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REFORM OF THE INTERNATIONAL AID ARCHITECTURE

A Literature Review

Marcus Cox

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I. INTRODUCTION

This paper is a literature review of recent writing on reform of the international aid architecture (IAA). It was commissioned by DFID's International Finance and Development Effectiveness Department, and is a companion piece to a June 2007 Agulhas discussion paper: "Developing a vision for the international aid architecture", which assessed DFID's own approach towards architecture issues.

We have taken the IAA to include both:

- the organisations and structures for the delivery of development aid;
- the norms which govern their behaviour.

An instrument such as the Paris Declaration on Aid Effectiveness is therefore treated as part of the IAA. Although we are not interested here in aid-effectiveness rules *per se*, the range of potential solutions for a fragmented aid architecture include both (i) rationalising the structures; and (ii) changing the rules of the game to address the consequences of fragmentation.

The paper looks at the delivery of aid, and not the global financial system, international trade or security. While these impact on development and should perhaps be considered jointly with the IAA, in the main the literature does not do so. We have also left to one side the extensive literature on disaster response and humanitarian assistance, which is a somewhat distinct field.

The paper is organised into five sections. The first contains a brief overview of commentary from the literature as to what is wrong with the present aid architecture. The second deals with discussion of specific actors and their role within the international system, including:

- the multilateral and regional development banks;
- the UN system;
- global funds;
- civil society;
- private philanthropic funds.

The third section deals with specific themes emerging from the literature:

- aid allocation;
- the changing global power balance;
- global public goods;
- creating a competitive market in development assistance.

The fourth section describes specific reform proposals presented in the literature. The final section offers some concluding comments on the state of the debate.

II. DIAGNOSIS

The one aspect of the literature in which there is a high degree of consensus is on the shortcomings of the present IAA.

Authors point out that the IAA has never had an 'architect', and that there has been no serious reform process (prior to the current One UN reforms) since the creation of the International Development Association (IDA) in 1960. While many new organisations have been established, old ones are almost never shut down,[1] "but struggle on in a diminished form through patronage ties, inertia, non-transparent funding formulas, and by eschewing any controversy that could tip political opinion towards outright closure."[2]

> "Institutions strive and struggle to maintain their own survival, sometimes expanding into new areas or activities to ensure self-preservation, even when they have passed their sell-by date."[3]

The present IAA is therefore an unintended product of many years of *ad hoc* decision making. The major governmental shareholders on the donor side act as though the system as a whole is beyond their control. Few donors have attempted to develop a comprehensive policy towards it, or even clear criteria for assessing the value for money of investments in different parts of the system.[4] Multilateral replenishments are "disconnected sets of context-specific negotiations, usually yielding marginal adjustments to the previous base."[5] Even though the system is dominated by a few large donors, most do not coordinate their own inputs across different parts of the IAA, let alone adopt a collective approach with other donors. This deprives the system of any rationality or capacity for forward planning.[6]

Some authors have noted that international mobilisation around the scaling up of aid (the 'make poverty history' campaigns) has tended to push doubts about the effectiveness of the IAA below the surface.[7]

The result is an IAA that is less than the sum of its parts. Among the most common problems mentioned in the literature is:

- **Proliferation:** UNDP calculates that, globally, there are more than a 1,000 different mechanisms for supplying development finance.[8] This complexity imposes major transaction costs for both donors and recipients and strains the capacity of developing countries.[9]
- **Fragmentation:** Proliferation causes resources to be spread across too many channels and activities, reducing economies of scale and producing meagre results.[10] The average number of donors per country has increased from 12 in the 1960s to 33 in 2001-5.[11] Fragmentation tends to be highest in partner countries with the lowest capacity.[12]

1 Harford, Hadjimichael & Klein (2004).
2 Rogerson, Hewitt & Waldenberg (2004), p. 3.
3 Riddell (2007), p. 88.
4 Rogerson, Hewitt & Waldenberg (2004), p. 3.
5 Menocal, Maxwell & Rogerson (2006), p. 2.
6 *Ibid.*
7 Menocal & Rogerson (2006).
8 Quoted in Burall & Maxwell (2006), p. 1.
9 Menocal & Rogerson (2006).
10 Messner, Maxwell, Nuscheler & Siegle (2005).
11 IDA (2007), p. ii.
12 IDA (2007), p. 21.

Fragmentation of the international aid architecture

The current international aid architecture has:

- over 150 multilateral agencies;
- 33 DAC donors;
- 10 significant non-DAC bilateral donors;
- around 180 global funds and programmes, including 90 health funds.

Examples of fragmentation

- The WHO has 4,600 separate agreements with donors, and provides 1,400 reports per year.
- Uganda has 40 donors and 684 aid instruments.
- The average partner country receives 200 donor missions per year (14 country DAC survey).
- There were 20,000 separate technical assistance activities in 2004, equivalent to one per day per developing country.[13]

- **Inconsistent funding arrangements:** Multiple types of finance are an additional source of fragmentation. Finance is a major determinant of institutional behaviour. Multilateral institutions with a substantial endowment of their own (e.g., parts of the World Bank) are resistant to external influence. Others are completely dependent on periodic replenishments. For some organisations there is an agreed formula for burden sharing; for others, it is an entirely voluntary process. Up to half of all bilateral contributions to multilateral organisations are sectorally or thematically targeted, often through special trust funds.[14] This causes drift in mandates, and can make single organisations behave as though they were multiple.
- **Poor division of labour:** Roles and responsibilities within the IAA are unclear. There is a high degree of overlap in institutional mandates, but without generating effective competition. Even within relatively coherent sub-structures such as the EU, the division of labour is poor. Riddell notes: "there are no effective mechanisms and processes for ensuring that the agencies which have the funds are the ones most able to use them most effectively."[15]

> "This diversification of suppliers could be a source of competition and enhanced effectiveness, from which aid recipients should benefit. However, in the context of the marked power and information asymmetries inherent in aid relationships, it does not have that effect."[16]

- **Lack of legitimacy:** The IAA is widely seen as dominated by a small number of major (DAC) donors, to the exclusion of recipient countries and emerging donors. International fora such as the UN's ECOSOC, designed to be broadly representative, have become of marginal importance. The OECD-DAC has emerged as the main forum for debating development policy, but (despite recent

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13 Figures and examples taken from IDA (2007).
14 IDA (2007), p. 15. These are recorded as bilateral aid in DAC statistics.
15 Riddell (2007), p. 88.
16 Christiansen & Rogerson (2005), p. 2.

efforts to improve the participation of partner countries) is still essentially a donor club.

- **Lack of coherence:** There are no mechanisms to ensure that different parts of the IAA operate coherently with each other. Institutional and national self-interest predominate, with no decision-making structure capable of aggregating and channelling different interests. There is no equivalent to the Security Council, where high-level bargaining around strategic interests can take place. As ODI points out, donor countries pursue their separate agendas with little strategic or operational awareness of each other, on the false assumption that this will maximise the achievement of their own objectives. In fact, without coordination, the net impact of development aid is an unintended aggregate of multiple, inconsistent activities, preventing any of the actors from achieving their objectives.[17] According to Rogerson, greater coherence could be achieved by:

  i) a genuinely competitive market for development aid;
  ii) stronger collective action or cartel-like discipline among donors;
  iii) central regulation.

  In practice, none of these is a feature of the IAA.[18]

The most important innovation in recent years has been the emergence of the Paris Declaration as a set of norms governing aid practices. By establishing reciprocal obligations for both donors and recipients, it creates at least the potential for mutual accountability. These are of course 'soft norms', with no sanction for lapses and no real cost to donors who choose to opt out entirely. However, comparing this with other international normative arenas – say, the emergence of international human rights law in the 20th century – it is clear that soft norms can become highly influential over time, determining what is accepted as good practice in the international community.

