivered through technical cooperation (Cabral and Weinstock, 2010). To improve the transparency of its cooperation programmes, Brazil will need to calculate in monetary terms their contributions to technical cooperation initiatives (Prada et al., 2010).

Brazil's development assistance is coordinated by the Brazilian Agency for Cooperation which is housed in the Ministry of External Relations (Global Health Strategies initiatives, 2012). The aim is to follow development priorities established locally by cooperation partners (Mwase and Yang, 2012). The provision of external cooperation is often justified as humanitarian assistance and poverty reduction, motivated by the objective of having a more balanced distribution of growth and wealth with its neighbours and countries with close cultural affinity (Kragelund, 2010). Hence, Lusophone countries have been the main recipients of Brazilian SSC, with Mozambique, Timor-Leste and Guinea Bissau topping the list of beneficiaries between 2005 and 2010, and countries in Latin America and the Caribbean, particularly Haiti, Paraguay and Guatemala following behind (Cabral and Weinstock, 2010). Further, Brazil emphasizes that it engages in partnerships that can mutually benefit all sides in their development processes, and not for business or market access interests (Mwase and Yang, 2012).

In addition, Brazil's approach to aid delivery seems to be focused specifically on social development and agricultural programmes, although it has also started to provide large infrastructure loans through its national development bank (BNDES). BNDES is also a contributor to multilateral institutions such as CAF (Latin American development bank), IADB (Inter-American Development Bank), and Banco del Sur (John de Sousa 2010). These factors suggest that the magnitude of Brazil's aid programmes is probably considerably greater than most estimates would suggest.

3.3.3 India

As its economy and international profile have grown, India has substantially increased both the size and the scope of its foreign assistance. India uses foreign assistance as a diplomatic tool to build goodwill through horizontal cooperation, secure access to natural resources, open new markets for its domestic industries, and counterbalance China's growing influence

(Global Health Strategies initiatives, 2012). India openly rejects Western definitions and approaches, as well as the terms 'donor' and 'aid', preferring to view its efforts as a form of South-South partnership.

While India does not have a unified approach to foreign assistance, it is working to increase efficiencies within its current programmes. In 2007, the Indian government announced that it would set up a lead agency to coordinate development cooperation — the India International Development Cooperation (IIDC) (Mwase and Yang, 2012). From an organizational perspective, the Ministry of External Affairs (MEA) no longer has a monopoly on all instruments of aid policy whilst the influence of the Ministry of Commerce in aid allocation has grown (Chaturvedi, 2008).

Data on budget allocations since 2004 show that, after peaking in 2008, India's aid stabilized at over \$700 million in 2009 and 2010 (Adugna et al., 2011). India's national budget office reports the country's 'aid-related budget allocations' at \$785 million in 2010 and that this represents a compound annual growth rate of 6.9 per cent from 2004 to 2010 (Prada et al., 2010). Other estimates put the amount of India's foreign assistance in 2010 at \$680 million (Global Health Strategies initiatives, 2012). India's assistance is similar to China's in that aid is just one element of a broader engagement package involving bilateral trade and private sector participation (Chanana, 2010). Unlike Chinese aid, however, India's aid has been more focused on neighbouring countries like Bhutan, Bangladesh, Nepal, Sri Lanka and Myanmar, although recent trends indicate that India too has started to take greater interest in Africa (Kragelund, 2010, Adugna et al., 2011, Zimmermann and Smith, 2011). Currently India's collaboration with African countries is still small in terms of funds transferred, focuses on trade-related issues, and represents a combination of tied project aid and scholarships that mainly target resource rich African countries or African countries with large Indian diasporas (Kragelund, 2010).

One central contentious issue around India's engagement as a donor remains. India is home to roughly a third of the world's poorest people, and there is continuing opposition within India and internationally to the country acting both as a major recipient of aid and as a donor (Bidwai, 2010). However, the government announced that its' policy involves reducing dependence on foreign aid while rapidly increasing its financing to poorer countries, mainly through soft loans (Prada et al., 2010). Well over 80 per cent of India's aid over the period 2004-2010 was bilateral and about 80 per cent of it in the form of grants (Adugna et al., 2011). Indian aid is provided primarily through technical assistance and in some cases financing of physical infrastructure. It usually carries no conditionalities but India's aid is often tied, with a substantial part spent in India (Global Health Strategies initiatives, 2012).

3.3.4 Triangular Cooperation

Triangular development cooperation refers to any arrangement where multilateral or bilateral donors provide funds or other resources to developing countries in order to implement South-South cooperation projects (Berger and Wissenbach, 2007, Fordelone, 2009, Prada et al., 2010). It also refers to the case where these funds are managed by international organizations (platforms for South-South cooperation activities).

The most common form of triangular cooperation is North-South-South where a traditional (North) and a non-traditional (South) donor work together with a beneficiary (South) to run an aid programme. The rationale is that non-traditional donors that have managed to create successful economic development at home have more appropriate technical expertise that can be combined with financing and approaches from traditional donors (Walz and Ramachandran, 2011). One example is the Africa-Brazil Cooperation Program on Social Protection, a partnership between the Ministry of Social Development in Brazil, the Department for International Development in the United Kingdom, and the International Poverty Center, a programme of the UN Development Program and Brazilian government. It

is designed to use Brazil's technical expertise on social protection programmes including conditional cash transfers to ensure that children are vaccinated and attend school (Bolsa Familia). Brazil also favours trilateral cooperation, setting it apart from the other BRICS, which generally prefer to supply assistance through bilateral or multilateral channels (Global Health Strategies initiatives, 2012).

Traditional donors that have been engaged or interested in triangular cooperation are mainly Japan, Germany, Spain, and Canada, along with some multilateral institutions including the UN. Most non-traditional donors have been involved in some North-South cooperation, with the exception of Arab nations. The scale of their cooperation is difficult to determine as neither non-traditional nor traditional donors report separately on cooperation projects, but overall the level of triangular development cooperation is still marginal (Davies, 2011). Triangular cooperation programmes so far have consisted mainly of technical cooperation and dispersed small projects. It is an approach to aid that is not researched or implemented to its fullest extent, however is supported in theory by both sets of donors. The Paris Declaration and Accra Agenda for Action encourage increased collaboration with all development actors and specifically support further development of triangular cooperation (Walz and Ramachandran, 2011).

3.4 Private donors

The role of private aid has expanded in the past decade. Over the last decade a number of private actors have entered the development aid landscape, including **foundations** (such as the Bill and Melinda Gates Foundation), **corporations** and hundreds of **non-governmental organizations** (NGOs). Private and official aid tend to play complementary roles (Desai and Kharas, 2008), but there are also indications that NGOs for instance tend to replicate work of traditional donors (Koch et al., 2009). Notably, private actors have increased their engagement in and financing of **global funds** through public private partnerships like in the case of the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM) and the Global Alliance for Vaccines and Immunization (GAVI). Little (2010) defines private development assistance (PDA) as aid that is: (i) undertaken by private actors including individuals, foundations, corporations, private voluntary organizations, universities and colleges or religious organizations; (ii) focused on promotion of economic development and humanitarian needs as the objective; and (iii) at concessional financial terms where commodities and loans are concerned.

3.4.1 Foundations

Foundations are one important part of a large and heterogeneous philanthropic sector that includes a variety of actors. The group of foundations includes both organisations founded by wealthy individuals and organisations established by private companies. Edwards (2011) estimates that philanthropic foundations have contributed between \$7.0 billion and \$9.5 billion to 'international' or 'development'-related activities in 2009, with approximately two-thirds coming from the USA. By far the largest contribution to these totals comes from the Bill and Melinda Gates Foundation, which spent \$2.5 billion on 'global health and development' in 2009 (Edwards, 2011).

Out of some 100,000 of the world's foundations, less than 1 per cent have activities which touch on developing countries (Sulla, 2006) and foundations from the United States are by far the most important in the development field due to their size and experience (Prada et al., 2010). The total number of philanthropic foundations in the US amounted to more than \$30 billion in 2005, but most of this funding (about 90 per cent), however, was channelled for domestic purposes and had no link with development assistance activities (Foundation Center, 2004). Yet, the percentage of foundation giving to international causes, including global development, has been increasing in the last decade, even though it still represents a small share of grant giving (Grimm et al., 2009).

