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MAKING DEVELOPMENT AID MORE EFFECTIVE

THE 2010 BROOKINGS BLUM ROUNDTABLE POLICY BRIEFS

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INTRODUCTION

The upcoming United Nations High-Level Plenary Meeting on the Millennium Development Goals will spotlight global efforts to reduce poverty, celebrating innovative progress in some areas while illuminating systemic weaknesses in international efforts to support development. In November of this year, the Group of Twenty will convene in Seoul, and development will once again be on the agenda. One year later, South Korea will also host the High-Level Forum on Aid Effectiveness. Each of these summits could benefit from an examination of how bilateral and multilateral programs can better anticipate and reflect the realities of global development in the 21st century.

From high-profile stabilization contexts like Afghanistan to global public health campaigns, and from a renewed focus on sustainable food security to the looming implications of climate change, development effectiveness is a central and hotly debated issue. As traditional donors make progress in the dialogue on international aid effectiveness, they must increasingly take into account the broader landscape of influential actors, including emerging donors, multinational corporations, megaphilanthropists, high-profile advocates and a vocal and energized global public.

Given the need to reform development assistance efforts within the current window of political opportunity, in these policy briefs Brookings experts and colleagues with other organizations offer a range of recommendations for influential global development actors that look beyond questions of increased resources for antipoverty services to the effectiveness of different approaches and to the systemic issues associated with the delivery of development outcomes. The briefs include:

- **Can Aid Catalyze Development?** Homi Kharas offers recommendations on how to link aid effectiveness more firmly to development strategies through a new multilateralism, a more transparent aid system, differentiated strategies for recipient countries and a longer-term focus for aid.

- **U.S. Government Support for Development Outcomes: Toward Systemic Reform.** Noam Unger highlights the current pivotal moment for revamping U.S. global development efforts and outlines potential improvements to aid operations and fundamental reforms related to overarching strategy, organizational structures and underlying statutes.

- **The Private Sector and Aid Effectiveness: Toward New Models of Engagement.** With an emphasis on business, Jane Nelson discusses the role of the private sector in development and proposes various ways to scale up the collaboration between these actors and official donors.

- **International NGOs and Foundations: Essential Partners in Creating an Effective Architecture for Aid.** With a focus on international nonprofit organizations, Samuel A. Worthington and Tony Pipa analyze the relationship between official aid and private development assistance, suggesting that the role of civil society must evolve as part of the international dialogue on aid effectiveness.

- **Responding to a Changing Climate: Challenges in Financing Climate-Resilient Development Assistance.** Kemal Derviş and Sarah Puritz Milsom underline key finance-related challenges in achieving climate-resilient growth in developing countries and propose steps to ensure progress in responding to the climate change challenge.

- **Civilian–Military Cooperation in Achieving Aid Effectiveness: Lessons from Recent Stabilization Contexts.** Margaret L. Taylor explores civilian and military roles and the right balance between them for delivering effective international assistance, offering lessons that are critical for further analysis of foreign militaries as aid providers.

- **Rethinking the Roles of Multilaterals in the Global Aid Architecture.** Homi Kharas probes key issues, including the appropriate multilateral share of total aid, the proliferation of multilateral agencies, knowledge exchange among development professionals and the financial leveraging of loans to capital.

These policy briefs were commissioned for the 2010 Brookings Blum Roundtable, which annually invites government officials, academics, development practitioners and leaders from businesses, foundations and international organizations to together consider new ways to alleviate global poverty through cross-sector collaboration.

CAN AID CATALYZE DEVELOPMENT?

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Executive Summary

Aid projects seem to work, but they do not aggregate into major development breakthroughs. If aid effectiveness is to be linked more firmly to development strategies, the balance of today's aid allocations must change. The role of official aid must focus on finding ways to organize and encourage new partners—public and private, for-profit and nonprofit—in the most productive fashion. Four strategies are urgently needed:

- A new multilateralism.
- A more transparent aid system.
- A differentiated, adequately resourced strategy for each recipient country.
- A longer-term focus for aid.

The Group of Twenty has indicated its willingness to include development issues on its agenda. It could provide the leadership required at the international level to integrate the aid and development agendas.

What Is the Issue?

At a macroeconomic level, there is little relationship between aid and growth or other development outcomes, which has led analysts like William Easterly and Dambisa Moyo to dismiss the effectiveness of aid. At a microeconomic level, there is considerably more evidence about aid successes, with increasingly specific recommendations thanks to randomized trials pioneered by the MIT Poverty Action Lab. This forms the heart of the micro/macro paradox that the development economist Paul Mosley recognized more than 20 years ago. Aid projects seem to work but do not aggregate into major development breakthroughs. At issue is the fact that aid strategies are not driven in the same way as an evidence-based development strategy. Although there has been considerable progress, evinced by the rapid growth in Africa and better leadership in many poor countries, an acceleration framework, like that being developed by the United Nations, is desirable. According to the World Bank, most developing countries are off track to meet most of the UN Millennium Development Goals, a sober assessment at the halfway point of one of the most important global development challenges in history.

What can be done to enable aid to better promote development outcomes? There are three main steps.

The first step is to improve aid quality. The OECD's Development Assistance Committee (DAC) suggests that the benefits of aid are sharply reduced because of the way it is given. Aid is volatile and, like any stream of financial flows, its lack of predictability makes it much less valuable. Some research suggests that the deadweight losses from the volatility of official development assistance in 2008 amounted to 9 percent, or $7 billion. Further, this assistance is now provided in the form of 80,000 new projects each year financed by at least 42 donor countries, through 197 bilateral agencies and 263 multilateral agencies. Aid is fragmented into ever-smaller projects; the mean project size fell from $2.01 million to $1.46 million between 2000 and 2008 (in real terms).

In a project, "small" can be good if it is innovative and later results in scaling up, but each project also has fixed costs of design, negotiation and implementation. Recipient countries each received an average of 263 donor missions in 2007. Their senior finance officials spend from a third to half of their time meeting with donors and, in the case of countries like Kenya and Ghana, governments have resorted to "mission-free" periods to allow officials time to handle their domestic obligations. The deadweight losses from this set of transaction costs are estimated at $5 billion by the OECD, prompting calls for more serious attention to be paid to issues of division of labor among donors. A better division of labor would result in larger aid flows between a given donor and recipient but would reduce the number of donor–recipient aid relationships, because some donors would exit from some countries. In fact, the DAC estimates that if half the smallest donor–recipient relationships were abandoned, only 5 percent of country program aid would have to be rechanneled.

The second step is to link aid to other development policies, like trade, investment and migration. Although aid policy has increasingly stressed the benefits that accrue to recipient nations, other elements of economic policy seem to negatively affect developing countries. Sub-Saharan Africa accounts for less than 2 percent of global exports today, a share that has fallen by half since 1980. The poorest countries still do not have meaningful duty-free, quota-free access to trade. Efforts to expand African exports through preferences, like those afforded by the African Growth and Opportunity Act, have not had the desired results; more than 90 percent of U.S.

imports from AGOA countries is in the form of crude petroleum, not the manufactured goods for which the AGOA proponents had hoped. Even in Haiti and Pakistan, two countries where the U.S. has a significant stake in economic growth, trade restrictions on textile and garment imports (men's T-shirts in Haiti) restrict growth opportunities.