Nonetheless, most authors see the Paris Declaration as at best a partial fix to the problems of the IAA. Some doubt that donors are genuinely willing to discipline themselves, or that developing countries are willing and able coordinate effectively. Others point out that the Paris Declaration governs only the mechanics of aid delivery. There are still no mechanisms for organising collective approaches on areas such as aid volumes, aid allocation or the coherence of aid with other policy areas.

III. ACTORS

This section summarises findings from the literature regarding specific actors within the IAA.

1. The World Bank

Most authors acknowledge the importance of having one or more major multilateral institutions at the centre of the IAA, and most acknowledge the important role played by the World Bank. Ngaire Woods writes:

> "The logic for having a multilateral agency at the heart of the aid system is impeccable. It permits countries to pool their aid efforts. In theory this should

17 Christiansen & Rogerson (2005), p. 3.
18 Rogerson (2005).

> mean more effective, better informed development assistance with fewer transaction costs… The Bank's multilateral character also offers some insulation against the plague of special interests which distort bilateral foreign assistance, often tying it to procurement from the donor's own companies or other special commercial deals."[19]

Martens sees the economic logic in having a financial institution able to mobilise development finance from the capital markets at marginal cost to donors, and the allocative efficiency of channelling assistance through a large-scale institution. He suggests that the value of the Bank to donors should be its ability to organise collective action around large public goods, in the face of heterogeneous donor preferences. By delegating to the Bank, donors can manage their differences and increase their effectiveness.[20] Woods notes that the Bank has been effective at mobilising donor nations in areas such as debt relief and the PRSP initiative.[21]

However, donors are not using the potential of the World Bank effectively. Rather than pooling funds through IDA, they choose to channel resources through an ever-growing number of trust funds, encumbering the Bank with additional conditions and procedures, and reducing its ability to aggregate across donor interests. Ahmed writes:

> "I find it extraordinary that in a recent year the World Bank received a larger sum of grants from its shareholders in trust funds than it got for IDA. Some of this money is for big multi-donor initiatives channeled through the Bank (such as HIPC) or cofinancing for specific Bank operations, but a substantial amount is for supplements to the Bank's own budget for policy or operational work. It is remarkable that as shareholders we construct an elaborate mechanism for setting priorities and discipline in the Bank, and then as donors we bypass this mechanism by setting up specific separate financial incentives to try to get the Bank to do what we want."[22]

The two main concerns in the literature about the World Bank relate to relevance and legitimacy.

Relevance

Woods argues that the Bank, together with the IMF and WTO, has been 'emasculated' by recent developments. They have becoming marginal to discussions on the scaling up of aid, and have been bypassed by global financial markets.[23] Their advice is no longer seen as impartial, and their major clients no longer wish to borrow, causing their income to diminish.

Rogerson points to the 'exit' of MICs as borrowers for both the Bank and the IMF, with a significant number of former major clients now repaying more than they borrow. This reduces the ability of the Bank to cross-subsidise operational costs and IDA activities from IBRD lending. Furthermore, if net flows to MICs remain negative, the solidarity of the Bank's membership could suffer.[24] Some put the problem down to the Bank's

19 Woods "Power shift" (2007), p. 19.
20 Martens (2005).
21 Woods "Power shift" (2007), p. 19.
22 Ahmed (2006), p. 90.
23 Woods "Power shift" (2007).
24 Rogerson, Hewitt & Waldenberg (2004), p. 25.

sensitivity to lobby groups, who have forced it to adopt environmental and social safeguards which raise the real cost of borrowing to such an extent as to outweigh the concessionality of the lending.[25] Others see the problem in terms of changes in global financial markets, with MICs now enjoying ample access to commercial finance.

Birdsall also questions the Bank's performance in generating knowledge on development as a global public good (the 'Knowledge Bank' agenda). She criticises the Bank's tendency to search for "universal laws of development", rather than deeply textured knowledge of specific countries and their development challenges. She suggests that the Bank rarely creates new knowledge about what works in development assistance.[26] Devesh Kapur asks whether the Bank's spending on knowledge generation is cost-effective relative to other public goods, given the lack of researchers based in developing countries.[27]

Legitimacy

There is growing criticism of the governance arrangements for both the World Bank and the IMF. Commentators note the weak position of borrower countries on the Board, and the tendency of the large donors to dominate the Bank's agenda through the replenishment negotiations.[28]

Many commentators note the strong conviction on the part of Southern observers that the World Bank is a puppet of US interests. The physical location of the Bank's headquarters a few blocks from the White House, and the fact that the President is always an American, make this belief more plausible.[29] The standard policy prescriptions offered during the structural adjustment era – trade and financial liberalisation, currency devaluation, fiscal austerity – were seen as representing either a narrow US-led ideology, or else the US's own trade preferences and geopolitical interests. Woods argues that there is substance to the criticism. When the BWIs force borrower countries to liberalise their trade regimes, they are then in a weak position to negotiate trade deals at the WTO, having nothing left to bargain with (developed countries play the game the opposite way).

Although the policy recommendations have changed since the 1990s, much of the Southern and civil society literature on the Bank is devoted to demonstrating that its current approach is merely structural adjustment in another guise (e.g., the argument that the Bank still imposes macroeconomic policies that make the implementation of pro-poor national development strategies impossible).[30] Woods notes that, even though explicit policy conditionality has been reduced, the Bank still tends to back its policy advice with massive statistical exercises against which borrowers find it hard to argue. This matches strong criticisms of the Bank from former insiders – Stiglitz, Easterly, Ellerman and others – that, as an organisation, the Bank is designed for a "social engineering approach" which is at odds with its commitment to a country-led approach.

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25 Birdsall (2006); Easterly 2006), p. 10.
26 Birsdall (2006).
27 Kapur (2006).
28 Woods "Battle for the Bank" (2007); Rogerson, Hewitt & Waldenberg (2004); Birdsall (2006).
29 Ellerman (2006), p. 242.
30 For example, the Bank's CPIA scores, which are at the heart of its aid allocation formulae, include elements such as trade liberalisation (tariffs below 7%), financial deregulation, limits on public spending and indebtedness and liberal employment laws that reflect structural adjustment values: Woods (2007), pp. 19-20.

There is some debate in the literature as to the relationship between legitimacy and effectiveness. Comparing the BWIs to the UN, Messner argues the BWIs have been relatively more effective because their governance arrangements reflect the real global distribution of economic power, while organisations like ECOSOC failed because, being based on simple majority voting, they have become mere talking shops.[31] Dervis likewise suggests that the use of weighted majorities within the BWIs have allowed for greater policy innovation (e.g., the creation of IDA, HIPC, the PRS initiative).[32] Most authors, however, reject this dichotomy, insisting that legitimacy and effectiveness are mutually reinforcing. The World Bank may provide technically competent advice, but its effectiveness depends on the willingness of borrower countries to accept that advice, which is tied to its legitimacy.[33]

> "Legitimacy, the fundamental prerequisite for effective and consensual international policy action, requires a more balanced democratic representation within the international financial institutions (IFIs). The allocation of voice within the IFIs must reflect today's changed global economic power structures and set the stage for a better representation of developing countries in the Executive Board."[34]

Reform proposals

Proposals for reforming the World Bank include:

