

DEVELOPMENT CO-OPERATION DIRECTORATE

Cancels & replaces the same document of 03 October 2008

BACKGROUND MATERIAL ON AID ARCHITECTURE

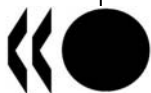
DAC Reflection Group Meeting, 9-10 October 2008, Washington DC

This document, prepared by Andrew Rogerson, replaces the one entitled "Background Materials on the Implications of Accra" with the same code [DCD(2008)29].

It is for INFORMATION AND DISCUSSION under Item 7 on "Aid Architecture and Whither the DAC?" in the revised Draft Agenda [DCD/A(2008)8/REV1].

Contact: Kaori Miyamoto - Tel. +33 1 45 24 90 09 - E-mail: kaori.miyamoto@oecd.org

JT03252137



OECD-DAC STRATEGIC REFLECTION EXERCISE: AID ARCHITECTURE CONTRIBUTION

1. The international aid system remains a public-sector island in a sea of private financial flows, despite encroachments by philanthropic foundations and NGOs. It has developed incrementally since the 1940s, with scores of entrants and virtually no exits, sharing a largely static if not eroding real ODA volume. This haphazard “architecture” remains dominated by sovereign entities (bilaterals) which typically both decide on allocations and deliver funds, goods and services to point of use. The same governments also own and promote many intergovernmental institutions (multilaterals) and hundreds of looser alliances (partnerships, trust funds), specifically created to focus aid efforts and achieve economies of scale and scope. However, they choose not to “multilateralise” further than this historic one-third share.

2. Neither a competitive-market nor a collective-action paradigm adequately explains these outcomes, which also have roots in aid contracts as a rational response to principal-agent problems between donor taxpayers and recipient governments and beneficiaries. There is moreover no overall regulator, nor even a single dedicated political forum to discuss the aid system as a whole. The DAC assumes part of this role by default, with inherent limitations (see below).

3. The focus of much recent attention has been on the growing “fragmentation” of aid channels, with its proliferation of earmarks and associated loss of aid effectiveness, including some evidence of growth penalties. Set against these costs are the possible benefits of greater choice and risk-spreading to the recipient country, on which there has been less discussion. New aid institutions also reflect new objectives for aid giving, at best loosely connected with poverty reduction, such as security, climate change mitigation or stable raw materials sourcing. Innovative funding sources, based for example on securitising future budgets, collecting voluntary airline levies or taxing carbon trades, often trigger their own new downstream architecture.

4. A number of structural remedies for these congestion costs and other inefficiencies have been mooted and piloted, few to scale yet. Results-based aid instruments offer the potential for “unbundling” allocations from delivery and for strengthening accountability for results. However, in the short term they increase systemic complexity and can weaken alignment. Some form of voucher approach, whereby the overall funding envelope by country and sector is set independently from the country’s subsequent choice of delivery channels and lead donor, may be appropriate in some environments. There is also potential, without risk, in market segmentation agreements to set caps on and specialise donor engagement at country level and/or among regional subgroups.

5. The World Bank, EU and UN have the capacity to offer public-goods services at country level, such as assessment of fiduciary risk and capacity and trust fund management, to the rest of the aid architecture, but may lack incentives to do so when their own resources are not engaged. Networked thematic funds, as in the case of Education-FTI and perhaps of a future new health systems strengthening facility working under International Health Partnership auspices, can draw funds from multiple donors yet use multiple, well-aligned existing channels at country levels. Obviously other forms of contracting among aid actors, including silent partnerships between bilateral, have complementary merits in the right context but are unlikely to become magic-bullet, systemic solutions in their own right.

6. All of these recent and latent changes have to be set against expectations of the much-delayed “scaling up” of aid volumes agreed in 2005, and, to the extent this materialises soon, severe pressures on a few major bilaterals for much greater efficiency in delivery (more dollars per staff), in turn requiring structural change in aid instruments and channels. The relationship between aid volume and aid structures is a two-way one in other senses also. For example, there has been much discussion of the elusive concept

of “additionality”-whether in particular a new vertical fund like GFATM expands the overall ODA envelope or merely repackages part of it at the expense of others-with little clear evidence either way. However, the mobilisation of public support for high-visibility, very concrete outcomes like fighting AIDS intuitively spills over into greater support for wider health and development objectives. Conversely, OECD country public opinion surveys show widespread scepticism for less focussed, more bureaucratic aid mechanisms, especially “pure” government-government bulk aid, flexible though they may be seen to be by insiders. The political preference for “vertical” approaches stands in stark contrast to guarded technocratic attitudes to them within the traditional aid industry: both sides may well be right.

7. The main line of response to these challenges from the DAC thus far has been embedded in the Rome-Paris-Accra agenda on aid alignment, harmonisation and results. This is best seen as a process of “soft regulation”, indeed self-regulation, within the aid industry, in the absence of external regulation. As such, the DAC, acting as a quasi-chamber of commerce, has designed and promulgated a series of very useful new norms, especially on greater use of national systems, aid predictability and untying. It also collects and publishes compliance data, though with as yet unknown effect on aid agency or recipient incentives.

8. With its current composition and governance, which (strictly speaking) excludes both major new donors and all recipients and nongovernment organisations, has an unclear remit over multilateral observers and limited sanctioning power over free riders within the membership, DAC may soon reach the limits of such collective action. In particular, like any chamber of commerce, it has little direct grasp over more divisive cartel-type structural challenges (who should be present in which specific countries and why) or on the political terms (conditionality) on which bilateral aid contracts are made. It has no remit, beyond exhortation and some peer pressure, to enforce a greater degree of mutual accountability between donors and recipients in a notoriously skewed playing field.

9. In order for the DAC to become a sustainable force for structural change-using a mix of approaches as above, with authoritative assessments, recommendations and binding guidelines, coupled with discreet political pressure on laggards-it would need to change governance structure quite radically. Most obviously it would need to be seen as fully legitimate by recipient countries, new donors and civil society, perhaps developing manageable yet representative tripartite governance arrangements on the lines of innovations elsewhere (e.g. GFATM). This would of course increase the anomalous nature of the DAC within the OECD, and raise the possibility of growing detachment from that club. This would need to be considered within a general realignment of overarching political fora (G8, G20 etc), all of which are however currently reliant on DAC expertise in aid systems issues.

10. In turn, its relationship with the UN would also need to be re-examined. However, it is not obvious that ECOSOC, where current legitimacy arguably lies, could develop anything like the capacity and effectiveness the DAC has demonstrated on the Paris agenda and policy coherence, and its solid working relationship with not just the UN system but also the Bretton Woods organisations and global funds. ECOSOC would be well advised to help network a solution with the DAC rather than try to compete with it.

11. If, however, the DAC does not raise its level of ambition in this area and enact the necessary changes to practice what it preaches, the processes of innovation and fragmentation-of both goals and means-in the aid architecture will undoubtedly continue apace, driven by forces largely outside DAC control. So the upside of greater effort, or rather the cost of inaction, is significant. The downside risks of a more comprehensive approach are arguably more modest, especially if DAC draws on the talents of partner organisations rather than attempt to do everything in-house. At the very least it should try to position itself as the preeminent place where such challenges are discussed, or risk losing relevance even as a deliberative body.