Moreover, only about 30 per cent of the international giving by US foundations goes directly to foreign implementing organizations, while the rest of the funds are channelled for development through US-based organizations and these resources are accounted for by DAC under non-governmental flows (Sulla, 2006). Finally, the main developing countries that directly receive international assistance from U.S. foundations are the top emerging markets, including Russia, Brazil, India, China, Mexico, and South Africa.

Corporate philanthropy is also becoming more sophisticated. Apart from marketing and publicity purposes, corporations are taking a more strategic approach to using cash and non-cash grants, employee volunteer programmes and strategies that seek to increase the availability and affordability of goods and services to the very poor while making a profit (Kramer et al., 2005, Porter and Kramer, 2006, Dees, 2008). However, different motivations behind their philanthropy - license to operate, business entry or charitable contributions - result in different approaches to their investments and grant making (Prada et al., 2010).

Operationally, the approach of corporate foundations is quite different from the approach of traditional foundations, stemming from different histories, motivations and pressures. While traditional foundations see value in high quality work on a smaller scale, a number of new corporate foundations (e.g. Nike, Shell) have assumed an operational model based on innovative ideas developed in-house with external implementing partners carefully sourced through networks or individual contacts (Prada et al., 2010).

Overall, the quality of development assistance provided by foundations is a matter of debate, mostly between advocates that praise the innovative potential of foundations and critics that point out the lack of accountability of foundations (Bishop and Green, 2009, Fleishman, 2009, Rogers, 2011). As a way forward Edwards suggests that 'foundations can strengthen their own accountability by diversifying their boards of directors, strengthening feedback from their grantees and other independent voices, increasing coordination with host country governments, channelling more resources through public structures, and fostering a culture of self-criticism to produce a 'social science of philanthropy' from which everyone can gain (Edwards, 2011).

3.4.2 NGOs

Civil society organizations, including international and national non-governmental organizations (NGOs) are also making significant contributions to development cooperation. By 2008, NGOs supplied more than \$23.6 billion in foreign aid, equivalent to over 19 per cent of ODA (OECD/DAC, 2011b). According to one assessment, six of the largest INGOs increased their total annual revenue (in nominal terms) from \$2.5 billion in 1999 to more than \$6 billion in 2007 (Ronalds, 2010). NGO sources of funding often vary by country and many DAC donors choose to channel significant amounts of ODA through NGOs. While the origins of NGO funding vary significantly from organisation to organisation, NGOs in general are collectively dependent on official donors for approximately half of their budgets (Szporluk, 2009).

NGOs encompass a wide range of institutions with diverging ideologies, approaches, and areas of intervention. NGOs fund their activities with both public and private resources. Since the 1950s there has been exponential growth in the number of NGOs operating internationally, and Hammad and Morton (2011) estimate that the number of NGOs has grown from approximately 985 in 1954 to more than 21,000 in 2003. In terms of resources some of these NGOs have budgets that rival those of OECD-DAC donors.

Concurrently with the increasing importance of NGOs in international development cooperation, the aid effectiveness HLF meetings have also paid more attention to NGOs recently. Since the Accra meeting in 2008, NGOs have become even more directly engaged

in aid policy discussions. This has occurred, in particular, through their membership of the expanded Working Party on Aid Effectiveness, and through their participation in Working Party 'clusters' that operate as sub-committees (Hammad and Morton, 2011).

In addition, NGOs channel individual donations for development purposes using information technologies and innovative mechanisms such as Kiva.org, MyC4.com, Babyloan and Wokai (Prada et al., 2010). These are person-to-person mechanisms that involve individual donations for individually selected purposes such as sponsoring a person, or a specific programme. However, some of these programmes have become controversial, where the person-to-person donor-to-borrower connections have been shown to have been partly fictional (Roodman, 2009).

Many NGOs work directly with communities, bypassing national governments. This is mainly due to their role in serving critical 'safety nets' (Henderson, 2002); compensating for market failures; operating where states are unable or unwilling to provide for unmet needs (Brinkerhoff and Brinkerhoff, 2002); and where global problems defy clear nation-state boundaries (Kaul, 2001). By the same token however, many NGOs work outside governmental structures, and thus are not accountable to the government of the countries where they work. Instead, NGOs are primarily accountable to donors as shown by Ebrahim (2003).

In terms of effectiveness, Nunnenkamp and Ohler (2011) did not find any indications of greater effectiveness of NGOs compared to other donors, and Nunnenkamp et al. (2009) found no indication of a pro-poor focus. According to research by Hammad and Morton (2011), NGOs since the 1990s have reacted to criticisms of poor representativeness, transparency and effectiveness by developing numerous mechanisms to improve accountability. In this regard the most prevalent mode of collective response by NGOs has been self-regulation, but still self-regulatory measures often suffer from weak compliance measures, an emphasis on upward and horizontal, rather than downward accountability, and inconsistent implementation (Hammad and Morton, 2011). Therefore, the authors argue that NGOs must address these deficiencies by incorporating peer reviews or simply complementing self-regulation with other tools, such as ensuring geographic representation on boards of directors and staff (Hammad and Morton, 2011).

3.4.3 Global funds

The past decade has witnessed a dramatic expansion of the number of global funds, including the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM), the Global Alliance for Vaccines and Immunization (GAVI) and the Education for All – Fast Track Initiative). These global funds aim to mobilize additional private and public resources for development while avoiding the problems of fragmentation in aid delivery (Grimm et al., 2009). These organizations have been established as independent fiduciary mechanisms to attract and apply funding to specific thematic concerns. This feature of focusing on a narrow theme distinguishes them in considerable measure from traditional multilateral donors with broader mandates (Prada et al., 2010). To date, only three global funds (GFATM, GAVI and Education for All – Fast Track Initiative) adhere to the Paris Declaration (Prada et al., 2010).

Even though these global funds provide potential for better aid delivery they also entail the risk of introducing new application and reporting procedures, contradict the harmonization of development actors and challenge holistic development programmes (Radelet and Levine, 2008, Grimm et al., 2009). Critics of global funds also have raised questions as to whether their funding could be made more consistent with aid effectiveness principles, whether their funds could be more effectively used through other funding channels, and the extent to which the political support they receive translates into higher overall aid levels (Isenman et al., 2010). As a response, Isenman et al. (2010) suggest that global funds should draw on the growing experience of different business models for allocating funds in use, including

challenge funds, results-based funding and support for overall sub-sectoral programmes such as budget support.

3.5 Conclusion on actors

Two main problems emerge from the organisational fragmentation in the development cooperation programmes of the new actors described above. First, there are difficulties in accurately estimating development assistance flows and second, assessing the actual impact of their engagement is even more difficult (Lundsgaarde, 2011). Hence, investment in better data collection and improvements in financial reporting on state and non-state development assistance providers are essential and more analysis of the effectiveness of the development investments of new actors at the country level is needed to evaluate the benefits of competing models of providing assistance (Lundsgaarde, 2011).

The growing importance of non-DAC donors has also led to pressures for changes in the rules that determine what can be claimed as ODA, particularly to include different forms of South-South Cooperation. Therefore, it becomes necessary to explore complementary and alternative frameworks to accommodate development-oriented financial flows and cooperation activities that may not easily fit conventional definitions of aid. The number and diversity of new actors, especially civil society organizations, is increasing transaction costs for aid recipient countries, including as a result of reporting and accountability obligations to different donors.

Multiple fora for both DAC and non-DAC donors exist to discuss development issues. These fora include the UN Financing for Development process, HLFs on Aid Effectiveness, the UN Development Cooperation Forum, the G20, the Commonwealth, and the International Organization of the Francophonie. But while these efforts may be improving the integration of SSC perspectives into some donor frameworks, they are almost entirely focused on incremental aid delivery issues rather than on overall governance of a system. As a result, they are not providing the permanent framework required to bring all donors together on a shared and harmonized agenda. Because of this, the rise of non-DAC countries as aid donors continues to be closely linked to calls for a reform of the overall aid architecture.

4 Aid Approaches

The types and categories of aid have changed over the last decade. There has been a structural shift towards social allocations and away from productive sectors in bilateral ODA (Sumner and Tribe, 2011). While production-sector ODA stagnated, donors have increased aid for health, education, and other social programmes (Tierney et al., 2011, United Nations, 2011c). Health, education and social programmes were a quarter of bilateral aid in 2007, and if non-DAC donors are included, the interest in these sectors is even larger, totalling 36.8 per cent of total aid commitments in 2007 (Tierney et al., 2011). In addition, aid approaches are increasingly designed to fund multi-sector projects that address a variety of development themes ranging from road building, irrigation, and primary education, to judicial reform, gender equality, and environmental protection.