- **Greater use of double-majority voting.** From the outset, member countries of the Bank were allocated a fixed number of basic votes plus one vote per share. This was designed to reduce US dominance of the Board. Certain kinds of Board decision require a double majority – of members and shares. Some commentators have suggested greater use of double-majority voting, especially on institutional development issues, in order to get developing countries more involved in setting the Bank's overall direction. This would require the G7 members to make more effort to build consensus with borrowing countries.
- **Composition of the Board.** Periodically recalibrate shares and voting rights to reflect changes in the global power balance, in particularly the rise of the BRICS. Increase the number of Board positions allocated to borrower countries, to increase the Southern voice.[35]
- **Measures to improve the quality of representation.** Publication of minutes and/or transcripts of Board meetings would generate greater understanding of Board dynamics, and enable countries to judge the quality of representation they receive from their members. Board members could also be required to report to their national parliaments on Board proceedings and their own contributions. Provide the Southern representatives on the Board with their own advisory boards, to increase their capacity to engage in policy debates.[36]
- **A transparent and representative leadership selection process.** Many commentators have called for an open, merit-based process for appointing the President.
- **New governance arrangements for trust funds.** Some suggest that there should be new governance arrangements for trust funds, especially on Global

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31 Messner, Maxwell, Nuscheler & Siegle (2005).
32 Dervis (2005).
33 Ahmed (2006).
34 Messner, Maxwell, Nuscheler & Siegle (2005), p. 11.
35 Ahmed (2006).
36 Messner, Maxwell, Nuscheler & Siegle (2005).

Public Goods (GPGs). MICs should be given the majority vote in these areas, in return for the financing they provide through interest on their borrowings.[37]

- **Changing staff incentives.** Various commentators have called for changes to Bank incentives to make staff more responsive to country leadership. Reducing the disbursement pressure on staff is one proposal.[38] Radical decentralisation of functions and greater autonomy for country offices is another.[39] Alternatively, Ellerman suggests that the Bank recycle its loans through the regional development banks, and second its operational staff to work with them.[40] The Meltzner Commission also raised the question of why the Bank needs a field presence to compete with the regional development banks.[41]
- **Broaden mandate.** Some commentators have called for change to the Bank's a-political mandate, to enable it to engage with democratic reforms. This might improve the quality of the Bank's engagement by forcing it to become more politically savvy. The Bank could also be given the mandate to provide finance directly to actors other than national governments, including civil society, business and regional bodies.[42]
- **Strengthen independent evaluation.** Establish a fully autonomous evaluation unit, and devote more resources to practical lesson learning.
- **New financing terms.** The Bank should enter into 10-year financing agreements with developing countries, to ensure greater predictability of funding.[43] The US Congress's Meltzner Commission recommended that the Bank move out of lending to all countries with capital market access, and concentrate on providing performance-based grants to LICs.[44] To reflect this change in role, the Bank should be renamed "the World Development Agency".

> "Building on their experience in the 1930s, the founders of the Bank believed that the private sector would not furnish an adequate supply of capital to developing countries. The Bank, joined by the regional development banks, intended to make up for the shortfall in resource flows. With the development and expansion of global financial markets, capital provided by the private sector now dwarfs the volume of lending the development banks have done or are likely to do in the future. And, contrary to the initial presumption, most crises in the past quarter century involved not too little but too much lending, particularly short-term lending that proved to be highly volatile."[45]

However, Nancy Birdsall explicitly rejects the idea of making the Bank into a 'World Development Agency', providing grants and TA to LICs. She supports the original vision of the IBRD as a global credit union, in which wealthy depositor countries guarantee the borrowings of poor countries, enabling them to access development finance at favourable rates – in effect, using the greater collective credit worthiness of the members to access cheaper credit. In her view,

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37 Birdsall (2006).
38 Messner, Maxwell, Nuscheler & Siegle (2005).
39 Woods "Battle for the Bank" (2007).
40 Ellerman (2006), pp. 245-7.
41 The International Financial Institution Advisory Commission (or the Meltzer Commission, named for its chair, Professor Allan Meltzer, was established in November 1998 and reported in March 2000: International Financial Institution Advisory Commission (2000).
42 Messner, Maxwell, Nuscheler & Siegle (2005).
43 *Ibid.*
44 International Financial Institution Advisory Commission (2000).
45 *Ibid.*

> all members of the credit union should be formally equal. Such a credit union is self-regulating, because countries that do not wish to access development finance on the terms offered can simply choose not to do so.

There are some limitations to these recommendations that should be noted. First, a number of commentators note that developing countries have not shown much interest in participating in the governance of the BWIs, and have found it difficult to develop a common voice on development policy. De Renzio and Mulley note the difficulties that African countries have faced in adopting common positions vis-à-vis the G8 in the context of the African Partnership Forum, owing to their disparate interests and political agendas.[46] This casts doubt on how far superficial reforms to the Bank's governing structures would go towards resolving the problem of legitimacy.

Second, the debate on reform of the BWIs is taking place in parallel to, but separately from, the debate on UN reform. While many commentators point to the unresolved division of labour between these two sets of institutions (and the World Bank and UNDP in particular), reform proposals are nonetheless offered for each in isolation from the other. Cumulatively, they would have the effect of increasing the level of overlap.

Third, and perhaps most importantly, the literature reveals uncertainty on some very basic questions about the World Bank's purpose.

- Is there still a need for a dedicated development finance institution for MICs? Is the IBRD business model sustainable in the face of negative flows?
- Should the Bank be providing loans to LICs, or should it follow many bilateral donors and concentrate on grants and TA?
- Is it appropriate to finance work on global public goods from IBRD earnings?
- Does it make sense to bundle policy and technical advice with lending activities?

Until there is a consensus on these underlying issues, it may be premature to discuss specific institutional reform proposals.

2. The regional development banks

There are 25 regional development banks (RDBs), providing around 3% of total development finance in 2002.[47] There is less discussion of the RDBs in the literature, but a few authors have suggestions for where they should fit within the global division of labour.

Messner suggests three areas of comparative advantage for the RDBs:

- regional development programmes;
- the construction of cross-border regional infrastructure;
- the development of adequate conceptual expertise, to better represent regional interests within the BWIs or the WTO.[48]

Nancy Birsdall argues that regional public goods are underfunded, receiving only 2.5-3% of development finance, despite high rates of return in comparison to national

46 De Renzio & Mulley (2006), p. 9.
47 Messner, Maxwell, Nuscheler & Siegle (2005), p. 21.
48 Messner, Maxwell, Nuscheler & Siegle (2005).

development projects. She notes that regional projects do not fit with current notions of country ownership, and that both bilateral donors and the IFIs prefer to deal with national governments. RDBs should therefore fill the gap, focusing on transport infrastructure, management of river systems, forests and other natural resources.

Ike Nnedu argues that the African Development Bank has become functionally indistinguishable from the World Bank.[49] 'Cross-default pacts' with the World Bank and the IMF ensure that borrower countries in arrears or default are given the same status by all three lenders. AfDB follows major World Bank policy leads on areas like HIPC and the PRSP, and participates in many of the same infrastructure projects. It supports structural adjustment through its policy-based lending. Its allocation formulae are based on a Country Performance Assessment, which is practically indistinguishable from the World Bank's CPIA scores. He argues that African governments have no greater negotiating power over macroeconomic policies with the AfDB than with the BWIs. If these arguments are valid, then the value-added of a separate regional development bank appears limited.

On the other hand, Stephany Griffith-Jones points out a number of advantages to regional development banks over the BWIs, including:

- greater voice for borrowers, and a stronger sense of regional ownership and control;
- greater ability to rely on informal peer pressure, rather than conditionality;
- the provision of alternative financial sources to smaller countries, that have little influence with the BWIs;
- greater ability to provide region-specific knowledge and policy advice;
- greater capacity in the provision of regional public goods (although the RDBs have not been sufficient active in this area).