Comprehensive approaches are still lacking in leveraging private capital investment to provide infrastructure to connect producers to markets, in access to debt and equity for small and medium-sized enterprises and in devising insurance products relevant to the political risks in development. Meanwhile, although the share of migrants in developed regions has risen to about 9 percent of their populations, most of this human mobility takes the form of migration from one OECD country to another. Further, most of the low-skilled migrants from developing countries, those who can make the most difference to reducing poverty in their country of origin, come from middle-income economies in Latin America and Eastern Europe. Only 3 percent come from Sub-Saharan Africa.

The third step is to use aid to catalyze the private sector. It is now well understood that the private sector is the main driver of development, even in poor countries. But aid is still largely oriented toward the public sector. Furthermore, during the past decade, the focus of aid has shifted from the productive to the social sectors. This may provide a more solid foundation for future growth by improving human capital in the long run, but it has possibly come at a cost to short-term growth. The World Bank estimates Africa's infrastructure deficiency at $31 billion a year, mostly in the power sector, even after accounting for efficiency gains. The share of aid devoted to agriculture has fallen from 20 percent to about 4 percent in the last 30 years. Aid to cities, where most growth originates, is only $1 to $2 billion a year, a paltry sum when there are an estimated 1 billion slum dwellers in the urban areas of developing countries. The history of aid suggests that it is hard to identify the critical bottlenecks to development. Development keeps reinventing itself, so there must be a premium on being flexible and agile, not wedded to rigid ideas.

Why Does It Matter?

Does it really matter if we study aid or development effectiveness? Yes. The crux of the issue is one of branding and strategy. "Aid" has a connotation of humanitarianism or altruism. It can respond rapidly in the face of disaster. For example, more than half of all U.S. families have donated money to Haiti. Private giving to poor people in developing countries, principally from foundations, NGOs, religious groups and the like, amounts to $30 billion a year (excluding corporate donations). When aid is given directly to help people in distress, the results are immediately visible in the short term. Donors can see the difference made by their contributions.

But the developing countries who receive aid are more focused on growth than charity. When the international community introduced the "poverty reduction strategy" paper in 1998 as the principal document on which to base aid, most developing countries changed the name to "*growth and* poverty reduction strategy" in an effort to emphasize the broader nature of development and the primacy of income growth as a driver of development. But given recipients' limited influence over the allocation of donor resources, this change was mostly cosmetic. Donors have shied away from growth objectives because they take longer to achieve; and the results chain from their development assistance to outcomes is longer and more tenuous.

In Africa, leaders are seeking to rebrand the continent as the land of opportunity rather than the land of deprivation. Ngozi Okonjo-Iweala, managing director of the World Bank and former finance minister of Nigeria, asked in a speech to the John F. Kennedy School of Government at Harvard earlier this year: "What trillion-dollar economy has grown faster than Brazil and India between 2000 and 2010 in nominal dollar terms and is projected by the IMF to grow faster than Brazil between 2010 and 2015? The answer may come as a surprise to some: It is Sub-Saharan Africa!" Africa can serve as a new source of global demand. It's only a matter of time before its population rivals that of China and India. At a time when Asian and developed-country equity and debt markets are saturated and no longer offer substantial returns, Sub-Saharan Africa could be poised to provide the best global risk/return profile.

This is more than a branding issue—although branding is important in attracting foreign investment and business interest to Africa. It is about strategy. Should development dollars go into infrastructure, better cities and productive activities like agriculture, with an emphasis on science and technology as development game changers, or into health, basic education and equal opportunity for disadvantaged groups? Should aid be focused on countries with good governance where growth has a chance for taking off or on failed states where the humanitarian need is greatest? Should trade, investment and migration policies be combined into specific policy packages to promote growth in key countries or regions?

If aid effectiveness is to be linked more firmly to development strategies, the balance of today's aid allocations must change, and aid agencies—those in charge of the flows of financial and technical assistance—must work cooperatively with policy instruments in the hands of other agencies to spur sustainable growth. This is already the case in the growing civilian–military coordination efforts in fragile state engagements, but it is necessary for all aid-recipient countries. The pendulum should perhaps shift toward the development and growth agenda in some countries.

Given the diversity of countries, it is getting harder to put a single frame on development; a combination of interventions at the micro and macro levels is needed. But this would require a changed narrative for aid, one that goes beyond the UN Millennium Development Goals (MDGs). This narrative is harder to communicate to the public because of the complexity of development and because it must rely on the often-messy and corrupt political environments in both recipient and donor countries. Developing-country stakeholders would need to raise their game in utilizing aid resources effectively.

What Strategies Are Needed?

Although there is aid fatigue in some circles, aid remains popular among the citizens of developed countries, and there is grassroots support for more and better aid. At the same time, the corporate sector in developed countries sees the expansion of opportunities in developing countries as the best hope for their own growth. Infrastructure investment and consumer spending by an emerging middle class in developing countries are the two brightest spots in global aggregate demand. Both can be catalyzed by aid.

The willingness and eagerness of new partners—public and private, for-profit and nonprofit—to engage in development is a strong potential force for development. The role of official development assistance must focus on finding ways to organize and encourage this force in the most productive fashion to promote a "logic of participation" rather than a "logic of compliance." The newest player in development, the private sector, offers new ideas, new technologies, new management practices and new business models that can be game changers for development. Five strategies are badly needed, in addition to the ones articulated through the Paris Declaration, to improve aid effectiveness and meet the MDGs.

The first strategy is to pursue a new multilateralism. Multilateral development agencies are more technocratic and specialized than most bilateral aid agencies. But they do not receive full support from their members, and their leadership of the aid agenda has declined. Though most countries provide one-third of their aid through multilateral channels, the multilateral share of U.S. aid has fallen by half, to just 11 percent in the last decade, in favor of new U.S. agencies like the President's Emergency Plan for AIDS Relief and the Millennium Challenge Corporation. Strong U.S. support for and leadership of the multilateral system are vital.

The second strategy is to pursue a more transparent aid system. A lack of transparency is the biggest obstacle to greater engagement and harmonization. Without real-time information as to who is doing what where, it becomes impossible for different development partners to pursue effective strategies based on an efficient division of labor. Overlap and waste cannot be reduced. Development partners cannot be held accountable for their activities, and new development partners cannot easily identify critical gaps where their engagement can make a difference. Evaluation systems and learning from innovation are hampered.

Third is to pursue a differentiated strategy for each recipient country. Aid destined for fragile states needs to be implemented with quite different modalities than aid to well-governed countries. Yet the characteristics of recipient countries—on governance, geography, capabilities, political will, strength and the dynamism of the private sector—are not systematically addressed by donors with clarity on the conditions under which recipient countries' systems and preferences will be fully respected by donors. Instead, each donor uses systems designed for its own convenience and governance accountabilities. At times, aid agencies are too slow and need to be more nimble.

Fourth is to pursue an adequately resourced strategy for each targeted country or global objective. Resources are not commensurate with needs. Indeed, the actual cross-border flow of resources to developing countries is only a fraction of total aid. The DAC estimates that country program aid—the amount of aid that is potentially given by a donor to a recipient and entails an inflow of resources to the recipient country—is only 54 percent of all bilateral aid, varying from a low of 10 percent for some donor programs to a high of 81 percent in 2008. It is this portion of aid—not the headline totals—that is potentially available to address development challenges and that better reflects the intensity and coherence of donor efforts at the country level. For global challenges, like the MDGs, the costing exercises done by countries have not been translated into specific resources available to meet each goal. Only in a few exceptions, such as malaria and HIV/AIDS, are the resources specifically linked to requirements rather than being determined on a best-effort basis.