Aid approaches describe the ways in which aid is programmed and delivered. They usually involve a set of guiding principles and include project-based approaches and programme-based approaches (PBAs) discussed below (Handley, 2009). A subcategory of aid approaches are **aid modalities**, which can be defined as mechanisms by which donor aid funds are channelled to the activities to be funded (budget support, projects, vertical funds, basket funds, etc.) These generic aid modalities focus on the one or two dimensions (or characteristic features) of ways by which funds are transferred. But there are many more dimensions to the way in which aid is delivered in practice (Williamson and Dom, 2010). The

term **'aid instrument'** therefore refers to a specific intervention in a specific context. The various aid instruments within a generic aid modality may differ significantly, e.g. in their financial terms, in their procurement procedures, in whether disbursement takes place through the government's budget, and in the monitoring and reporting requirements attached (OECD/DAC, 2006b). A cross-cutting distinction can also be made between financial assistance and technical assistance.

4.1 Technical assistance

Technical assistance is one particular category of aid that aims, through the provision of experts and training, to build the capacity of national staff and institutions across a range of areas from engineering to financial management (Howes, 2011). Donors provide a large proportion of aid in the form of experts and training, despite indications that technical assistance on average is relatively inefficient (Riddell, 2007, Reinikka, 2008, United Nations, 2011c). Critics argue that the provision of advisors can drain rather than build capacity because a large presence of foreign organizations can have a negative economic footprint overall, if local economic capacity is undermined (Fukuyama, 2004). Others have argued that technical assistance is only effective in support of reforming governments (Collier, 2007).

Yet, many governments look to donors to provide technical assistance but often find it difficult to negotiate with expatriate experts because markets and hiring processes are often not well-established in many developing countries (Howes, 2011). Technical assistance makes up about 25 per cent of official aid on average and traditional responses to improve the effectiveness of technical assistance focus on cost-cutting and better management (Morris and Pryke, 2011). Morris and Pryke (2011) highlight several other additional innovative measures that could make technical assistance work better, including the use of virtual marketplaces and workspaces for reducing information asymmetries and transaction costs. They stress that web-based marketplaces, such as Elance.com, and also its development equivalent Devex.com, contain fully searchable information on providers, including evaluations and feedback on quality (Morris and Pryke, 2011).

4.2 Programme-Based Approaches

Programme-based Approaches (PBAs) are aid approaches that conform to the principles of the Paris Declaration. PBAs were defined by the OECD-DAC as 'a way of engaging in development co-operation 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 organization' (OECD/DAC, 2008a). Further, PBAs are characterized by: 'i) Leadership by the host country or organisation; ii) A single comprehensive programme and budget framework; iii) A formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement; iv) Efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation' (OECD/DAC, 2008a). PBAs can be understood as a formalisation of different elements that came to be seen – over a period of years – to be crucial for successful development assistance (Lavergne and Alba, 2003). PBAs can be implemented through different aid modalities, including pooled (or basket) funding of specific activities, joint support of sector-wide approaches (SWAps) and sector and general budget support (Domingo et al., 2010).

4.2.1 Budget support

Traditional project aid is often not regarded appropriate to generate lasting development impacts and providing effective aid coherent with the Paris Declaration, except to support very specific actions in the planning and design phase (Holmqvist, 2012). Still, project aid is the dominant aid approach. Projects can have different levels of alignment with state

systems and policies as funding can be provided on or off budget and can support activities that may stand outside national strategies (Domingo et al., 2010). Budget support on the other hand channels funds directly to recipient governments and has the advantage of leaving it to the partner country to set priorities and allocate resources accordingly. Conceptually, budget support belongs to the category of programme-based approaches.

Further, two prevalent forms of budget support can be distinguished. First, there is general budget support and second, there is sector budget support, which channels money to a specific government ministry for use in a specific sector (Kemp et al., 2011). Possible advantages of budget support could be more predictable financing, harmonization, alignment, ownership, result orientation and mutual accountability, all together: the five PD principles. Motivated by the aid effectiveness agenda, merit-based aid allocation (Burnside and Dollar, 2000) and the MDGs, the use of budget support as aid instruments has gained increasing popularity over the last decade (Kemp et al., 2011). Clist et al. (2012) find that specifically multilateral donors, the World Bank and the European Commission, cede more control over aid by granting more budget support to those recipients with better public expenditure monitoring and allocation mechanisms and better service delivery systems.

Critical voices about the use of budget support usually focus on three aspects. First, conditionalities attached to budget support might create higher transaction costs than traditional project aid, yet there is no empirical evidence to support this claim. Often different donors have attached varying conditions to their budget support ranging from PRSPs over public financial management strategies to adherence to democratic principles or human rights (Kemp et al., 2011). The result of differentiated conditionality often has been that budget support as an aid modality is highly heterogeneous (Kemp et al., 2011). A second point of criticism is that budget support has become hard to promote to home constituencies in donor countries (Holmqvist, 2012). Information asymmetries, with domestic constituencies in donor countries not fully trusting their aid implementing agencies and recipients, may contribute to explain these difficulties (Jain, 2007).

Third, budget support is criticised to be **fungible** money and could be used to for purposes not intended by the donor (Morrissey, 2006). However, a number of authors have argued that fungibility per se is not necessarily something donors should be particularly worried about (Hauck et al., 2005, Pettersson, 2007). There are two main reasons. First, to a certain extent all aid is fungible because the funding of certain activities inevitably frees up domestic government resources (Devarajan et al., 1999, Lu et al., 2010). Second, the effects of aid on government fiscal behaviour and public spending have a far greater influence on the effectiveness of aid (McGillivray and Morrissey, 2000, Morrissey, 2006). In addition, recent evaluations of budget support have not shown that fungibility negatively affects the effectiveness of budget support programmes (Caputo et al., 2008, Caputo et al., 2011).

Collier (2012) argues that the success of budget support depends critically upon the quality of the budget system and only makes sense if the political hurdle, that the government should be trying to benefit its citizens, as well as the technical hurdle, that the government sits atop a secure process of public spending, are satisfied. Morrissey (2012) adds that effective budget support requires coordination of donor aid delivery systems and a transparent aid relationship with recipients since governments can only be accountable for funds that can be observed to flow through a transparent process.

Overall, cross-country empirical studies on the effects of budget support suffer from data and methodological difficulties, and the general verdict on the effectiveness of budget support as an aid instrument is mixed (Kemp et al., 2011). In another study, the authors (Molenaers et al., 2010) assess risks on the recipient side and warn about numerous misinformed and overly ambitious expectations regarding budget support. They conclude that donors have to be modest about the role of donors as supporting change and not inducing change, as well

as be understanding that recipient governments can only bring about change most gradually and not in big leaps (Molenaers et al., 2010).

European Commission budget support

The European Commission has provided budget support for poverty reduction to developing countries since 1999. Funds are usually provided annually and treated as general revenues rather than targeted to specific ministries or line items (Savedoff, 2011). The amount of funding is determined by negotiation and disbursements are made when eligibility criteria are satisfied in relation to progress on public financial management, performance in relation to a country's poverty reduction strategy, and macroeconomic stability (Savedoff, 2011).

The EC budget support programmes often include a variable tranche that disburses against performance targets alongside the fixed tranches. A review of EC budget support programmes through July 2004 included 35 variable tranches across 20 developing countries, with the variable tranches representing about 35 per cent of the total funding committed to EC budget support programmes and addressing an average of 15 indicators (Savedoff, 2011). About two-thirds of these indicators applied to the education and health sectors. A review found that an average of 71 per cent of these variable tranches was disbursed (Koeberle et al., 2006).

One form of budget support, introduced by the EC in August 2006, is the EC Governance Incentive Tranche (ECGIT) for African, Caribbean and Pacific (ACP) countries. The ECGIT consists of supplementary funding to states which commit themselves to satisfactory governance reforms, and about €2.7 billion will be allocated under these tranches (Molenaers and Nijs, 2009). In theory, such a governance profile offers promising potentials in terms of harmonization of donors and adherence to PD principles. But researchers (Molenaers and Nijs, 2009) have found that the ECGIT actually bypassed crucial PD principles like ownership, results-orientation and mutual accountability. For instance, the ECGIT was found to induce recipient non-compliance by disbursing aid before partner countries have shown their commitment to the reform, and monitoring and evaluation mechanism were absent from the programme's design (Molenaers and Nijs, 2009).