She argues for expanding both the number and the size of RDBs, in order to address critical gaps in infrastructure financing.[50]

3. The UN development system

This section looks at writing on the role of the UN within the IAA, but not at the specifics of internal UN reform.

The literature notes the extent to which the current UN development system has deviated from the original vision, which prevailed from its establishment to the late 1960s. Paneels writes that the original concept was to have a single UN Development Fund with voluntary core contributions, spent through national programmes agreed with developing countries. Activities would be delivered by the Specialised Agencies, with the fund manager – UNDP – arbitrating between competing resource claims. UNDP's direct development activities would be limited to providing TA, which would be complementary to investments provided by the IFIs.

However, UNDP's expansion of its own development activities during the 1970s meant that it was no longer able to be a broker among the Specialised Agencies, each of which began to fundraise separately. At the same time, there was a rapid proliferation of new,

49 Nnedu (2005).
50 Griffith-Jones (2007).

autonomous funds and agencies, often in the aftermath of international conferences on specific development issues, which competed with UNDP. Paneel writes:

> "It appears indeed as if the international community needed new institutional structures as the concrete manifestation of the political determination to take on the new development challenges."[51]

The proliferation of agencies further blurred the division of labour, including between humanitarian and development agencies, while fragmenting the available funding. The growth of peacekeeping operations placed additional claims on funds, and resulted in the creation of more Specialised Agencies (DPKO, DP, OHCHR). Funding for the UN system stagnated or declined during the 1990s, reflecting wider ODA patterns. This led in turn to an increasing proportion of non-core, tied contributions (for UNDP, core funding made up only 23% of the total in 2004).

The result was a UN development system which mirrored the shortcomings of the IAA as a whole. Messner writes:

> "After the decolonization of the 1960s, and due to the pressures exerted by the resulting new majority in the UN General Assembly, a thicket of specialized agencies, sub-agencies, programs, funds, commissions, and committees has developed, all of them tasked with the resolution of individual problems of development without much coordination among them. Eventually there were roughly 50 UN bodies, expensive, bureaucratically top-heavy and producers of innumerable documents, but of few useful contributions to the solution of problems."[52]

Individual agencies have expanded the range of their activities, in pursuit of short-term project financing, turning them increasingly into service-delivery organisations with no effective coordination either at the global or national levels.

> "In Rome three agencies are concerned with food security (and agricultural production and distribution): FAO, WFP and IFAD. Seen from the outside, there is no apparent reason why they should not be merged. UNFPA & UNICEF are doing similar work in health services for youngsters and young women. UNDP has three service lines related to AIDS, basically doing similar things as UNAIDS. It is working in the environment sector where UNIDO and UNEP also have core mandates."[53]

Coordination among its own agencies consumes an increasingly large share of UN resources. OCHA has 400 professional staff dedicated to coordination of humanitarian activities, while $25 million (15 percent) of the budget of UNAIDS goes to coordinating the work of other agencies.[54]

The BWIs were formally said to be part of the UN system, but in practice exercised complete operational independence, creating a major fault line in the system. In recent decades, the relationship has been further blurred by the Bank's shift into the governance arena and global public goods, and its increasing provision of grants and TA. Given their

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51 Paneels (2005), p. 3.

52 Messner, Maxwell, Nuscheler & Siegle (2005), p. 29.

53 Paneels (2005), p. 7.

54 Paneels (2005), p. 8.

markedly different institutional cultures and staff incentives, some authors have recognised a value in the UN and the IFIs providing a challenge function for each other. However, they also note that UN agencies often lack the technical competence to provide an effective intellectual challenge to the World Bank.[55]

Current UN reforms are seeking to rationalise the UN's engagement at country level by creating a single Millennium Development Fund that would finance all country activities against a single country plan, based on the principle of the Four Ones (one leader, one programme and budget, one fund and one office). This is now being piloted in a few countries, with a view to moving to a single replenishment approach within a few years.

Proposals to Reform the UN[56]

1992	Agenda 21
1995	Commission on Global Governance
1996	Nordic UN Reform Project
1997	Renewing the UN: A Programme for Reform
1999	UNDP Human Development Report
2000	We the Peoples: the role of the UN in the 21st Century
	UN Millennium Declaration
	Panel on UN Peace Operations (Brahimi)
	Swedish Initiative on financing the UN
2002	Helsinki Process established
	Strengthening the UN – an agenda for future change
2004	World Commission on Social Dimensions of Adjustment
	High level Panel on UN Civil Society Relations
	High level panel on threats, challenges and change
	WEF Global Governance Initiative
	Utstein Plus Initiative
2005	Report of the UN Millennium Project (Sachs)
	Report of the Secretary-General 'In Larger Freedom: Towards Development, Security and Human Rights for All'

Despite its institutional shortcomings, most authors agree that the UN's global presence, its neutral status and its broader legitimacy among developing countries make it a key element of the IAA. Because it is more representative than the IFIs, it has a comparative advantage as a forum for making policy and setting global norms and standards. Authors point to the role it played in the 20th century in developing international human rights norms, and more recently to its success in persuading both donor and recipient countries to sign up to the Millennium Development Goals. Authors have therefore emphasised the role of the UN in providing global public goods, due to its ability to mobilise finance and technical assistance to support the implementation of global standards.[57]

Authors have also proposed the UN as the natural home for a high-level body for managing globalisation and setting development policy. Kemal Dervis proposes the creation of a UN Economic and Social Security Council, to be the equivalent in rank and authority to the Security Council.[58] Messner et al make a similar proposal for a Council

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55 Turner (2003).
56 Messner, Maxwell, Nuscheler & Siegle (2005), p. 24.
57 Turner (2003).
58 Dervis (2005).

for Global Development and Environment.[59] These proposals are described in the final section.

4. Global funds

The proliferation of global funds is one of the major institutional innovations in the IAA in recent years. Global funds are defined as:

> "partnerships and related initiatives whose benefits are intended to cut across more than one region of the world and in which the partners: (a) reach explicit agreement on objectives; (b) agree to establish a new (formal or informal) organization; (c) generate new products or services; and (d) contribute dedicated resources to the program."[60]

Global funds have been custom-made to plug particular gaps in the international system, or to mobilise resources for under-funded development challenges, particularly in the health sector and on environmental issues. They have been very effective as vehicles for resource mobilisation, accounting for 3% of ODA in 2005. Some funds have become very large – the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) has mobilised some $8 billion in finance through to 2008.

> "Such growth is connected to the widespread political appeal in donor countries of well-focused, single-issue responses to powerful advocacy campaigns, as against more diffuse, less tangible approaches based on recipient ownership."[61]

Most of the proliferation of global funds has been in the health area, with some 75-100 health partnerships. GFATM and the Global Alliance for Vaccines and Immunisation (GAVI) together account for a large proportion of the increase in ODA for health over the past five years.

Most global funds take the form of highly targeted vertical programmes, providing finance directly to governments using a template programming approach. This approach is widely seen as at odds with the dominant paradigm for effective aid under the Paris Declaration. The principle of 'additionality' used by many of the funds (i.e., they only support activities that would otherwise not have taken place) is inherently contradictory to complementarity, both to national development efforts and other donor programmes.[62]

Concerns raised about global funds in the literature include:

- their tendency to displace national priorities and weaken hard budget constraints;
- their heavy-handed approach to conditionality;
- their over-reliance on aid projects directed at specific problems (e.g., particular diseases), and their tendency to ignore underlying institutional problems (e.g., health-sector reform);
- their tendency to remain outside of existing harmonisation mechanisms, leading to duplication and lack of coordination;

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59 Messner, Maxwell, Nuscheler & Siegle (2005).
60 IDA (2007), p. 18.
61 Menocal, Maxwell & Rogerson (2006), p. 15.
62 Rogerson, Hewitt & Waldenberg (2004), p. 20.