Finally, the fifth strategy is to pursue a longer-term focus for aid. Development challenges are addressed over decades of continuous engagement. Aid is less effective when it is swayed by changing development fashions, either in terms of countries (creating so-called donor orphans) or sectors (note the premature exit from support for agriculture). Proven models cannot be scaled up, partly because aid remains excessively project oriented. Market mechanisms, incentives and partnerships could be better used to allocate aid resources. More stable aid relationships would also provide a more conducive environment for private businesses. Most foreign direct investment is not driven by short-term profits but reflects a long-term strategic move by a corporation.

Is There a Change Management Strategy for Aid?

When there is a financial crisis in the developing world, the International Monetary Fund takes on the leadership role in crafting the global response. When there is a humanitarian crisis, the United Nations, through its office for the coordination of humanitarian affairs, provides the accepted leadership. But for long-term development, there is no leadership at the international level and sometimes not even at the national level. This situation has several particularly troublesome aspects:

- Multilateral aid is a dwindling share of total aid, and multilateral leadership at the country level has become weakened. But multilateral reform, which is a prerequisite to enlarged multilateral resources, moves at glacial speed.

- No international body coordinates the 500 official agencies—bilateral and multilateral—dispensing aid and establishes rules and standards that recipient countries could support. The UN Development Cooperation Forum is strong on representation but weaker on effectiveness. The OECD's DAC has the reverse characteristics. Neither organization oversees multilateral agencies. It is unlikely that any single organizing body could satisfy the broad debate that is needed. Instead, a variable-geometry approach to development solutions may offer more hope. Regional development groupings offer one avenue to help the communication flow and dialogue between recipient countries and international bodies. But there are gaps in the architecture—aid agencies in recipient countries do not regularly meet to exchange experiences; South–South cooperation does not have a forum to match needs and offers of help. No forum exists to assess whether the division of labor among multilateral agencies is optimal, leaving each agency to advocate for itself with its political allies, reinforcing the political nature of aid. Equally, there is no exit mechanism for failed ideas.

- No individual or specific agency is accountable for achieving global targets like the MDGs. With small exceptions, like the UN special envoy for malaria, no individual or agency is tasked with ensuring progress on actual development outcomes, with raising the necessary resources and developing global strategies. At the country level, targets are better defined and sector strategies have been elaborated in many cases, but resources and responsibilities remain highly fragmented. Country coordination mechanisms, with recipients in the lead, need far greater support, both financially and technically. Aid could better support proven winners and growth sectors.

- A communication strategy is needed to help people understand the channels through which aid works. The route from aid to development is too long and complex, and it passes through too many agencies in both donor and recipient countries to be easily communicated. There is little understanding of the key role played by the local staffs of development agencies in recipient countries and the impact that aid can have in leveraging their efforts. Highlighting the aid worker, not the poverty victim, as the main development actor would be one way to promote a sense of engagement in solving the challenges of development.

In seeking to enable aid to better catalyze development, perhaps the Group of Twenty, with its broader representation of both developed and developing countries and its focus on global economic growth, could provide the required international leadership. Its willingness to take on the development agenda in Seoul in 2010 is to be welcomed. But to lead effectively, the Group of Twenty must reach out beyond its membership to the poorest countries and seek to understand their priorities. Through such processes, it may learn how best to tackle the pressing political problems that still hinder aid's effectiveness and how to lay the groundwork for a more coherent global development strategy.

U.S. GOVERNMENT SUPPORT FOR DEVELOPMENT OUTCOMES: TOWARD SYSTEMIC REFORM

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Executive Summary

The U.S. government is struggling to retool and reorient its policy instruments and assistance operations to more effectively support global development. With a fragmented aid infrastructure and an even broader challenge of development policy incoherence, the dialogue on reforming the system has reached a pivotal moment. A rare opportunity is at hand, but the challenges to fundamental reform are daunting. Operational improvements at the agency level are necessary, but fundamental reform also requires an overarching strategy, rational structures and modern statutes. The reflection inherent in such reforms raises critically important questions about the objectives, organization and international role of the U.S. government.

Where Do We Stand?

The U.S. foreign assistance system, which has been characterized by a proliferation of distinct bureaucratic structures and core legislation written in a different era, is strikingly nonstrategic. With a swarm of objectives, shifting priorities and incessant organizational turf battles undermining productivity and unity of voice, the overall aid system has suffered from a self-perpetuating downward spiral even as bright spots have emerged. This spiral has been fueled by distrust between Congress and the executive branch, leading to ineffective methods of resource allocation and accountability. Consequently, while U.S. development assistance has grown considerably in the past decade, it has accomplished only a fraction of what it could and should have done.

Aid Structures Are Stovepiped and Diffuse

Taking bold strides to create innovative channels for development assistance, the George W. Bush administration worked with Congress to launch the President's Emergency Plan for AIDS Relief (PEPFAR) and the Millennium Challenge Corporation (MCC). These programs were intentionally established apart from the U.S. Agency for International Development (USAID), which, despite being significant in its scope, was viewed as a weakened, red-tape-bound contracting agency and repository for earmarked funds.

In 2006, a major effort was launched to address the broader issue of inefficient fragmentation and to coordinate U.S. foreign assistance. This effort was squarely centered at the State Department, with domain over USAID and the MCC. However, the State Department had no coordinating authority over other departments, such as the Treasury Department, with its responsibilities concerning international financial institutions, and the Department of Defense, which was expanding its aid efforts and increasing in its share of official development assistance programs fivefold with the wars in Afghanistan and Iraq. Additionally, with its highly centralized approach to decisionmaking, the new power structure—merging USAID and State Department programs under the director of U.S. foreign assistance—was met with resistance, especially from mission-oriented personnel in the field. Coming late in the Bush administration, this reform effort sought to rapidly consolidate changes but left little time for the congressional buy-in that is critical to effective development policy and essential to fundamental reform.

From afar, there appears to be a strong sense of continuity in foreign assistance policy between the Bush and Barack Obama administrations:

- PEPFAR remains a strong component of the overall portfolio; relative to other investments, it continues to be very well funded.
- The same is true for aid to "frontline" fragile states where U.S. national security concerns are immediately apparent and stabilization is an overriding objective.
- MCC has survived the transition and has been adopted by the new political team, though it continues to be a relatively smaller institution within the U.S. aid system, having never attained its intended funding level.
- Ongoing efforts to ramp up resources and human capital at USAID and the State Department have been embraced and expanded.

In the Obama administration's first 18 months, no major systemic changes were enacted to address the challenges of fragmentation and coordination. But Obama has begun to put his mark on U.S. development assistance by launching signature initiatives on food security and expanding global health assistance with a greater emphasis on integrated efforts and sustainability. His administration has also pledged to mobilize substantial annual international assistance to address developing countries' climate change needs.