Other studies have yielded more positive results. In a study analysing the relationship between the provision of general budget support and MDG performance the authors (Beynon and Dusu, 2010) find that high budget support recipients have performed better on achieving all four MDGs assessed (covering primary enrolment, gender parity in education, child mortality, and access to water), as well as in regard to Human Development Index performance, in the period 2002-2007. While the authors stress that their study is an analysis of association and not causality, they also emphasize that the results overall do provide more comprehensive support for the view that countries receiving large amounts of budget support perform better than those receiving little or no budget support (Beynon and Dusu, 2010).

In a recent communication (European Commission, 2011b), the EC outlined the future of European budget support and stressed five development challenges and objectives: 1) Promoting human rights and democratic values; 2) Improving financial management, macroeconomic stability, inclusive growth and the fight against corruption and fraud; 3) Promoting sector reform and improving sector service delivery; 4) State building in fragile states and addressing development challenges in Small Island Developing States (SIDS) and Overseas Countries and Territories (OCTs); 5) Improving domestic revenue mobilization and reducing dependency on aid.

European Commission MDG contracts

In 2008, the Commission launched 'MDG Contracts' providing longer-term (6-year), more predictable commitments of budget support to selected well-performing countries (Savedoff,

2011). The MDG contracts are budget support with a special variable MDG-based tranche that reward performance against MDG-related outcomes (notably health, education and water) after a mid-contract review. Its long-term nature and reduced conditionality is meant to make it more predictable and less vulnerable to the ups and downs of previous forms of budget support (Holmqvist, 2012). Linking it to clear outputs has the advantage that it is easier to communicate and explain to domestic constituencies, and also to defend the idea of entering into a more long-term engagement (Holmqvist, 2012).

So far, as it is still a pilot scheme, the Commission has signed MDG Contracts with eight countries – Burkina Faso, Ghana, Mali, Mozambique, Rwanda, Tanzania, Uganda and Zambia – in return for budget support agreements (Booth and Herbert, 2011). The MDG Contracts are intended to place a stronger focus on results, as funding can be increased or decreased depending on whether objectives are met and, for this reason, have been praised by NGOs for making aid more responsive to local performance. However, as they have not been published, there are concerns over the lack of transparency surrounding the contracts, and therefore the measurable objectives used to allocate funds. Concord, Oxfam and Alliance 2015 have called on the EU to publish the MDG contracts and other budget support agreements, so that objectives and outcomes can be clearly monitored (Booth and Herbert, 2011).

4.2.2 Sector-wide approaches

Another option to create a specific link external financing and social transfers, while avoiding some of the drawbacks of traditional project aid is the 'sector wide approach' (SWAp) (Holmqvist, 2012). With a SWAp funding is provided as general revenue to the government, and in this sense its macro-economic effects are similar to general budget support, but it is linked to the implementation of a specific sector programme (Holmqvist, 2012). A sector represents a set of activities commonly grouped together for the purpose of public action such as health, education, agriculture or roads (Williamson and Dom, 2010). SWAps became increasingly widespread in the 1990s in response to the failings identified with a strongly project focused approach to aid delivery which prevailed prior to their development. Conceptually SWAps are essentially a form of PBA, focused at the sector-level and provide a larger category that includes the aid modalities sector budget support, pooled finance and parallel financing (Handley, 2009).

In general, dialogue and conditions are hence more narrowly defined than in the case of general budget support. SWAps are usually defined according to a set of common elements or principles, with an emphasis on the trajectory of change. The classic definition of a SWAp is that 'all significant funding for the sector supports a single sector policy and expenditure programme, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all funds' (Foster, 2000). Definitions of SWAps should be read in conjunction with the widely held view that a SWAp should not be seen as a blueprint, but rather as a framework setting a direction of change (Williamson and Dom, 2010).

An explicit component of the SWAp definition is the transition towards an increasing reliance on government procedures to account for and disburse all sector funding, including aid. In theory at least, most SWAps are in the midst of a transition. Over time, the intention is: to capture all sources of funding to the sector; to make the coverage of actors and activities in the sector comprehensive; to bring ongoing projects into line with sector policies and plans; and to develop and to apply common procedures for external funding which increasingly reliance on government (Williamson and Dom, 2010). Hence, a SWAp ideally is a contract with a formula for a shifting burden sharing over time, where both parties to the contract are confident that the other will deliver its share (Holmqvist, 2012). Preferably the contract should also have some inbuilt flexibility for cases where partner countries are unable to expand their social transfer systems as expected (Holmqvist, 2012).

4.3 Poverty reduction strategy papers

The introduction of Poverty Reduction Strategy Papers (PRSPs) led by the IMF and World Bank, can be seen a symptom of efforts towards establishing greater ownership for developing countries. Recipient governments draw up these PRSPs as long-term plans for addressing poverty and link them to an overall development strategy (Temple, 2010). While PRSPs are not an aid approach by themselves they still form an important condition for donor support and are therefore covered in this section. PRSPs consist of five underlying principles: i) country-driven, involving broad based participation; ii) results-oriented, addressing nature and determinants of poverty over medium- to long-term; iii) comprehensive, in recognition that poverty is a multidimensional phenomenon; iv) partnership-oriented, leading to better donor coordination under government leadership; and v) based on a long-term perspective (IMF and IDA, 1999).

PRSPs are also a precondition for countries wanting to qualify for the debt relief according to the Heavily Indebted Poor Countries (HIPC) initiative (Dijkstra, 2011). The HIPC Initiative, a joint comprehensive approach by the IMF and World Bank approach to debt reduction, was launched in 1996 and is designed to ensure that no poor country faces unmanageable debt burden (IMF, 2011a). To date, debt reduction packages under the HIPC Initiative have been approved for 36 countries, 32 of them in Africa, and have provided \$76 billion in debt-service relief over time (IMF, 2011a). While the HIPC initiative has been acknowledged as a step towards the direction, there was also criticism which especially focused on the limited amounts and countries covered under the HIPC initiative (Birdsall and Deese, 2002, Leo, 2009).

Similar to the HIPC initiative the success of PRSPs in bringing about greater aid effectiveness is debatable. Dijkstra (2011) argues that the results of the PRSP approach are widely disappointing because PRSPs are often only written because donors demand it, and no real ownership or partnership processes have been initiated. The missing relevance and flawed conception of PRSPs have also been criticised by several other scholars (Craig and Porter, 2003, Gould and Ojanen, 2003). Booth (2011b) points out that the principal limitations of PRSPs were the inherent difficulties in transforming 'technocratic ownership' into 'political ownership'. Other criticisms include: the influence of donors, especially World Bank and IMF on policy choices (Gould and Ojanen, 2003, Stewart and Wang, 2003) and flawed processes that promise broad participation but in practice only achieved involvement of certain elites (McGee et al., 2002, Gould and Ojanen, 2003, Stewart and Wang, 2003).

Despite the criticism PRSPs still form an important condition for donor support. For instance, Clist et al. (Clist et al., 2011) find that whether a country has a poverty reduction strategy in place and indicators of government effectiveness are good predictors of which countries received general budget support from the World Bank and EU during 1998-2009. Official review reports of the World Bank (2005) as well as critical authors both recognize the concerns described above, but also emphasize progress that PRSPs have been able to achieve. Examples for progress encompasses increased attention for poverty reduction at central government level, catalysing public expenditure reform, and creating greater engagement of civil society organisations with policy processes (Driscoll and Evans, 2005).

Linking PRSPs to the MDGs Fukuda-Parr (2008) has analysed 22 developing countries PRSPs and their relation with the MDG framework. She finds that economic growth for income poverty reduction and social sector investments (education, health and water) are important priorities in most of the PRSPs; decent work, hunger and nutrition, the environment and access to technology tend to be neglected (Fukuda-Parr, 2008). Further, PRSPs emphasise governance as an important means of achieving the MDGs, but they focus mostly on economic governance rather than on democratic (participatory and equitable) processes. Fukuda-Parr (2008) recommends to address potential tensions between PRSPs and MDGs

by paying greater attention to the neglected objectives and dimensions in the MDGs, such as inequality and incorporation of local conditions.

4.4 Results-based aid

As part of the broader discussions about more effective approaches to aid and finding better evidence on the role of aid in achieving development progress results-based approaches play an increasingly important role. Results-based approaches, according to the definition of aid approaches provided above can constitute a separate category to project-based and programme-based approaches but there are many overlaps. Also, results-based approaches are not commonly defined yet and several competing definitions exist. A clear terminology is missing so far. In addition, there is a lack of empirically established evidence and only limited information on the various pilot projects/programmes, which are mostly still in the inception phase.