- their tendency to ignore absorption constraints, leading to over-concentration of funds in particular niches;
- their high transaction costs for country partners.

The literature suggests that global funds have a particularly distorting effect in countries with weak planning and budgeting mechanisms. Where resources are constrained and capacity weak, global funds can cause country resources to become concentrated in a single area, undermining rational planning and budgeting.[63]

However, the literature also notes positive aspects of global funds, including:

- they are generally assessed as organisationally effective, with lean structures and strong internal management;
- they have a strong outcome focus, often providing funding linked to performance (but therefore weak on predictability);
- they help to increase the political visibility of particular issues, enhancing resource mobilisation;
- their allocation models are generally not based on the standard need/policy environment assessments; they therefore help direct resources to poor governance environments and MICs;
- they are good at partnering with non-government actors;
- they are good at leveraging funds from other donors and private sources;
- they offer scope for innovations in governance arrangements, such as including civil society representatives and developing country experts on their boards.

There are many variation in functions and modalities among global funds, and it is not clear whether the shortcomings are inherent in the model, are can be rectified through improved design. The Fast-Track Initiative in basic education appears to have avoided many of the above problems.

Rachel Turner (DFID) considers that global funds could be seen as a step towards a more mature financial relationship with countries that have graduated from intensive donor assistance. On principle, global funds can be consistent with national ownership, providing the rules governing access to funds are entirely transparent and countries have sufficient flexibility to link financing to their own budget processes.[64]

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63 DFID, "ZBR1.2", undated.
64 Turner (2003).

5. Private philanthropic funds

The literature notes that one of the most dynamic elements of the IAA in recent years has been the surge in private philanthropic flows. During the 1990s, international giving by American foundations quadrupled, mostly to health and education.[65] The DAC estimated total philanthropic flows as $3 billion in 2003,[66] but the figure has more than doubled since then.

Most dramatic has been the rise in large philanthropic funds, established by a new generation of IT billionaires. The Bill and Melinda Gates Foundation has an endowment of some $67 billion (including the Buffet bequest), and an annual spend of around $3 billion. In size, it dwarfs the older American development foundations (Rockefeller, Ford, MacArthur, Open Society). However, Gates may soon be rivalled by the Google Foundation (focused on climate change, health and poverty reduction) and the Clinton Global Initiative (education, energy and climate change, global health, poverty alleviation).

There has been little attempt in the literature to analyse the potential impact of private foundations on the IAA, other than broad concerns with their potential to undermine or disrupt effective aid delivery. The concerns are similar to those raised for global funds:

- poor alignment with country preferences and systems, and a general lack of interest in pursuing aid effectiveness;
- a tendency to undermine policies and approaches agreed between donors and partner countries;
- a tendency to raise transaction costs for recipients, particularly for new foundations on a steep learning curve;
- idiosyncratic aid allocation processes, reflecting the preferences or political ideologies of the founders; and
- weak accountability processes.

In addition, the Gates Foundation in particular has been accused of taking a 'silver bullet' approach to complex problems, focused on scientific and technological solutions.[67] However, there are signs that the Foundation has responded to these criticisms by broadening its approach.

The literature also acknowledges that these new entrants have the potential to be innovators and risk takers, complementing the more traditional approaches taken by donors – becoming, as one recent report puts it, the 'venture capitalists' of the development world.[68] For example, the Gates Foundation has been particularly effective on drug development.

In addition, the foundations:

- have lean and nimble management structures and procedures, that enable them to respond quickly to opportunities;

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65 Chervalier & Zimet (2006).
66 OECD-DAC (2003).
67 Birn (2005).
68 Agulhas (2007).

- are not reliant on annual appropriations, enabling them to make longer-term funding commitments;
- are unencumbered by national political agendas and commercial interests;
- are able to engage with politically sensitive issues (e.g., the work of the Open Society Foundation on democratisation);
- are good at entering into partnerships with the private sector and leveraging additional finance;
- can use their political connections for advocacy and mobilisation.

IV. THEMES

This chapter summarises discussion from the literature on specific themes relating to the development of the IAA.

1. Aid allocation

Authors concur that at present there is no rational system of aid allocation across the IAA as a whole. While some donors have explicit aid allocation formulae (which they follow to a greater or lesser extent), usually based on some combination of country need and performance, they do not take into account what other donors provide. Total aid allocation is therefore an accidental aggregate that does not reflect the preferences of any donor. "The result is a massive mismatch between aid provided and aid requirements."[69]

Riddell points out that aid volatility is increasing. The provision of aid remains entirely voluntary, and donors do not face any strong pressure to meet their commitments. Aid volatility tends to be pro-cyclical in nature, exacerbating external shocks (a problem inherent in performance-based allocation). There is no corrective for the problem of donor darlings and orphans. Allocation policies towards India and China, where most of the world's poor live, are incoherent.

Turner also points out that rigid, *ex ante* approaches to aid allocation are difficult to square with the encouragement given to partner countries to identify their total financing needs for achieving the MDGs, and to prepare their PRSPs accordingly. What is the point of getting countries to identify their funding gaps if there is no flexibility in the system to respond?

Rogerson points out that performance-based aid allocation poses difficult methodological problems. Countries are rarely good or poor performers across the board. In fact, he points out that it is hard to identify any country in recent decades that has performed consistently well or poorly on just two indicators: growth and infant mortality.

> "The resulting messy aid landscape produces donor-favourites and donor-orphans, with only transitory links to sustained development performance."[70]

Given that it is unlikely that donors will agree on a common aid allocation process, some commentators have suggested that a single, large multilateral such as the World Bank (or, in due course, the International Finance Facility), or a group of large donors such as the

[69] Riddell (2007), p. 386.
[70] Rogerson, Hewitt & Waldenberg (2004), p. 17.

EU member states, could act as balancing financier.[71] Taking into account finance from other sources, they could allocate their funds so as to bring the total for each developing country up to a prior agreed level.

> "It could be argued that the Bank should be the development lender of last resort, i.e. responding speedily and flexibly to what other donors are doing, ensuring that PRS financing gaps are filled and using aid allocation models which take account of over- and under-aiding. This is far from the Bank's current vision, which is probably closer to a financier of *first* resort, i.e. with other donors having to take a lead from the Bank and adjust to the Bank's plans and approaches."[72]

2. Shifting global power balance

A number of commentators stress the importance of an IAA that reflects that changing global balance of power. This includes the growth of the BRICS as economic and political powers, and the emergence of new donors onto the development scene. It is widely acknowledged that the MICs must be part of any global solution to contemporary development challenges, particularly on global public goods (e.g., climate change).

De Ferranti argues that the MICs are central to addressing global development issues. They account for two thirds of the world's population, and three-quarters of all people living in poverty (under $2 a day). Their economies are a major source of export demand for developing countries, and they are an increasingly important source of foreign investment. Furthermore, the MICs are now big enough to generate systemic risk in global financial markets. A high proportion of recent global financial crises have originated in MICs such as Mexico, Russia, East Asia, Turkey and Brazil. The MICs are key players on regional security issues. On climate change, they account for an estimated 47% of global CO_2 emissions, and over half of all areas protected for their environmental significance.[73]

Linn argues for replacing the G8 as global steering group with an expanded group (G20), to include MICs. This group already meets at the level of Finance Ministers. This would be a way of bringing emerging markets into the tent, to address global challenges.[74]

Some commentators are concerned that new and emerging donors, especially China, may undermine the international consensus on poverty reduction and aid effectiveness. New donors are not part of the DAC consensus on aid effectiveness.[75] They tend to mix political with development and humanitarian objectives, and are not explicitly committed to poverty reduction and the MDGs as the ultimate purpose of aid.[76] They have strong visibility requirements and tying practices. They are underrepresented in international fora where development policy is discussed.