Behind the scenes, the Obama administration has hosted a vibrant policy debate about development, whose outcomes will stem from two major reviews that have been conducted side by side over the past year: a White House–led Presidential Study Directive (PSD), and a review of capacities and requirements for the State Department and USAID called the Quadrennial Diplomacy and Development Review (QDDR). These efforts have plumbed development assistance in particular—its purposes, strengths and weaknesses, relationships with security and diplomacy efforts, as well as the implications of these for program and architectural reforms. As the outcomes of these reviews determine who is in the driver's seat and which direction to drive, key leadership questions hang in the balance, along with the long-term effectiveness of U.S. development policies.

Broader Policy Coherence

Beyond better coordinating development aid, the U.S. needs a better way to coordinate its full array of policy instruments to leverage synergies and avoid counterproductive efforts in those countries where it is trying to assist in sustainably reducing poverty and promoting economic growth. A range of U.S. policy instruments—including trade, agriculture and finance—have a significant impact on official American support for development outcomes. For example, in 2007 the HELP Commission noted that some low-income countries, like Bangladesh and Cambodia, received U.S. development assistance to promote economic growth, only to turn around and pay the U.S. even greater sums in import duties. This erodes the value of U.S. development investments. In countries like Pakistan, where the U.S. is far more heavily invested, the case is even clearer for expanding trade access to encourage development that resonates with U.S. national interests.

From the perspective of an organizational system, the popular development reform dialogue in the U.S. (to the extent that one exists) has become increasingly sophisticated and ambitious, having passed through several phases during the past decade. At first, advocates and policymakers focused on creating new aid programs to execute new initiatives. Then attention shifted to revitalizing core systems and consolidating or coordinating across aid programs and organizations. Though those issues have yet to be resolved, the current dialogue increasingly reflects a perspective centered on development effectiveness as opposed to narrower aid effectiveness. From this perspective, even discussions that focus on rationalizing and strengthening aid programs at an organizational or operational level should factor in ways for aid to leverage other means of supporting development.

What Needs to Happen? Why Does It Matter?

In this context, there are two key questions: What needs to happen? And why does it matter? The answers to these questions fall under the categories of aid operations, strategy, structures and statutes.

Aid Operations

Secretary of State Hillary Clinton has publicly noted that "it is past time to rebuild USAID into the world's premier development agency." A number of practical steps at the agency level can strengthen USAID and broader U.S. foreign assistance. Four key steps are already under way.

The first step is to build policy, learning, strategic planning and budget capacity. Only several months into his tenure, and not waiting for the conclusions of the PSD and the QDDR, USAID administrator Rajiv

Shah announced that the agency would create a new policy-planning bureau and budget office. The bureau should augment the agency's ability to perform critical policy analysis and planning functions, restoring an in-house brain trust that helps USAID engage in policy deliberations within and beyond the U.S. government. The bureau would also take the lead on research and evaluation, representing a necessary effort to turn USAID into a more innovative learning institution. Creating a budget planning office within USAID also makes sense under the current structure, because the administrator no longer serves as the director of U.S. foreign assistance with oversight of the broader budget office at the State Department. An agency without strategic planning capacity for policies and budgets is without independence, so developing this capacity within USAID is fundamental to revitalizing it.

The second step is to strengthen capacity to design and manage programs and projects. Shah also indicated that USAID would soon unveil reforms related to procurement, human resources, monitoring and evaluation. These areas are all related directly to operational impact. Whether through contracts, cooperative agreements, grants to third-party implementers or more direct support, USAID needs the capacity to manage its funding instruments, monitor progress and evaluate results. Yet this capacity has eroded in recent years as assistance levels have increased but the staff has shrunken. In 1990, USAID had a staff of nearly 3,500 administering $5 billion in assistance annually, but by 2008 it had only 2,200 direct-hire personnel administering more than $8 billion (American Academy of Diplomacy and Stimson Center 2008). With fewer officers managing larger sums and fewer in-house experts monitoring and evaluating projects, the result has been a greater reliance on contractors, bigger contracts and weaker accountability.

The third step is to make U.S. aid more transparent. Another key area of nuts-and-bolts reform is transparency, to which Shah has linked USAID's promised improvements. But transparency's relevance extends to all U.S. foreign aid—it is very much linked to the "grand bargain" that must be forged between the executive branch and Congress so that U.S. foreign assistance can have greater flexibility at the program level in exchange for greater accountability. Better transparency means the consistent, timely public provision of comprehensive and comparable information on how much is really being spent on aid, by which parts of the U.S. government, where and for what purposes. Greater access to such information would improve communication about development efforts with Congress. It could do the same for the broader American public, which consistently overestimates the level of U.S. development assistance and therefore misperceives its value. Transparency can also help the citizens of developing countries hold their governments and aid systems accountable. Aid transparency improvements should align with emerging international transparency standards, and U.S. involvement and leadership in the International Aid Transparency Initiative would suit President Obama's broader agenda for accountable and transparent governance.

The fourth step is to leverage partnerships more consistently, systemically and strategically. This is another area primed for rapid improvement with respect to all aspects of U.S. development assistance. With regard to private development actors in the nonprofit and for-profit sectors, U.S. development agencies have already become much more partnership oriented in recent years, often at the project level. These shifts, however, have not been commensurate with the sea change in the broader ecosystem. The key is to strengthen or create business models within the U.S.

system that can take such efforts to a more strategic scale. Related efforts could proceed on many fronts, including:

- Build a culture of early strategic engagement with the largest foundations and international NGOs. Given the significant resources they marshal outside official development assistance, they are more than implementing partners.

- Establish a multistakeholder funding mechanism in developing countries for replicating and scaling successful innovation.

- Embed business, science and technology experience in recruitment and retention so in-house personnel can better understand and leverage the work of corporations, universities and foundations. This must happen well beyond the current limited number of experienced White House fellows, Franklin fellows, and American Association for the Advancement of Science fellows, and it must extend beyond Washington to field-based positions.

- Reinforce partnership-oriented precepts in mainstream position descriptions, and tie such activities more closely to promotion.

- Tune internal processes so that government agencies can consistently respond in a more timely fashion to proposed partnerships from the private sector.

Beyond partnering more methodically with private development actors, the U.S. government could direct greater focus and capabilities toward collaboration with multilateral development organizations. There is ample room for growth in the level of interaction between U.S. development agencies and institutions like the World Bank and the United Nations Development Program.

Strategy

The best operational improvements at the agency level will not amount to fundamental reform of the system unless there is an overarching strategy. A real strategy for U.S. development efforts must be geared toward a clear set of limited objectives. It must reflect difficult decisions on how best to apply resources across the broad array of development policy instruments, and it must marshal those instruments to reinforce one another toward measurable progress. The idea of a U.S. global development strategy—to be approved by the president and routinely updated—is a good one that is clearly receiving serious consideration by both the administration and Congress.

The White House recently announced elements of a new U.S. approach to advancing development (White House 2010). This could be a precursor to a comprehensive strategy that retools the U.S. system, and it hints at the tensions that such a strategy for U.S. aid and development policy must navigate, including how to divide labor with other donors and focus U.S. efforts on select countries, regions and sectors.