One option is to subdivide results-based approaches into results-based financing (involving contracts to service providers) and results-based aid (involving government-to-government aid relationships) (Klingebiel, 2011). The government-to-government relationships of results-based aid approaches usually involve negotiations between donor countries and partner countries on several key steps. First, the intended result has to be agreed, and then a set reward in the shape of aid support will only be granted, if that result is achieved (Klingebiel, 2011). The determination and evaluation of this process is usually carried out by an independent third party.

Several critical factors to the success of RBA approaches can already be reported. According to Hennin and Rozema (2011) these factors are: 'comprehensive and exact assessment of existing situation prior to the aid (reliability of information on base line data), precise formulation of expected results from the aid, precise description of result measurement and monitoring means and methods, comprehensive and exact assessment of results (reliability of information and data)'. While these conditions could also be interpreted to be valid for other aid instruments, the difference is that RBA approaches can lead to cases of non-disbursement. But so far there are no reported examples that payment was refused because of absence of agreed results (Hennin and Rozema, 2011).

Linking aid more closely to performance could be an attractive idea for both donors and recipients. From a donor perspective advantages are that aid resources can be allocated more efficiently by scaling up programmes with good results and scaling back in areas where aid is less effective (Morris and Pryke, 2011). From the recipient government's perspective results-based approaches are a way to access more aid resources, possibly free from conditionality and foreign interference in domestic affairs (Morris and Pryke, 2011). In addition, there may also be positive effects on improving the accountability of developing country governments to their own citizens by providing incentives to improve the quality of service delivery (Klingebiel, 2011).

4.4.1 Cash on delivery aid

Cash on delivery (COD) aid is a particular results-based approach that has been developed by Birdsall and Savedoff (2011b). In the basic form of COD aid funders and recipients sign a contract that specifies a shared goal, a progress measure, a payment for each unit of progress, a means for verifying progress, and commitments to publicly disseminate results (Savedoff, 2011). The authors describe the approach as 'hands off' because recipients have full autonomy in deciding how to achieve progress and complete discretion over how they use any funds they receive (Birdsall et al., 2011b).

COD Aid differs from the variable tranches of the EC budget support programme in a few ways. Unlike the EC budget support programme, COD Aid should not require a series of meetings or policy dialogues; rather, the entire focus is on measuring progress and disbursing against that progress (Savedoff, 2011). Nor are COD payments subject to eligibility criteria regarding development strategies, macroeconomic stability, or public financial management. Both COD Aid and the EC variable tranches are oriented toward outcomes, but most EC indicators are inputs (such as budget shares allocated to particular sectors, nurses per population) or outputs (share of professionally attended births) rather than outcomes (Savedoff, 2011). COD Aid also requires independent verification of progress measures, something which is envisioned in some but not all EC programmes.

4.5 Other aid innovations

Several other innovative aid approaches have the potential to increase the productivity of aid. These innovative instruments can improve incentives of implementing agents, enable optimization over time (e.g. bringing forward vaccination), secure value from commitments (e.g. bringing down prices by entering into long-term contracts) and diversify risk (e.g. through insurance schemes). There is a considerable amount of different approaches of this kind, out of which several will be highlighted. The aid approaches presented here do not encompass all aid innovations but represent a selective sample.

4.5.1 Innovative financing mechanisms

Over the last decades various different funding sources for development and aid channels have emerged. Innovative financing mechanisms (IFMs) and climate financing are two particular areas that received increasing interest both in policy and academic arenas (De Ferranti, 2006, Lob-Levyt and Affolder, 2006, Ketkar and Ratha, 2009, McCoy, 2009, Jones, 2012). Innovative financing is about a previously un- or underutilised means of financing development-related initiatives which differs in some way to the standard, 'traditional' system built on government-to-government, donor-to-recipient relationships (Carbonnier and Sumner, 2012). Innovative financing is also about creating incentives for new actors to engage with development funding, often through set-ups based on market principles and closely involving private firms, foundations and individuals.

Girishankar (2009) performs a he stocktaking of IFMs and shows that they rather have a significant role in supporting financial solutions on the ground than in identifying and exploiting alternative sources of ODA. Innovative fund-raising therefore should be viewed as a complement to - instead of a substitute for - traditional efforts to mobilize official flows, in particular concessional flows (Girishankar, 2009).

Jones (2012) differentiates between two innovative development financing models: specialised global partnership funds (e.g. The Global Fund) and market-based approaches (e.g. Global-Giving). These IFMs share common features, namely an emphasis on partnership, selectivity and results, and have definite strengths, particularly in raising funds as well as unbundling fundraising from design and implementation (Jones, 2012). However, these models are not panaceas and replicate many weaknesses of 'traditional' approaches such as fragmentation, a supply-side bias and an extreme focus on quick results (Killick, 2004, Delph, 2008, Kirby-Zaki et al., 2008). Overall, innovative approaches are genuinely distinctive and have been successful in raising finance for specific goals, but they do not offer solutions to achieving long-run sustainability and lasting institutional progress (Jones, 2012).

Many IFMs relate to global public goods (discussed in section 5.3) and involve at least regional, cross-border collaborations, and focus in particular on climate change and public health. Two particular examples of IFMs are advanced market commitments and blending.

4.5.2 Advance market commitments

Where there is a market failure, or the market is of too little value for the private sector to be involved, it may be more efficient to use public funds to change incentives at the margin than for the public sector to step in and provide those goods and services itself. An advance market commitment (AMC) is a binding contract, typically offered by a government or other financial entity, which guarantees a viable market, if a new product meeting agreed upon specifications is developed (Leo, 2010). Under the contractual terms, the sponsoring entities commit to subsidizing or paying for the purchase of a specific product – possibly specifying in advance the volume that will be purchased, the price which will be paid, or both. To date, donor governments have focused on using AMCs to overcome highly uncertain and commercially unattractive markets for neglected disease vaccines, such as pneumococcal disease (Leo, 2010).

In February 2007, five donor governments (Canada, Italy, Norway, Russia, and the United Kingdom) and the Bill & Melinda Gates Foundation committed \$1.5 billion to launch the first AMC to accelerate commercial availability and affordability of a new pneumococcal vaccine (Savedoff, 2011). In 2010, GlaxoSmithKline and Pfizer became the first two pharmaceutical companies to make long-term commitments to supply new pneumococcal vaccines in developing countries (Leo, 2010). The two participating firms each committed to supply 30 million doses annually over a ten-year period. Given its early success at mobilizing private sector activities, donor governments now are assessing whether AMCs could be applied to other development-related issues, such as new agricultural seed varieties or other technologies (Elliott, 2010).

While AMCs provide market certainty for producers through a binding agreement, they also involve significant budgetary uncertainty for the sponsoring organizations. There is no guarantee that private companies will pursue R&D activities or successfully develop and market a product that meets the AMC specifications (Leo, 2010). As such, financial commitments and resources may never be tapped. Assuming that the appropriate product is developed successfully, there still remains significant timing uncertainty. Yet, for donors with flexible budgeting systems, this uncertainty does not present a significant problem (Leo, 2010).

4.5.3 Blending

Blending entails a combination of market (or concessional) loans with grant (or grant equivalent) components which may be in various forms: direct investment grants; interest rate subsidies; loan guarantees; technical assistance, risk mitigation, guarantee and equity instruments, etc. (Gavas et al., 2011a). Grants are usually transfers made in cash, goods or services for which no repayment from the recipient is required, while loans on the other hand are transfers for which repayment of principal and interests by the recipient is required. Some loans can include a grant element and are called concessionary (or soft) loans.

Apart from emerging donors, who frequently blend commercial and charitable elements in development cooperation, the EU has been increasingly proactive in introducing blending facilities (Chandy, 2011b). But the majority of EU blending facilities has only been operational for less than three year and there is a limited evidence base on the effects of blending. A sizeable literature exists about the theoretical use of loans and grants, but there is little on how it works in practice, which methodology or procedure works best and whether a certain governance model is more effective in reaching its objectives (Gavas et al., 2011b).

Blending mechanisms, when adding grants to loans, aim to achieve a number of objectives, including the need to increase the volume of development finance in a context of constrained resources. Further possible advantages are: making transfers to heavily indebted countries

without exacerbating debt overhang problems; addressing positive externalities to bring the financial rate of return closer to the economic rate of return for projects with a high socio-economic and/or positive environmental impact; improving the quality of funded projects; strengthening ownership by funding measures which build on recipient countries' policies and to which partners provide their own resources; enhancing EU visibility, and supporting division of labour by strengthening coordination between EU donors and lenders (Gavas et al., 2011a).