However, a recent review of aid effectiveness by Debt Relief International on behalf of HIPC countries found that the gap between DAC and non-DAC donors was less than often supposed, that certain non-DAC donors (e.g., Venezuela and India) perform better

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71 Turner (2003).
72 Turner (2003), p. 39.
73 De Ferranti (2006), p. 141.
74 Linn & Bradford (2006).
75 IDA (2007).
76 Harmer & Cotterrell (2005).

than many DAC donors, and that non-DAC donors on average are better at providing aid on the budget and use less conditionality.[77]

Richard Manning argues that new donors do not represent a major challenge to the aid-effectiveness consensus. He acknowledge that there are some potential risks for LICs in the rise of emerging donors:

- offers of less concessional development finance could cause a return to unsustainably high levels of debt;
- non-DAC development finance could undermine efforts by DAC donors to create positive incentives for reform, and help entrench poor standards of governance;
- non-DAC donors may fund high-profile, white-elephant projects that distort national spending priorities and cannot be sustained.

However, he also supports the idea of greater choice for developing countries, and believes that the DAC should not act as a cartel. He believes that the priority is to encourage new and emerging donors to commit to the MDGs, and to participate more in the multilateral system.[78]

3. Global public goods

Commentators note that global public goods (GPGs) and the elimination of 'global public bads' are of increasing importance in the international development agenda. Effective collective action on GPGs requires a combination of:

- agreeing on new global norms and standards;
- mobilising finance, often for expenditure at the global or regional level;
- technical innovation.

The existing IAA is designed mainly for providing development finance to national governments, and is not well suited to these objectives.

A first question is whether GPGs should be treated as a part of the global development agenda, or as a parallel set of problems to be addressed through different mechanisms. According to DFID's Zero-Based Review,

> "Many of the challenges such as climate change, water scarcity, energy security, global health pandemics, conflict, organised crime etc have the potential to knock developing countries off-track from meeting the MDGs. Many of them are also trans-boundary in nature and so will require action through the multilateral system in order to tackle them effectively."[79]

However, Rogerson notes that spending on GPGs can shift funding away from poverty reduction. Aid priorities have a tendency to shift every time a new threat to Northern security emerges from the developing world. He argues that, because global public goods benefit wealthy countries as much as poor ones, measures to address them should

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77 Debt Relief International (2007).
78 Manning (2006).
79 DFID "ZBR" undated.

not be treated as development aid at all.[80] Lele points out that GPGs could be Robin Hood in reverse: taking funds away from development programmes for poor countries, to provide benefits for all countries equally.[81]

Birdsall argues that regional public goods are underfunded, despite high rates of return compared to national development projects. Africa in particular has characteristics that make for high returns on regional investments, namely a large number of small economies and extensive land borders between them. Because regional pubic goods only benefit the countries of the region, and not the donors themselves, they do not receive the same attention as GPGs.[82]

There is debate within the literature on which parts of the multilateral system have a comparative advantage on GPGs. It is broadly accepted that the UN has the leading role on normative development, and that its broad representation and legitimacy is essential for achieving global agreement on priorities and actions, and for mobilising international finance.

Birdsall argues that the World Bank is uniquely placed to address GPGs, owing to its ability as the Knowledge Bank to mobilise technical expertise on areas like agriculture, health and the environment, and to combine knowledge and finance. She notes that its engagement is currently financed in an *ad hoc* way, relying on special contributions from a few members, and should be put on a more structured basis. She suggest four GPGs that should be priorities for the Bank: health and agricultural technologies for the poor; an African road network; financial support for countries taking in refugees; and a global knowledge pool on development policy.[83]

Kremer suggests that the Bank's work on GPGs needs to be institutionally separate from IBRD and IDA. He points out that a new arm of the institution needs to be established, which is able to provide grants to actors other than national governments.[84]

By contrast, Rachel Turner argues that the World Bank does not have a comparative advantage on GPGs. The Bank is unable to finance non-government actors, and has little experience in building up partnerships and coalitions to tackle global issues. The income it has available to finance work on GPGs comes from IBRD's MIC borrowers, but there is no reason on principle why they should pay for GPGs. Furthermore, while the Bank is expert at economic analysis, it has limited expertise on other areas important to GPGs. She therefore argues that the GPG mandate should be left to the UN or new institutions.[85]

Lele warns against excessive proliferation of global partnerships or programmes, set up ostensibly to address GPGs and other trans-boundary issues. The World Bank currently provides administrative or financial support to over 200 of them. He argues that global programmes are an appropriate choice when:

- their benefits (and not just their activities) cross national boundaries;

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80 Rogerson, Hewitt & Waldenberg (2004), p. 8.
81 Lele (2006).
82 Birdsall (2004).
83 Birdsall (2006).
84 Kremer (2006).
85 Turner (2003).

- they deliver benefits which the participants could not achieve on their own;
- they help to mobilise additional resources, to outweigh the additional administrative burden they place on development countries.

A suitable area is one which calls for "specialized expertise, entails economies of scale and scope, requires lumpy investments, involves gestation lags in achieving results, and carries risks of failure."[86]

However, evaluations by the World Bank of its existing global partnerships reveal that only a few provide genuine GPGs. Good examples include research in agriculture and health, such as the production of generic drugs. But many in fact provide national or local, rather than global goods – for example, local advocacy efforts to promote national uptake of global standards. This could equally be done through national programmes. Furthermore, many of the global partnerships compete with country assistance programmes for a finite pool of funding (only in the health area have they actually served to mobilise new finance).[87]

4. A competitive market in development assistance

One important debate in the literature is whether the solution to a fragmented IAA should be found in stronger regulation, either centrally or at country-level, or by promoting a more competitive market in aid.

Commentators are in agreement that there is at present no effective competition among aid providers. Rogerson writes:

> "Governments of low-income countries generally do not have sufficient information, mobility or power to make choices among aid providers. Competing lobbies inside recipient governments favour spurious differentiation among donors. By endorsing different circles of patronage for grant-based aid (foreign affairs/co-operation) and loan-based aid (finance) in many recipient countries, the aid system has put up artificial barriers to integration. Trade-offs cannot then be made below full Cabinet level, if at all."[88]

Harford argues that a competitive aid market should be more effective than a centrally regulated one.

> "A competitive aid industry will be chaotic and will always be trying out new things, and in the process aid agencies will make many mistakes. But if the market for aid works well, with rigorous testing of new ideas and a willingness to pull the plug on failures, it will be productive chaos. In fact, freedom to fail should ideally be built into the structure of aid projects and aid contracts."[89]

Menocal makes the important point that partner countries prefer competition among donors to excessive harmonisation and complementarity. They fear that donors will 'gang up' on them, and that highly coordinated aid flows would be more volatile. For

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86 Lele (2006), p. 4.
87 Lele (2006).
88 Rogerson, Hewitt & Waldenberg (2004), p. 6.
89 Harford & Klein (2005), p. 4.

them, the dangers of cartel-like behaviour among donors outweigh the gains on transaction costs.[90]

Easterly provides a political economy analysis of why aid agencies behave in a collusive, rather than competitive manner. He writes:

> "Bureaucracy works best where there is high feedback from beneficiaries, high incentives for the bureaucracy to respond to such feedback, easily observable outcomes, high probability that bureaucratic effort will translate into favorable outcomes, and competitive pressure from other bureaucracies and agencies."[91]

However, all these conditions are unfavourable in foreign aid, and aid agencies face perverse incentives to minimise their degree of competition and accountability. Donors choose to present a united front to their domestic constituencies, in order to make the case for more aid. This constant call to collective action on global development challenges protects the minor players in the business, who would otherwise be insignificant. It also protects donors against pressure to specialise or lower costs. The PRS initiatives has the effect of shifting the burden of coordinating among aid providers to the recipient government, diverting limited country capacity to unproductive ends.