Country selectivity. U.S. official development assistance (ODA) is spread across more than 100 countries, yet it is already geographically focused, with roughly one-third spent on the top five recipient countries (see table 1). The United States' spending in Iraq, Afghanistan and Pakistan alone accounts for approximately one-quarter of its total ODA. However, a more deliberate selection of roughly 40 focus countries for concentrated U.S. bilateral efforts could be a step in the right direction. Organizationally, this could allow U.S. government development institutions to focus their attention and resources for greater sustained impact. Because development is recognized as a moral, strategic and economic imperative by the U.S., the list of bilateral focus countries would presumably include a mix of stabilization and reconstruction contexts, other key weak states and better-performing states. The selection process would factor in the need for assistance as well as the potential for transformational impact within a given country and region. The idea of focus countries enshrined in PEPFAR and the MCC and apparent in the signature Obama administration initiatives could be applied more broadly and consistently to U.S. aid and wider development efforts. A greater bilateral focus should be balanced with increased leadership and engagement with multilateral development organizations to leverage significant resources supporting development across many more countries.

Sectoral specialization. Rather than attempting to cover too many pressing development issue areas, the U.S. could enhance its impact through specialization. Again, the U.S. already does this to a degree. For example, it can and often does play a particularly

Table 1. U.S. Official Development Assistance

Net ODA (millions of dollars)

2007	2008
21,787	26,842

Top Ten Recipients of Gross U.S. ODA (millions of dollars; 2007–8 average)

Iraq	3,246
Afghanistan	1,816
Sudan	779
Egypt	684
Ethiopia	592
Colombia	520
Pakistan	383
Kenya	383
Palestinian Adm. Areas	351
Uganda	327

Percentage Share of Gross Bilateral U.S. ODA (2007–8 average)

Top 5 recipients	32
Top 10 recipients	41
Top 20 recipients	52

Source: OECD data, www.oecd.org/dataoecd/42/30/44285539.gif.

leading donor role in humanitarian crisis responses, security-related development matters and health. As part of an overarching strategy, however, it could focus more deliberately, fully accounting for trade-offs. The decisions made as part of the strategic process would have to be informed by a thorough assessment of U.S. comparative advantages and the roles and commitments of other development actors. The level of focus is also important. At the country level, a coordinated division of labor among partners is easier to achieve. At the macro level, if the U.S. chooses to direct its system in a more specialized manner—as it has with major investments to counter HIV/AIDS—then such a focus will likely confront tensions between resource allocation decisions made in Washington, which can help with the global division of labor among donors, and resource allocation decisions made in developing countries, which can more easily align with country ownership.

Such strategic discussions raise several controversial questions:

- Should the world's largest donor actually seek to specialize? What specific comparative advantages does the U.S. possess in support of global development?
- Should the U.S. primarily organize its efforts by sector or through country programs? What is the right degree of each?
- Among country-based programs, what is the right balance between assistance to poorly governed countries facing large-scale humanitarian and human rights crises on the one hand, and support for emerging markets and high-performing democratic states on the other?

For the U.S. to become more effective in its development efforts, a strong, well-supported strategic process is necessary to avoid the "do everything everywhere" expectations that can result from the inevitable cacophony of interests.

Structures

The architectural modernization of the U.S. development system is another essential key to fundamental reform. Crafting a proper strategy, which outlines authorities and drives resources, requires a sound process. Lessons from the current PSD and QDDR should be woven into a standard process for routinely updating the U.S. global development strategy. Because the strategy should be comprehensive and the White House is best positioned to reach across all government development instruments, it is likely that the PSD experience is most relevant. The process that is designed to revise the U.S. global development strategy every few years should also formally or informally include a consultation mechanism to weigh the perspectives of official and private development partners and gain their buy-in.

Additionally, implementing a comprehensive strategy requires consistent policy coordination and leadership. There are current proposals to expand participation for more comprehensive coordination and to elevate the role of USAID as the lead organization for interagency development policy deliberations. At the field level, this would translate into a more explicit leadership role for USAID mission directors, where they are present. At the highest levels, it would mean an explicit leadership role for the USAID administrator.

Finally, a coherent strategy can be easily undermined by bureaucratic turf battles and duplication. Specifically, the U.S. must curtail the Defense Department's expansion into assistance programs aimed at conflict prevention. Going beyond non-permissive environments where the U.S. is a party to war, Defense broadened its stability mandate globally. Having homed in on a strategic threat from weak states, Defense has been directing its ample resources to try to fill a capacity gap. However, for the sake of clarity of intent and sustainable outcomes, this gap should ideally be filled by civilian stabilization and development efforts. The necessary transfer of resources and authorities from Defense to civilian agencies will take time as civilian capacity is augmented.

On the civilian side, if USAID is to be revitalized and elevated as the lead development agency, it makes sense to closely integrate other institutions providing U.S. development assistance programs in the near term, most notably PEPFAR and the MCC. On the economic front, new arrangements and closer relationships must also be established with relevant parts of the Treasury Department, the Office of the U.S. Trade Representative, the Overseas Private Investment Corporation, the U.S. Trade and Development Agency and others. An elevated lead development agency should have relevant in-house expertise and a more prominent role concerning multilateral development organizations, including the multilateral development banks and the United Nations humanitarian and development agencies. In the areas of security assistance, stabilization and reconstruction, the State Department and USAID need a particularly close relationship, with clear lines of responsibility.

This vision of structural reorganization is not devoid of controversy. Key concerns loom regarding the authority of the secretary of state and the State Department as a whole. Politically, an alternate vision of an explicit merger of almost all development aid directly into State is not presently on the negotiating table; nor is an equally bold vision for the independence of development through its own Cabinet-level department. It is easiest for policymakers and lawmakers to execute minor, if any, changes to the architecture. The present ambiguity, however, over who speaks for U.S. development policy internally and externally is widely viewed as a key factor undermining effectiveness. The key questions are: Who's in charge? And if the U.S. needs a lead agency, what does that mean?

Statutes

A slew of congressional hearings and select pieces of proposed legislation over the past three years have signaled increasing legislative interest in reforming and elevating development as a key pillar of U.S. foreign policy and national security. A consistent and significant push with backing from the administration will likely be required to preserve core elements of desired reforms in law. This is particularly important to the predictability and commitment of U.S. development support, because without a basis in statutes, essential improvements to U.S. policy and systems could be more easily reversed by a future administration that placed less importance on development cooperation.

An ambitious effort to replace the Foreign Assistance Act of 1961 is already being led by U.S. Representative Howard Berman, chairman of the House Committee on Foreign Affairs. More modest efforts have been taken up by the leaders of the Senate Foreign Relations Committee to strengthen USAID and improve foreign assistance coordination and accountability. A new set of laws underpinning foreign assistance and development present an opportunity to ensure that U.S. efforts are better aligned with the needs of developing countries. As embedded in the current draft of the Global Partnership Act, legislation could reorient the associated politics and decisionmaking so that the dominant practice of global sectoral aid earmarking, centered in Washington, is transformed into a consultative process to shape country-level strategies, which actually determine significant resource allocation to support sustainable development.

The core laws currently guiding foreign assistance efforts were developed at a time when official assistance efforts—not private giving and investment—were the dominant source of financial flows from the U.S. to developing countries. But the opposite is true today, and just as the Obama administration is contending with the challenge of new business models that can leverage private actors, so too should reform legislation. This parallel between pressing executive branch concerns and an appropriate role for legislation exists for many reform issues, from transparency to organizational architecture to greater capacity in support of peace building.