While Gavas et al. (2011b) stress that evaluating blending facilities has to be done carefully due to methodological issues, other have taken a more explicitly positive position on blending. Behrens and Núñez Ferrer (2011) comment that grants offered by the European Commission and the EU member states in the framework of the facilities – together with important loans granted by the participating accredited financiers and other financial institutions as well as recipients' own contributions and private sector investments – have leveraged substantial volumes of additional development finance. For a grant element of €519 million, European donors together have provided additional development finance in the form of concessional loans of €9.56 billion for projects of a total value of over €19 billion (Núñez Ferrer and Behrens, 2011). The authors conclude that this leveraging of development funds is of particular importance today, given the rising demands for development finance, in particular to meet the MDGs and climate change commitments, and the simultaneous budgetary constraints by government due to the economic crisis (Núñez Ferrer and Behrens, 2011).

5 Future of Aid

5.1 Aid and other financial flows

Apart from ODA other financial flows such as domestic revenues, private investment and remittances are gaining increasing importance (Shafik, 2011). In general terms, aid compared to other financial flows to developing countries is already quite small. Temple (2010) states that once aid and income is aggregated across developing countries, the share of aid flows in the income of developing countries is relatively low. A reasonable rough estimate would be that aid accounted for one per cent of the income of the developing world in 2010 (Temple, 2010). Picciotto (2011) draws the following comparisons between aid and non-aid resource transfers:

- Developing countries' exports (about \$5.8 trillion) are about 45 times the level of 2010 official aid flows (IMF, 2011b, OECD/DAC, 2011b, WTO, 2011).
- Remittances from migrants (\$283 billion) are 2.2 times as large as aid flows (World Bank, 2008b).
- Foreign direct investment (\$548 billion) is 4.2 times as large as official aid flows (UNCTAD, 2010).
- Royalty and licence fees paid by developing countries to developed countries (\$27 billion) are more than one fifth of official aid flows (World Bank, 2009).

Another comparable source of finance are domestic tax revenue that are already 10 times larger than ODA on the African continent (Atisophon et al., 2012). Over the past decade, tax revenues have been rising across the developing world. While these figures roughly put aid flows in the current context of other financial flows they also mask the existing landscape of diverse country categories and the different impacts of these various financial flows. As pointed out earlier, developing countries differ dramatically in their financing needs and sources available to fill these gaps. For instance, some countries have no hope of raising enough tax to pay for the MDGs. In 20 low-income countries, there is an estimated financing

gap of \$62.1 billion between what they have and what they need to meet the MDGs (Atisophon et al., 2012).

Thinking about ways of closing this financing gap has also revolved around the complementary role of aid as a means to enable broader development processes and work itself out of its' job, an idea often termed "catalytic aid". Rogerson (2011) attempts to operationalise the term catalytic aid along two dimensions: first, the promotion of growth-enhancing change in domestic policies (transformative dimension); and second, being complementary to other development finance, specifically to long-term private capital flows (crowding-in dimension).

Of these two dimensions the transformative dimension has been discussed in the aid impact section extensively, but the crowding-in dimension offers new avenues of thought. But as Rogerson (2011) remarks 'proving that aid crowds in private investment is notoriously difficult in the absence of an easily observed counter-factual, where we might compare specific investment behaviours with and without public support of various kinds'. Thus, while it is interesting to think about how countries experience and perceive various kinds of blended public-private support, there is currently too little systematic evidence on factors that determine catalytic aid. Apart from catalytic characteristics of aid, the future role of aid is also discussed in other technical as well general terms. Especially in times of financial austerity in many developed countries, scholars have begun to rethink the role of aid in the broader context of other financial flows.

Manning (2011) applies a technical approach to redefining the role of aid and points out that it is time to revise the existing definition of what flows can be counted as concessional, and thereby as ODA. The old ODA definition, using a standard discount rate set at an outdated level, positively encourages DAC members to provide transactions of questionable concessionality, in order to meet the aid volume targets to which they have signed up (Manning, 2011). An alternative would be to align the definition of concessionality with that used by the IMF or with the one used by the OECD itself for tied aid credits. At the same time, Manning (2011) attests a need for better accounting of the important official flows that fall below any agreed level of concessionality. In the long-term, financial transactions with low concessionality, as well as financial flows of bilateral development finance institutions and of the multilateral development banks will become relatively more important as poor countries continue to graduate to the point where they can access such finance and, more generally, market-based finance in a sustainable way. Hence, a better integration and accounting of these other flows is needed.

Turning to a more fundamental reconsideration of the future role of aid, policy makers and scholar have started to discuss aid policies in connection to other policy fields.

5.2 From aid effectiveness to development effectiveness

One important outcome of the High-level Forum on aid effectiveness in Busan was acknowledging the need to move from aid effectiveness to development effectiveness (Barder, 2011). According to the South Centre (2008), many developing and emerging countries do not see the aid effectiveness agenda in its current form as being widely endorsed or even relevant. The Paris Declaration as such excluded more than half of all aid to developing countries, and even more when the contributions of private foundations, NGOs and non-DAC donors are taken into consideration (Kindornay and Besada, 2011).

A thematic study on the Paris Declaration has offered broader definitions of development effectiveness (Stern et al., 2008). The first describes the intent of development interventions as 'the achievement of sustainable development results related to MDGs that have country level impacts that have discernible effects on the lives of the poor' (Stern et al., 2008, p. vii). The second definition mirrors the broader conception of development cooperation and

focuses on enhancing 'the capability of states and other development actors to transform societies in order to achieve positive and sustainable development outcomes for its citizens' (Stern et al., 2008, p. vii).

The Tunis consensus (African Development Bank Group, 2010) summarizes a African vision on development effectiveness and is a good illustration of the overall move from aid effectiveness to development effectiveness. The African states outlined six priorities: building capable states; developing democratic accountability; promoting South-South cooperation; thinking and acting regionally; embracing new development partners; and outgrowing aid dependence (African Development Bank Group, 2010).

These conceptions of development effectiveness emphasize two main aspects. First, there is the critical importance of strengthening the development capacities of beneficiary countries (Picciotto, 2011). Second, they also imply a concern with non-aid policies and their impact on development and acknowledge that donor governments have a wide range of non-aid instruments at their disposal to contribute to development (Picciotto, 2011). These '**beyond aid**' or non-aid instruments include humanitarian assistance, security arrangements, peacebuilding, diplomacy, trade, investment, migration and intellectual property rules. Such policy instruments can be used to complement (or alternatively to undermine) aid policies with major consequences for development, especially in fragile states (Lockhart, 2004).

Coherent multilateral cooperation for development that explores the synergies of different policies and actors has the potential to maximize development results (Davies, 2011). The current shift in discourse from aid to development effectiveness might provide an opportunity for moving forward on policy coherence for development (PCD) issues. Picciotto et al. (2005) suggest that PCD spans four dimensions: the first referring to the internal consistency within the aid programmes of donors; the second called 'whole of government' coherence, referring to the consistency between the aid and non-aid policies of a donor government; the third to the consistency between the aid and non-aid policies across donor countries (harmonization); and the last to consistency between a donor government policy and the overarching strategy at a country level (also referred to as alignment) (Lockhart, 2004).

Carbonnier and Sumner (2012) also predict that the aid system will face major transitions, especially in regard to the role of aid agencies and MICs: 'traditional aid agencies may focus more on equity, governance and progressive change while MICs may be more interested in PCD. They argue that aid often has much less impact on MIC economies than do donor countries' policies on international migration, trade, finance, security, agriculture, investment or research and technology (Carbonnier and Sumner, 2012). In practice, however, there has not been much improvement in the design and implementation of more coherent policies and some critics even argue that the policy coherence agenda has only been pushed forward by development aid agencies in an attempt to obscure their failure to make aid more effective (Carbone, 2012).