> "There is a 'tragedy of the commons' problem in that different aid agency executives (operating independently) treat the time of the recipient country staff as a free good, without taking into account congestion externalities. For an aid agency executive, adding one more 'priority #1' mandate for a poor country has the large benefits of satisfying some rich country constituency that cares about that mandate, and only minimum costs since he treats the time of the poor country civil servant as a free good."[92]

Easterly's proposal is to introduce competition at the level of the individual aid project. He proposes that development vouchers are given to poor communities, which can be redeemed at any NGO or aid agency for any public good they choose. Agencies would then face competitive pressure to deliver better results, and would be forced to be more innovative and results-oriented.

A related question is whether policy and technical advice should be separated from the development finance, in order to promote an open market in development ideas. Ellerman makes the case that the World Bank should unbundle its advisory and lending roles, leaving its policy advice to compete on its own merits. He points out that most policy-based lending is not intended to cover the actual costs of implementing the policy (many of the bank's policy recommendations are in fact cost-saving), but to 'buy' commitment to the policy measure. This practice suffers from the same conceptual flaws as other forms of policy conditionality: if the borrower is genuinely committed to the policy, the financial incentive is unnecessary; however, if it is not, then financial support will not secure genuine commitment.

> "The idea that money is key to development goes back to the original idea of the Bank as financing civil engineering projects, a role now largely taken over by the private sector. When the Bank then turned to policy-based lending and institutional development projects, it of course did not cease to function as a bank. While

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90 Menocal & Rogerson (2006).
91 Easterly (2002), p. 4.
92 *Ibid.*, p. 28.

> capital may indeed have been the missing ingredient necessary to build a dam or a power station, it is by no means clear that money can buy real changes in policies or can build institutions. Indeed, I have argued that the availability of large amounts of money to developing countries overrides their other motivations and redirects their attention to playing whatever game is necessary to get the money. Money is the magnet that sets all compasses wrong; it is the root of much unhelpful help… The implicit assumption that a development agency should function as a money-moving machine has little to support it and much evidence against it."[93]

However, de Ferranti argues that backing policy advice with finance is a necessary commitment device, providing assurance to the partner country that the donor will continue to support the policy throughout its implementation phase. It therefore encourages the partner to take on complex reforms.[94]

There is limited discussion in the literature of what institutional innovations would be required to create effective competition in aid delivery. Menocal *et al* suggest that partner countries should be encouraged to adopt stricter rules on what assistance they will accept (along the lines of Afghanistan or India). They also suggests the creation of a global forum in which recipient countries can express their views on donor performance without fear of repercussion.[95]

As part of the HIPC Capability-Building Program, Debt Relief International[96] has been developing a methodology to assist HIPC countries assess the quality of their aid providers, based on their policies and procedures, as well as to assess whether their own aid policies are coherent. The methodology uses Paris Declaration indicators, plus indicators on concessionality, conditionality, predictability, flexibility in response to exogenous shocks, coverage of key PRSP sectors and others. The article does not report to what extent these assessments have been used by HIPC countries to choose among aid providers.

Other proposals depend upon the establishment of a common, global aid allocation process. Recipient countries could be allocated ODA vouchers up to a set total of development finance, which could be redeemed from any aid provider. This would create an incentive for recipients to be more selective, as each programme of assistance they accepted would then have an immediate opportunity cost in the form of foregone aid from another provider. Aid agencies would then find themselves competing directly with each other, and under pressure to demonstrate results.[97]

V. PROPOSALS

This section briefly summarises reform proposals for the IAA contained in the literature.

ODI suggests that there are five broad approaches available:

i) **Do nothing.** Continue with slow implementation of the Paris Declaration. Establish more vertical funds and special-purpose vehicles in response to

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93 Ellerman (2006), p. 244.
94 De Ferranti (2006).
95 Menocal, Maxwell & Rogerson (2006).
96 Debt Relief International (2007); Johnson (2005).
97 This option is briefly described in Burall & Maxwell (2006), pp. 10-12.

emerging development challenges. This is the default option, but it retains the present incoherence and high transaction costs.

ii) **Rely on harmonisation and alignment.** Sustained pressure for PD implementation, led by donors rather than partner countries.

iii) **Harmonisation and alignment plus.** Stronger PD implementation, led by empowered partner countries. Limit number of donors per country. More use of joint programmes and offices. 10-year partnership agreements. More use of peer review and independent monitoring to promote mutual accountability. A stronger role for the UN in setting norms and standards for aid delivery. This option disciplines aid practices at country level, while retaining a fragmented IAA.

iv) **Multilateralism.** Channel a greater share of aid through the World Bank, UN, the MDBs and the EU. Governance reform for the UN and IFIs. Create a single UN Development Fund, and make ECOSOC the principal forum for discussion of aid issues. This entails a radical simplification, leading to much lower transaction costs. Recipients can be represented in multilateral governance arrangements. However, it may be harder to reach decisions in a multilateral context.

v) **Empower recipient governments.** Give recipients more information on the performance of aid agencies, through independent M&E. Allocate aid vouchers to recipients up to an agreed level, and allow them to choose their own providers. However, benchmarking performance may difficult, and partner countries need the capacity to make good decisions.

Note that there is little difference between the first three options, and arguably they are all being pursued in the lead-up to the Accra High-Level Forum 2008.

Following a stinging critique of 'phantom aid', ActionAid suggests four areas for reform:

i) Developing countries should set down clear criteria for accepting aid.

ii) Mutual commitments should replace one-sided conditionality.

iii) There should be mechanisms to increase the volume and predictability of aid, including long-term, binding global commitments from aid providers, and guaranteed levels of finance for developing countries.

iv) There should be more representative national and international fora where donors and recipients can interact on an equal basis. There should be a UN Commissioner on Aid to handle complaints, referee disputes, assess donor behaviour and 'name and shame' individual donors.

Messner proposes ten principles to drive reform.

i) A centralised, representative, effective institution for overseeing development issues is needed within the UN system, corresponding in rank to the Security Council.

ii) There should be a single UN development agency with resources comparable to the World Bank's. The UN should be given clear, overall leadership of the IAA, without weakening the BWIs or the WTO, but ensuring they are properly integrated into the global architecture.

iii) Mergers or closures of multilateral agencies are needed.

iv) There should be a clearer overall division of labour.

v) Coordination and division of labour should be organised primarily at the national level, under country leadership.
vi) Competition should be fostered, to ensure innovation.
vii) Governments and parliaments of developed nations must take on the leadership of reform of the IAA.
viii) Developing countries should be empowered to take on a greater share of decision making within multilateral bodies, to ensure greater legitimacy.
ix) The EU should play a larger role within the IAA, commensurate with its provision of 60% of global ODA.
x) There should be greater participation of civil society and corporations in setting multilateral development policy.