Conclusion

A decade into the 21st century, new challenges and opportunities for development have evolved. The U.S. government's approach must catch up and anticipate future challenges. On one hand, the political space for development policy reform has been created:

- Political leaders throughout the Obama administration and Congress have endorsed the general idea of reforming development policies and operations.
- Effective support for global development is a higher U.S. priority and has a larger constituency than ever before.
- U.S. experiences in Afghanistan and Iraq have exposed greater numbers of policy influencers to the need for an enhanced peace-building capacity and development investments as a tool to prevent conflict and state failure in the first place.
- The highly constrained budget environment places greater emphasis on accountability and having each dollar spent yield greater effects.

On the other hand, alongside predictable bureaucratic tensions, efforts toward fundamental reform are challenged by several factors:

- Efforts to consolidate change are losing a race against the political clock, given the midterm elections, and the 2012 elections will likely limit the maneuvering space for administration reforms and legislative initiatives.
- The present economic recession saps political leaders' attention and challenges efforts to spend on social and economic needs abroad.
- Several high-profile crises and conflict environments dominate U.S. foreign policy concerns related to development, and this situation could have a distorting effect on system-wide reforms.

Although there is clearly an opportunity to make critical changes to the U.S. development system, the window is closing, and the next few months are key. Here, it is useful to envision both positive and negative scenarios. In a positive scenario, the administration could build on Obama's recent announcement of a new approach to development and translate policy review efforts into the first comprehensive global development strategy. This could, in turn, debut in the fall alongside a strong U.S. leadership role at the

Millennium Development Goals summit. Agency roles would be articulated with an explicitly elevated role for USAID. Operational reforms would proceed quickly as appointed leadership positions are finally filled across development agencies. Decisive movement by the Obama administration this fall could still allow for bipartisan legislative action in 2011, if current efforts on Capitol Hill are not stymied by new political dynamics.

In a negative scenario, internal deliberations could continue within the administration without providing any direction for agencies and Congress, as a weak budget undermined efforts such as the food security initiative and operational capacity improvements. Momentum for reform would dwindle, and status quo structures and approaches would by and large remain. The actual unfolding of events may lie in the murky middle between these scenarios, but one reality is clear: The policy dialogue on reforming the system has reached a pivotal point.

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THE PRIVATE SECTOR AND AID EFFECTIVENESS: TOWARD NEW MODELS OF ENGAGEMENT

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Executive Summary

The relationship between the private sector and official aid donors is evolving. Because of the private sector's growing engagement in development, more strategic collaboration is needed between private enterprises, donors, governments, foundations and other nonstate actors. To achieve better aid effectiveness and development outcomes, the private sector and official donors must

- cooperate to improve business investment climates,
- establish or strengthen mechanisms to ensure mutual accountability,
- scale up innovation to build inclusive and green value chains,
- coordinate efforts to strengthen health systems,
- build coalitions to enhance humanitarian assistance and
- integrate private sector participation into the dialogue on aid effectiveness.

Introduction

During the past decade, most bilateral and multilateral donors and development finance institutions have increased the resources they allocate to enabling and engaging with private enterprises. Despite these efforts, better engagement is needed. The percentage of official development assistance targeted at catalyzing the private sector—whether as a desired development outcome or as a development partner—remains low. Better analysis of the different business models, technologies and financing mechanisms being employed by private enterprises to address development challenges is required. There is insufficient coordination and little shared learning on different donor strategies, modalities and instruments to engage with the private sector and to help overcome market failures. Joint efforts are needed to raise public awareness in donor countries of development success stories, not only humanitarian crises. And there is a need to not only expand but also move beyond project-based cooperation between donors and private enterprises toward more systemic solutions.

Private-Sector Engagement in Development

The private sector covers a wide range of actors, from smallholder farmers and microenterprises to small and medium-sized firms and large domestic and multinational corporations. It ranges from firms and financiers driven by the motive to maximize profits to social businesses, social enterprises and impact investors that employ market-based approaches with explicit social and/or environmental objectives. And it includes business associations, enterprise networks, producer cooperatives and business leadership coalitions. The key contributions these private enterprises make to development include:

- generating jobs and income,
- delivering essential products and services,
- building physical and communications infrastructure,
- leveraging science and technology,
- mobilizing financial resources,
- investing in human capital and workforce development and
- spreading international norms and standards.

According to the Hudson Institute, private capital investment, together with global philanthropy and remittances, accounted for 75 percent of the developed world's economic dealings with developing countries in 2009, dwarfing official development assistance. Although short-term capital declined dramatically in the face of the worldwide financial crisis, foreign direct investment decreased by a smaller amount (from an estimated $189 billion to $178 billion). This type of investment from the United States actually grew to $54 billion in 2009, and U.S. corporations donated about $7.7 billion in philanthropic contributions. There has also been an increase in South–South private investment flows, with a focus on infrastructure, mobile telecommunications, agriculture, banking, retail and natural resources.

These cross-border private capital flows are often sources of new ideas, technologies, resources, skills and business models. They can make valuable contributions to economic growth and development on top of the essential role played by a productive and diversified domestic private sector.

Donors' Engagement with the Private Sector

During the past decade, most international donors and institutions have increased their engagement with the private sector. These new engagements have included bilateral donors, the United Nations, development finance institutions, and new multistakeholder institutions and initiatives.

Bilateral Donors

The members of OECD's Development Assistance Committee have employed a variety of new strategies, engagement models and financial and technical assistance facilities to promote private-sector development and to leverage private resources in efforts to meet the UN Millennium Development Goals and enhance humanitarian assistance. A 2009 study by the U.S.-based Business Civic Leadership Center reviewed the private-sector engagement strategies of 10 bilateral agencies that account for about 75 percent of official development assistance. It found that these agencies were focusing more of their resources on the private sector and that most had established dedicated units, funds and initiatives to form partnerships with businesses. A few of these—such as the Deutsche Gesellschaft für Technische Zusammenarbeit's Public–Private Partnerships Program, the U.S. Agency for International Development's Global Development Alliance and the U.K. Department for International Development's Challenge Funds—have now been operating for 10 years and offer useful lessons on what has and what has not worked, having catalyzed some 5,000 projects among them.

The United Nations

Many UN agencies, funds and programs have increased the level and quality of their private-sector engagement. New initiatives, such as the United Nations Global Compact, have also been created. Since this compact was established in 2000 under the leadership of the secretary-general, it has become the world's largest corporate citizenship initiative with more than 6,500 signatories, of which about 4,400 are from developing countries and 30 are from national or regional networks. The compact is funded primarily by bilateral donors and is governed by a multistakeholder board, and it requires corporate signatories to commit to a set of 10 principles in the areas of human rights, labor, the environment and anticorruption—and to report publicly on their progress. In addition, it works with other agencies to engage businesses in finding innovative solutions to development problems and in addressing climate change and water security.

The United Nations Development Program's Business Call to Action and Growing Inclusive Markets are two other new initiatives that are mobilizing the private sector to support development goals globally and at the country level. The United Nations Foundation, working through the UN Office for Partnerships and other agencies, has leveraged donor, philanthropic and private investments from a wide variety of sources to fund and scale up programs in areas such as women and population and climate and energy. Some 40 funds, programs and agencies also participate in the UN's Private Sector Focal Points network, which was established in 2004.