Carbonnier and Sumner (2012) expect that total policy coherence will never be achieved, and PCD therefore should serve as a heuristic tool for informed democratic deliberation in both MICs and HICs when debating policy options. Also, they propose that PCD should be geared toward sustainability because "policy coherence for sustainable development" may provide a common framework for both country groupings in the design and implementation of global public policies required to come to grips with the pressing worldwide challenges facing all of us' (Carbonnier and Sumner, 2012). Davies (2011) remarks that there is an urgent need to move from rhetoric to action on policy coherence for development in all international and multilateral cooperation. Making this shift, however, would require methodologies for assessing policy coherence for development at different levels - providers of assistance could cooperate within different multilateral frameworks on this issue as part of their joint efforts toward the targets of the MDGs and beyond (Davies, 2011).

While the different notions of development effectiveness described above signal that countries are willing to broaden and deepen the aid agenda to include policy areas beyond aid, there is still little agreement on concrete action. The Post-Busan Interim Group is currently working on providing further guidance in this direction. Apart from the debates on policy coherence, scholars have also paid attention to the greater degree of interconnectedness between aid and global planetary challenges. Shafik (2011) emphasizes that future of aid could be to serve as a major tool for addressing global challenges such as peace, poverty and environmental sustainability in a more integrated approach.

5.3 A new role for aid

Birdsall (2012) recently described that the global financial crisis illustrated the ongoing democratization of the aid system, and emphasized that traditional Western powers did not have all the answers on how to develop. Hence, Birdsall (2012) speculates that looking back to ten years hence the current era will mark the transition point from seeing aid as primarily charity (with a heavy focus since 2000 on aid as a key input to help poor countries achieve the MDGs) to aid as one aspect of global public policy central to a safer and more prosperous global system, as described by Severino and Ray (2009, 2010).

Severino and Ray (2009) prominently announced 'The end of ODA', describing that the world of international development assistance is undergoing three concomitant revolutions. First, ODA is facing a diversification of the goals it is asked to pursue: to its traditional objective of ushering convergence between less and more developed economies have progressively been adjoined those of financing access to essential services and protecting global public goods (Severino and Ray, 2009). Secondly and thirdly, the number and diversity of aid actors and aid instruments has increased significantly as described above. Hence, the authors (2009) argue for the need to move from the conventional measure of ODA to the construction of clearer benchmarks for resources and results that concur to 21st century international development, an alternative which the authors call 'global public policy'. They define global public policy to by pointing out three main differences between global public policies and national public policies: 1) the tasks of global public policies go far beyond those of traditional development aid to address a larger set of global challenges; 2) its toolbox has itself expanded to include a whole range of financial and technical instruments; 3) the number and kind of actors who drive this global endeavour has surged (Severino and Ray, 2009).

In a follow-up paper, Severino and Ray (2010) develop their ideas further and describe a framework for organizing the global governance framework of global public policies. The authors call this 'hypercollective action', and develop a new conceptual framework, with the intention to shape dynamic processes of multi-actor convergence that are more compatible with the political economy of international cooperation initiatives as they are currently taking shape (Severino and Ray, 2010). The authors contrast their own new framework with the Paris Declaration, which they deem the 'first large-scale effort to harness the hypercollective in the development aid ecosystem'. But according to the authors the Paris Declaration does not provide solid enough ground on which to build the kind of hypercollective action that is required by global public policies. Instead, they suggest that in their own framework for hypercollective action multilateral organizations would become the agents of effective hypercollective action. These agents would in turn be embedded in a global system characterized by: 'knowledge, information and evaluation initiatives, and notably an — International Panel on Climate Change for development; innovative sticks and carrots for governments and all civil society players to improve convergence; new generations of coalitions and clubs' (Severino and Ray, 2010).

Similar to the message that Severino and Ray formulate, Heller (2011) takes up their arguments and uses scenario analysis to frame the potential contexts in which aid is likely to operate in the next decades. In essence, he argues that in the future globalization, global warming, dramatic biodiversity loss, and geopolitical turbulence suggest that responding to

the imminent threats to economic, political, and ecological stability call for continued resource commitments by industrial countries, but with a focus that is principally directed to addressing the need for global public policy initiatives and the provision of global public goods (Heller, 2011). He therefore confirms Severino and Ray but adds a forward-looking perspective by identifying the policy challenges that most imperil the global economy, and recommending to allocate aid resources for grappling with these challenges, in order to maximize the impact of aid (Heller, 2011). While the scholars quoted above have all pointed out the need for aid to provide public goods, another group of scholars has written more specifically about what public goods are and how global public goods approaches can be implemented.

5.4 Provision of global public goods

As Reisen (2009) notes the goals of development assistance have broadened to include the provision of global and regional public goods. Grimm and Lundsgaarde (2009) comment that renewed attention to global public goods reflects the recognition that states are only able to improve their internal stability and prosperity to an extent, which is limited by international conditions that are beyond their reach.

Global public goods (GPG) can be understood in the traditional sense of goods that affect everyone, from which no one can be excluded, and where use by one is not at the expense of use by another' ('non-excludability' and 'non-rivalry')(Kaul et al., 1999). Goods that possess both these public properties (non-excludability and non-rivalry) are called pure public goods, while those that possess only one of these properties are impure public goods (Kaul, 2010). From an economic point of view, global public goods are those for which a large share of the benefit cannot be contained within a single country (Kremer, 2006). For instance, a country that establishes a policy to reduce carbon emissions to prevent global warming does not just benefit itself but helps all countries that would be hurt by global warming (Kremer, 2006). In a similar fashion there are global problems (or 'global public bads') that do not respect borders and have widespread effects such as hunger, disease, pollution, climate change, financial instability, regional conflict, international crime and terrorism (Picciotto, 2011). These problems cannot be tackled one country at a time or by one country alone and stronger multilateral approaches could include global public policies to address these global problems.

But implementing GPG approaches usually faces two main barriers or failures. First, there are market failures, meaning that actors are reluctant to voluntarily contribute their own money towards public goods (Kaul, 2010). Second, there are state failures, meaning that at the international level states are motivated by particularism or national interests, expressed in reluctance to enter into any obligation requiring them to make major, long-term financial commitments (Kaul, 2010). So far, these barriers have not been addressed successfully and Kaul (2010) recommends five ways forward: 1) Responsible sovereignty 2) Remodelling the role of the state 3) Win-win agreements 4) GPG provision as a new policy field 5) Extending the G-20 approach to global leadership.

Various studies researched the relationship between aid and financing of GPGs, and have shown that regardless of the definition of GPGs adopted, an increasing share of aid, both bilateral and multilateral, has been devoted to GPG financing over the last two decades (World Bank, 2001, Te Velde et al., 2002, Cepparulo and Giuriato, 2009). In addition Cepparulo and Giuriato (Cepparulo and Giuriato, 2009) find indications that financing GPGs can crowd out aid and also show that donors strongly use GPG approaches for geostrategic purposes, if funding is voluntary.

Further contributing to links between the aid and GPG agenda, a recent report by the Advisory Council on International Affairs (2011) recommends to merge the MDG and global public goods agenda because controlling infectious diseases for instance is already a global public good. This thinking could add a more philosophical element to the goals, clarifying the

question of why states enter into development cooperation: because it is a matter that affects everyone (Advisory Council on International Affairs, 2011). The authors suggest that linking GPG approaches with the MDGs also breaks through the discussion on 'here' and 'there', as all countries should work to preserve global public goods. Also, a distinction could be made between human public goods (global norms) and natural public goods (e.g. the open sea or the atmosphere). 'Millennium Goods' can therefore become part of an international norm-setting framework, with progress measured in terms of moving towards a level that is acceptable for everyone (Advisory Council on International Affairs, 2011).

A global public goods approach can also reveal the links between the different goals. In contrast to Kaul (2005), who advocates for separate ODA and GPG agendas, the Advisory Council on International Affairs (2011) argues in favour of integrating the two agendas. After all, different countries have different priorities in respect of public goods, but the advantage of this system would be that it applies equally to all countries (Martens, 2010). Manning (2012) points out that the provision of ODA might provide valuable lessons that are relevant for other financial flows in support of GPGs, not least in regard to ownership questions. He therefore predicts that involving different policy communities in both donor and implementing countries in addressing common concerns over effectiveness seems likely to become increasingly important (Manning, 2012). Based on available evidence, the mainstreaming of the global public goods agenda in operational practice of aid agencies has been limited so far, mainly to progresses in identifying and costing global risks and their impact on developing countries (Mordasini, 2012). Thus, Mordasini (2012) suggests that significant reforms of multilateral and bilateral aid agencies have to take place at the institutional, organisational and operational levels, in order to start addressing seriously the pressing challenges facing the developing world.