They suggests the creation of a Council for Global Development and Environment, of equivalent rank to the Security Council, to replace ECOSOC. The BWIs would be brought within the UN system, retaining their operational autonomy, but answerable to the Council on overall policy direction and priorities. Like the Security Council, it would be a membership-based body, with 11 permanent and 11 non-permanent members (both divided between industrialised and developing countries) representing the regions of the world. It would also act as principal funding vehicle for the UN development system.

In addition, the G-20 group of Finance Ministers should be elevated to heads of government level, to create a Global Economic Council of the L-20. It should meet regularly with UN Secretary-General and the heads of the WB, IMF, WTO, to generate consensus on development policy. This could be introduced quickly and easily, without changing the UN Charter.

Kemal Dervis offers a similar suggestion for a UN Economic and Social Security Council, also of equivalent rank to the Security Council, designed to bring the BWIs within the legitimising umbrella of the UN. It should be at a higher level than ECOSOC with a stronger mandate, making decisions based on weighted voting and constituencies (determined by population, GDP and contribution to the UN global budget). He proposes 14 council members, with representation by experts rather than ambassadors. It would not have any executive decision-making power, but would elaborate policies and guidelines for development agencies to avoid duplication, promote long-term cooperation and evaluate aid effectiveness. It should be accessible to policy networks and civil society. It would appoint the heads of the BWIs, based on transparent criteria and procedures. Because the Council would not exercise direct powers, it could be established without a major reorganisation of the IAA.

Roger Riddell offers a set of proposals for reorganising aid delivery, at both international and country level.[98]

i) Create an International Development Aid Fund, to act as a single window for development finance, funded through compulsory levies on wealthy countries according to GDP. The funds raised would be equal to the total of all ODA required by qualifying poor countries. The Fund would be administrated by a UN-based International Aid Office.
ii) A nominal ODA entitlement would be derived according to standardised national needs assessments. Actual allocation of funds, however, would

98 Riddell (2007), 393-8.

depend upon an assessment by the International Aid Office that the recipient government has the commitment, competence and capacity to use the funds effectively.

iii) Each recipient country should create a National Aid Implementation Agency (NAIA), to administer its ODA allocation. It should be an autonomous body staffed by professionals, with close links to civil society. Having a competent NAIA would be a precondition for receiving ODA from the Fund. The NAIA would design development programmes, rather than donors, avoiding the need for donor country offices.

iv) NAIAs would then be encouraged to source policy advice and technical assistance from donor agencies as required, and could also choose to contract one or more donors to administer part or all of their ODA.

In addition, Riddell suggests an International Commission on Aid and Development, to study and highlight systemic problems with aid. It should have a broad mandate to investigate aid relationships, and a high political profile enabling it to name and shame donors. He also suggests a code of conduct for development NGOs, and an International Task Force on Public Information on Aid, to overcome the bias of aid agencies towards positive reporting.

Easterly's proposals centre around breaking out of the 'centrally planned' PRSP paradigm of aid delivery, towards a more competitive, decentralised, experimental, bottom-up model (as he puts it, 'searchers' rather than 'planners'). He proposes a clearing house for aid projects which are proposed by social entrepreneurs (community-level activists), implemented by technical agencies and funded by donors. He also proposes the use of development vouchers to targets groups of the extreme poor, which could be redeemed at any NGO or development agency for any social good that community desired (e.g., vaccinations, drugs, textbooks, seeds, food supplements).[99]

VI. CONCLUDING OBSERVATIONS

While it would be wrong to overstate the degree of consensus in the literature, this review enables us to sketch the main contours of the current debate on the IAA, and identify a few points of emerging consensus, as well as gaps and uncertainties.

- There is a clear consensus on the shortcomings of the present IAA, including the proliferation of funding channels, fragmentation of assistance, overall incoherence, especially on aid allocation, lack of overall policy capacity, and lack of legitimacy.
- There is an emerging consensus on the need for a new high-level body, at an equivalent level to the UN Security Council, to provide a forum for policy making on international development and possibly GPGs. This should involve the BRICS, to reflect the changing global balance of power, as well as fair representation of the South.
- There is a need for improved representation of recipient countries and civil society in the IAA, especially in the governance arrangements for multilateral institutions.
- There is a need to bring the UN development system and the BWIs within a common governance framework, while preserving their operational autonomy.

[99] Easterly (2006), pp. 367-80.

There is no consensus on what kinds of development finance will be needed in the future: whether there is still a need for a dedicated lender for MICs, and whether there is still a case for providing development loans to LICs. It is unclear whether the IBRD and IMF business models are still viable, and whether it is legitimate to use IBRD income to subsidise other World Bank activities.

There is not much confidence that a major rationalisation in the number of aid channels is achievable, although there are some calls for the closure or merger of smaller multilateral organisations. Rather, the solution is seen as either (a) improved discipline or (b) greater competition among aid providers. These could be seen as the two main alternatives for reform of the system currently under discussion.

Regarding the first option, some see the MDGs, the PRSP initiative and the Paris Declaration as providing for the first time a reasonably coherent paradigm for aid delivery. They propose building on these initiatives through stronger central policy-making and coordination bodies, continuing development of norms and standards on good aid practices, and measures to strengthen the capacity of recipients to manage aid flows and hold donors to account. This could be done through a combination of international and country-level initiatives, including new fora to help recipient countries exercise a common voice vis-à-vis donors. This could be combined with UN and IFI reform to create more effective and legitimate multilateral governance of the IAA as a whole.

The advantages of this approach is that it does not involve major institutional reform to the international system, and could be achieved by expanding and building upon current initiatives. However, there are serious questions as to whether it goes far enough to address the deficiencies in the IAA, whether donors are willing and able to discipline themselves, whether non-DAC (and some DAC) donors are willing to accept these rules of the game, and whether developing countries singly and collectively have the will and the capacity to lead on aid coordination.

The second alternative – developing genuine competition in the aid market – involves more 'blue sky' thinking. Most authors recognise that competition (challenge) is necessary to keep the aid system innovative and responsive, but that there is currently a range of barriers on both the supply and demand sides to effective competition. Attempts to develop donor league tables to assist recipients to choose among aid providers are unlikely to be effective, given power realities and the perverse incentives generated by poor aid practices. Real competition would require radical changes to the IAA – for example, the separation of development finance from policy advice and technical cooperation, or the introduction of a voucher system, leaving developing countries to choose their ODA providers up to an agreed, total allocation. There are some intriguing suggestions in the literature, but no attempt to flesh out their implications.

There is a tendency for authors to call for both greater central coordination of aid providers and greater competition among them – raising the important question of whether these are mutually exclusive options. Further analysis on this is required.

While some authors note that aid policy is probably less influential on development outcomes than trade policy, the literature discusses the IAA separately from global governance of trade and the financial markets.

A final observation on the state of the debate is how narrow it is. While there is extensive literature on reform to specific institutions, especially the UN and the World Bank, there are few proposals on reform of the IAA as a whole. The debate is limited to a handful of Northern academics and research institutes, all of which are close to the donor perspective. Southern voices are almost entirely absent. ODI writes:

> Most of the Southern contributors to ODI's Southern Voices project have noted how difficult it has been to capture Southern civil society views on the way the international aid system functions. Very little seems to be available or to have been written on the subject, for a number of reasons. These include a lack of appropriate fora to promote dialogue and information sharing among Southern CSOs, weak capacity, language barriers, inadequate funding, and high transaction costs, among others."[100]

Even Northern civil society has not engaged with the aid architecture to any significant degree, compared to their mobilisation around scaling up, debt relief and fair trade.

If there is to be any prospect of a genuine consensus on reform of the IAA, it needs to begin with a far more lively debate, reflecting perspectives from a much broader range of stakeholders.

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100 Burall & Maxwell (2006), p. 5.

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