Development Finance Institutions

Bilateral and multilateral development banks and development finance institutions have also increased the level and range of the financial and advisory services that they offer to the private sector. As the World Bank's private-sector arm, the International Finance

Corporation offers a useful barometer. The IFC's investments have grown from $5.3 billion in 2005 to an anticipated $12.6 billion in 2010, and its number of projects has more than doubled, from about 236 in 2005 to an anticipated 528 in 2010. It now operates in 60 countries that are eligible for the World Bank's most concessional loan terms, compared with 29 countries of similar status five years ago, and it is extending its services to microenterprises and small enterprises and to finance market-based solutions to deliver health, housing, education and financial services for poor people.

In addition to increasing the size and reach of its portfolio, IFC is focusing more explicitly on the development impact of its clients. Its performance standards on social and environmental sustainability were launched in 2006 and have become a global benchmark. Similar approaches have been adopted by more than 30 OECD export credit agencies, 15 European development finance institutions and more than 70 financial institutions that are signatories of the Equator Principles, which cover 75 percent of all project financing in developing countries. The regional development banks demonstrate similar trends and actions. According to the World Bank, since 2000, the nonsovereign lending of the multilateral development banks has been their fastest-growing portfolio, albeit having started from a small base.

New Multistakeholder Institutions and Initiatives

An important trend during the past decade has been the establishment of new multistakeholder institutions, initiatives and funds that are financed and governed by a combination of donor agencies, philanthropic foundations, companies and business associations. Some were established as, or became, independent entities, and others are housed within existing public or nonprofit institutions. Many are global, and others are regional or sector specific.

Some of these institutions focus on mobilizing innovative funding mechanisms, harnessing market forces, overcoming market failures and/or addressing governance gaps to achieve greater scale in tackling complex, systemic challenges in global health and nutrition, food security, financial services for poor people and climate change mitigation and adaptation. Four notable examples of such organizations are the Global Fund to Fight AIDS, Tuberculosis and Malaria, the Global Alliance for Improved Nutrition, the Clinton Global Initiative, and the Alliance for a Green Revolution in Africa—all of whose operations have been catalyzed by funding from public donors, corporations and philanthropic foundations such as the Bill & Melinda Gates Foundation and the Rockefeller Foundation.

Other multistakeholder initiatives are focused on improving sector-wide accountability and transparency for social, environmental and human rights performance in industries and supply chains that have a major influence on development, such as extractives, manufacturing, agriculture, electronics, pharmaceuticals and construction. Examples include the Extractive Industries Transparency Initiative and the Voluntary Principles on Human Rights and Security, which focus on oil, gas and mining; the Fair Labor Association, which focuses on the apparel sector; the Equator Principles, which focuses on project finance; the Marine Stewardship Council, which focuses on fisheries; and many fair trade and sustainability certification programs in agriculture and consumer goods.

Business-led coalitions have provided an increasingly important platform for convening multistakeholder initiatives and mobilizing private-sector engagement in development. They include the World Economic Forum, the World Business Council for Sustainable Development, the International Business Leaders Forum, the Initiative for Global Development and Business Action for Africa.

These examples offer only a glimpse of the rapidly expanding and diversifying landscape of institutional engagement between the private sector and the donor community. These types of efforts focus on three main objectives:

- *Catalyzing domestic and international private investment to drive economic growth and opportunity.* Donors have provided policy support to developing country governments to improve the overall business climate for investment and financial and advisory support to private firms—ranging from large corporations to low-income producers and producer associations.

- *Leveraging the private sector as a partner to achieve broader development goals.* Donors have provided catalytic financing, convened multistakeholder initiatives, developed tools and undertaken capacity building to increase the broader development impact of private-sector activities. This has included efforts to spread responsible business standards and improve corporate accountability and transparency; engage companies and social enterprises in meeting the Millennium Development Goals and in promoting green growth by leveraging core business competencies, value chains and science and technology and/or harnessing resources from corporate philanthropy and volunteering; and working with companies to mobilize resources to improve the coordination and effectiveness of humanitarian responses.

- *Integrating the private sector's voice and experience into global policy dialogues.* Multilateral and bilateral agencies have taken measures to engage private enterprises and their representative bodies more systematically in global policy dialogues and as formal advisers to major donor programs.

Recommendations for Enhancing Collaboration between the Private Sector and Donors

There are thousands of individual project-based development partnerships between companies, donors, foundations and NGOs. Ongoing efforts are needed to increase the quantity, improve the quality and, when appropriate, increase the scale of these partnerships.

Simultaneously, there are untapped opportunities for groups of companies, donors and other development actors to collaborate in a more collective manner to achieve system-wide change and increase the scale and impact of joint efforts. The aforementioned multistakeholder initiatives provide existing examples of systemic collaboration. These multistakeholder efforts are not easy to establish or sustain. They require new modes of thinking and new operating models. They require leaders who can broker diverse and sometimes mutually distrustful institutions and individuals. Yet they are worthy of increased attention, analysis and experimentation. The following six areas offer particular potential for this kind of collaborative leadership.

First, cooperate to improve business investment climates. Donors, companies and foundations should create joint financing, technical assistance and/or data collection facilities to improve business climates for private investment. By focusing regionally, nationally or subnationally, these initiatives can prioritize key productive sectors and/or leverage resources for fragile states. The private-sector contribution should involve market-driven technical input, training and capacity building and not only funding. Three current examples are the Africa Investment Climate Facility, the Middle East Investment Initiative and the Emerging Africa Infrastructure Fund. The Center for Global Development has proposed a "Doing Business Facility," which would draw on the empirical foundation of the World Bank's Doing Business Project to deliver concrete financial incentives for the best business climate reformers.

Second, establish or strengthen mutual accountability mechanisms. There are opportunities for donors, companies, foundations, NGOs and research institutes to scale up or strengthen the multistakeholder accountability mechanisms that have been established during the past decade, and also to create new ones. Initiatives such as the Extractive Industries Transparency Initiative, the Roundtable on Sustainable Palm Oil, the Fair Labor Association, the Ethical Trade Initiative and the Access to Medicines Index offer very different financing and governance models for promoting responsible business practices and transparency in strategic industry sectors. Some promote greater public-sector transparency. They warrant detailed analysis and a collective effort to increase their scale or replicate them.

Third, scale up innovation to build inclusive and green value chains. The two increasingly interdependent challenges of poverty alleviation and climate change call for new technologies, new financial instruments, new business models and new value chains that (1) include poor people as producers, employees and consumers; and (2) use fewer natural resources to produce more products and services.

Donors, governments, companies, social enterprises and philanthropic foundations should all collaborate to make key value chains more inclusive and environmentally sustainable. The need and the potential are especially great in sectors such as agriculture, health, water and sanitation, energy, housing and financial services. Although such approaches are at an early stage, especially where corporations are playing a leadership role, there are interesting models that could be learned from, adapted, experimented with, and, where relevant, scaled up. In agriculture, corridor initiatives such as those being spearheaded by the World Economic Forum's "New Vision for Agriculture" in Mozambique, Tanzania and Vietnam and the commodity value chain initiatives being co-created by agribusiness companies and organizations such as the Bill & Melinda Gates Foundation and TechnoServe offer collaborative models for the way forward.

Fourth, coordinate efforts to strengthen health systems. There is a potential to take a more systemic approach to strengthening health systems. Companies in many industries, not only health care, are already active in workplace programs and community efforts to address chronic and infectious diseases in developing countries. Collective business initiatives such as the Global Business Coalition on HIV/AIDS, TB and Malaria and country-level counterparts have mobilized private-sector leadership in tackling specific disease burdens. Multistakeholder global health partnerships offer innovative models for leveraging private finance, technology and networks to serve poor people, both globally and at the country level. These vertical initiatives provide lessons for launching country-led alliances aimed at strengthening health systems in a more integrated manner.