As an institutional platform the UN and its agencies could have a central role in the production of global public goods, for instance in regard to peace and security, human rights, development or the environment (Jenks, 2012). Jenks (2012) argues that the ability of the UN to produce significant outcome in the global public goods agenda relies on its continued capacity to generate universal norms and widely shared values. Assessing GPG approaches for the EC and European member states Furness and Makhan (2011) find that the EU appears to be on the right track to address a more complex world and formulate policies that support a GPG approach. But the authors also stress that member states still do not have a common strategy for global development and for how to use the EU to achieve it - the greatest problem for European development policy remains complementarity among EU-level actors and member states (Furness and Makhan, 2011). Carbonnier and Sumner (2012) argue that global public goods are particularly important with respect to donor engagement with MICs because forging partnerships with MICs is increasingly critical for effective collective action.

5.5 Aid architecture

Aid architecture can be defined as the structural trends and institutional arrangements between multiple actors governing aid flows to developing countries (Adugna et al., 2011). Broadly speaking, two aid "architectures" can be distinguished: the "Cold War Architecture," which lasted from the end of World War II to the fall of the Berlin Wall in 1989; and the "Post Cold War Aid Architecture," which started in 1990 and is still evolving in important respects, including the increasing role of non-traditional development partners (Adugna et al., 2011).

The current international aid architecture is not a product of 'intelligent design' but instead is evolutionary (Shafik, 2011). The evolution over the last decade resulted in a wide array of minilateral institutions - small groups of countries partnering to create an institution to address a particular issue or set of issues - reflecting frustration with the effectiveness, legitimacy and pace of delivery in many of the multilateral organisations (Naím, 2009). Concurrently there is an increasing pressure on multilateral organisations to reform their

governance and modes of operation if they are to remain important for solving global problems, as the multilateral aid review of the United Kingdom demonstrates (DfID, 2011). Commenting on the reform pressures on the international aid architecture Kharas et al. (2011) have called for a new aid 'ecosystem' since they consider a single-aid architecture impossible, given the number of new development actors. Rather, they (Kharas et al., 2011) suggest establishing a set of guidelines, responsibilities and accountabilities to shape interaction among different groups.

Barder (2009) identifies the political economy of the aid system – an political equilibrium determined by the relationships between different aid actors - as the main impediment to greater efficiency and effectiveness. Hence, reformers should put pressure on the aid system to evolve in the right direction rather than find grand designs (Barder, 2009). According to Barder a considered combination of market mechanisms, networked collaboration, and collective regulation would be more likely to lead to significant improvements (Barder, 2009).

Reisen (2009) positions the multilateral development-finance system with the broader setup of global governance, however due to the complex setup of the development-finance system described above he terms it a 'non-system'. Reisen (2009) outlines that two main steps are necessary to make progress toward a more accountable and efficient system, particularly concerning the role of multilateral aid institutions. First, a better mapping and reporting of multilateral development finance to identify overlaps and enhance coordination is needed. Second, multilateral agencies should be held accountable and evaluated against a common framework such as the MDGs. Leipziger (2011) similarly situates the future of the international aid architecture in the broader context of multilateralism and argues that there is a clear need to redouble international investments in multilateral cooperation overall.

While there are on-going initiatives to mitigate the impact of the fragmented aid architecture, including by enhancing the division of labour among DAC donors, the root cause remains on the supply side (Adugna et al., 2011). In a resource constrained environment, there is even more need for donors to consolidate funding mechanisms and make better use of existing channels, particularly multilateral channels, which can mitigate the adverse impact of the complex aid system. The principle agreed in Accra of 'thinking twice' should translate into a commitment to limiting the creation of new global funds to those addressing 'real' global public goods coupled with clear implementation principles that ensure country ownership of global initiatives (Adugna et al., 2011).

In order to reduce duplication and increase the effectiveness of the aid system as a whole, Kindornay (2011) suggests that the international community should agree on a transparent standardized multilateral evaluation and assessment framework that could serve three main functions: i) identifying overlap for potential organizational mergers; ii) linking multilateral development institutions more strongly to development results; iii) setting a minimum benchmark for performance, including a mechanism to phase out underperforming organizations.

6 Research Gaps

This review has pointed out several research gaps in the literature. While the **impact of aid** was described as a heavily researched topic with ongoing debates, it was also determined that little progress has been made on analytically entangling the effects of aid. One concern in this regard was that aid can be an unhelpful analytical category, as it represents an artificial aggregate of various specific programmes across a range of sectors. This could spur efforts to exercise more scrutiny in recording and describing the differences between various sectors.

In addition, it was noted that more research should be carried out on how aid for social services and aid for growth purposes relate to each other, and whether they might enforce each other. A research priority should therefore be to explore channels and intermediating relationships, and the effect of aid on a wider range of outcomes: not only social indicators, but also governance, conflict, public expenditure, taxation, sectoral structure, political outcomes.

Regarding **aid effectiveness** a lot attention has been paid to evaluating and understanding the technical shortcomings of the Paris Declaration. In addition, the political dimensions of the aid effectiveness debate increasingly have been subject of research. Still, new gaps in research are emerging, due to the multiplicity of initiatives for improving donor accountability and transparency. Understanding which of these initiatives will be able to contribute to lasting improvements in development cooperation emerges as another priority for further research. Also, shifts from aid effectiveness to development effectiveness, as well as the changing institutional structure of development cooperation, will have to be analysed in respect to their impact on improving the impacts of development cooperation.

In the section on **aid actors** it was stressed that non-DAC donors, especially providers of SSC but also private donors, generally offer little information on the volume of their development assistance. This lack of transparent information also impedes a better evaluation of the development impact that these actors have. This information gap is a starting point for potential research. Further, there are other gaps regarding the specific instruments that these new actors provide and how they compare to traditional ODA. Hence, research on ways for better data collection and improvements in financial reporting on the practices of state and non-state development assistance providers are essential.

Simultaneously the growing importance of non-DAC donors also leads to pressures for changes in the rules that determine what can be claimed as ODA, particularly different forms of South-South Cooperation that often mix concessional and non-concessional terms. Therefore, it becomes necessary to explore complementary and alternative frameworks to accommodate the new development-oriented financial flows and cooperation activities that may not easily fit conventional definitions of aid. This would also include a discussion on how different elements of foreign economic policy can be complementary in promoting economic growth and poverty reduction in developing countries.

In terms of **aid approaches**, there is still only limited knowledge about systematic analysis of what works or not, why and under which conditions. In particular, the factors that make government expenditure effective on the one hand and the relative effectiveness of different aid modalities and instruments on the other hand have to be investigated further. While there is an emerging range of approaches that prominently focus on results, the literature so far does not provide conclusive evidence either in support of or against aid instruments such as budget support or results-based approaches.

In addition, not enough is known about how innovative aid instruments affect country ownership, and whether national authorities are sufficiently aware of and consulted on packages, such as blending. These innovative mechanisms for development finance involve some elements of official development assistance-like support but also various other instruments and contracts between private companies, foreign and domestic, and between them and government entities. Hence, it is important to better understand both DAC and non-DAC sources of mixed or blended flows. Especially, more detailed information on the additional or complementary nature of these innovative approaches could contribute to improving the design of aid approaches.

Regarding the **future of ODA**, better reporting, transparency and accountability were pointed out as imperatives for further research. Starting with aid compared to other financial flows more information is needed on the particular distinct impact of aid on development outcomes.

While a better accounting of aid flows provides a practical solution, there are also other dimensions to consider. For instance, the catalytic functions of ODA are not understood well. The main indicators of catalytic successes of ODA, and what factors are more and less context-dependent have to be carefully differentiated. Also, scalability of which aid-supported investments intended to be transformative have been taken into account, which not, in what timeframe could be researched to a greater extent.

Gaps are also found in understanding ways of linking aid to other policy fields for achieving development effectiveness. There is general agreement that aid effectiveness should be understood as development effectiveness that also encompasses the coherence of other policy fields, but beyond that little is known. Especially, the main bottlenecks and ways of addressing them for implementing new roles envisioned for aid have to be analysed. In this regard a deeper understanding of ways to integrate global public goods approaches into development cooperation in general and a possible post-2015 development agenda in particular is needed.

A better mapping of the global **aid architecture** could be another avenue of research. In this context, it is important to gather evidence on stakeholder perceptions and preferences to ensure that the institutional arrangements that arise are desirable, feasible and meet the needs of the international community. The current fragmentation and lack of coordination are well described in the literature, but knowledge on feasible alternatives and ways forward is still limited.

7 References

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