Fifth, build coalitions to enhance humanitarian assistance. Humanitarian crises are likely to increase in the face of climate change and in fragile states. Hundreds of companies and their employees already provide cash and product donations on an individual basis to humanitarian agencies and NGOs. A few are using social media networks and cause-related marketing campaigns to multiply these contributions. At the same time, there are opportunities for more systemic multistakeholder efforts to improve coordination, scale impact, manage costs and enhance effectiveness. Examples are emerging and need to be supported, studied and, where relevant, scaled up or replicated. They include the Partnership for Quality Medical Donations, NetHope, the Emergency Capacity Building Initiative and evolving cooperation between mobile telephone and financial service providers to facilitate donations, remittances and communication after disasters.

Sixth, integrate private participation into the aid effectiveness dialogue. Few private enterprises or their representative bodies have participated in the High-Level Dialogues on Aid Effectiveness. The Paris Declaration and the Accra Agenda for Action mention the private sector only six times, mostly in passing. In addition to the more vertically oriented recommendations outlined above, the private sector could be more effectively engaged on these three platforms:

1. Within developing countries, there is a need to explicitly broaden the concept of "country ownership" to include private-sector leaders and leaders from civil society—not only representative business groups but also top business, civic and academic leaders—to form high-profile coalitions that can help government officials identify priorities for inclusive and green growth and develop implementation strategies and public campaigns. Lessons can be learned from the Country Coordinating Mechanisms of the Global Fund, and from initiatives such as South Africa's Business Trust, which is jointly administered by government leaders and corporate CEOs to harness business resources for development.

2. Within donor countries, there is an opportunity to scale up business engagement in advocacy and public awareness efforts. In the United States, networks such as the Initiative for Global Development, the U.S. Leadership Council, the Modernizing Foreign Assistance Network and the Ad Council have brought together corporate leaders with their NGO counterparts to raise public awareness of development issues and/or to advocate for aid and trade reform in the U.S. government.

3. At the global level, the Fourth High-Level Dialogue on Aid Effectiveness in Seoul which will convene in the fall of 2011, offers an opportunity to engage the private sector more strategically. Business leadership coalitions and individual business leaders could be invited to share concrete examples on how companies are forming partnerships with donors to improve development outcomes and to make specific commitments for scaling business engagement in development. The Seoul dialogue will offer a platform to engage business leaders from Asia, Africa, Latin America and the Middle East, in addition to those from OECD-based multinationals.

Conclusion

Private-sector contributions and market-based approaches to development are by no means a panacea. Their potential can be undermined by governance gaps, market failures and bad business practices. Some of these obstacles can be overcome by collaboration with other development actors. Others call for regulatory oversight or vigilant nonprofit watchdogs and an open media. There will always be a need for governments, donors, philanthropists and NGOs to provide social services, cash transfers and safety nets to the poorest, most vulnerable communities.

At the same time, the private sector is an important part of efforts to improve development outcomes and stretch limited official development assistance and philanthropic dollars. Therefore, the donor community should collaborate more actively and closely with businesses at the operational and policy levels, both domestically and globally. There is great potential to jointly develop innovative new financing mechanisms, technologies and business models that will deliver more inclusive green growth in developing countries.

Editor's note: This brief is drawn from a forthcoming report: Jane Nelson, "Expanding Opportunity and Access: Approaches That Harness Markets and the Private Sector to Create Business Value and Development Impact," John F. Kennedy School of Government, Harvard University.

INTERNATIONAL NGOS AND FOUNDATIONS: ESSENTIAL PARTNERS IN CREATING AN EFFECTIVE ARCHITECTURE FOR AID

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Executive Summary

Beyond the expanded complexity of official development aid channels, international aid effectiveness dialogues must contend with the significant and proliferating contributions of private assistance. After analyzing the relationship between official aid and private development assistance-with a focus on international non-profit organizations, this brief recommends that core principles of the Paris Declaration and the role of civil society representatives must evolve in the international dialogue in order to maximize aid effectiveness and achieve the U.N. Millennium Development Goals.

Significant shifts are occurring within the international aid architecture.[1] The channels through which official development assistance (ODA) is delivered have expanded dramatically, with a 2006 World Bank analysis listing more than 230 international organizations, funds and programs.

The global dialogues culminating in the High-Level Forums and the commitments explicit in the Paris Declaration have been a welcome recognition of the hazards accompanying the growing complexity of this international aid system, and they have also been positive catalysts for rationalizing the delivery of ODA and taking concrete steps to increase both its effectiveness and transparency.[2]

Yet the changes associated with ODA are only one shift in the overall aid architecture. Nonstate entities and middle-income countries are adding significant new resources and complexity. These new actors bring distinctive value, expertise, partners and motivations—dimensions that expand the potential of aid beyond the simple addition of their financial revenue. For example, the members of InterAction, the largest platform for U.S. NGOs, pledged $511 million in private development assistance (PDA) for the reconstruction of Haiti, and they are also investing a comparable amount in the relief effort. However, these aid flows have essentially been ignored by the formal ODA architecture, and thus globally there are in essence two relatively disconnected aid systems, one official and the other private.

This brief examines the scope and character of the PDA being provided by nonprofit organizations.[3] For the aid architecture to maximize its effectiveness in promoting development and achieving the UN Millennium Development Goals, formal integration of the intellectual capital, financial resources, technical capacity and decades-long experience of PDA into broader aid effectiveness dialogues would represent a significant leap forward. There is a largely unexplored space for high-level collaboration to enhance the complementarity between ODA and the aid provided by organizations whose operations are funded by private sources. This brief aims to assist and encourage this constructive dialogue in order to engage populations in efforts that advance the MDGs, to leverage the varied strengths of official and private aid flows, to shape the effectiveness of private aid flows and to promote the design of a global aid architecture that better reflects the current reality of all aid flows.

Private Development Assistance

Private development assistance is complex. To understand how PDA works, it is thus necessary to consider its ecology, the roles of international nongovernmental organizations and the role of foundations.

The Ecology of PDA

The scale of PDA is significant. It is estimated that private philanthropic aid from 14 developed countries totaled $49 billion in 2008. ODA totaled $121 billion. The U.S. portion of PDA, $33.7 billion (almost 70 percent of the total), results in the breakdown shown in table 1.[4]

Table 1. Sources of U.S. Private Development Assistance, 2008

Source	Total (billions of dollars)	Percentage of Total
International nongovernmental organizations	11.8	35
Foundations	4.3	13
Corporations	7.7	23
Religious congregations[5]	8.2	24
Universities	1.7	5

Source: Index of Global Philanthropy and Remittances.

Not all PDA represents organized project-based aid, applicable to the norms, protocols and best practices representative of the organized aid architecture. Portions of the contributions by religious congregations, for example, go to short-term missions—such as trips by groups to tackle small projects. Universities support scholarships for international students to study in the U.S. The largest segment of PDA that most closely conforms to the practices of the aid architecture comes from international NGOs and foundations.[6]

It is important to note that developing countries can direct only a portion of ODA toward actual development programs. An analysis of 2005 aid flows found that once other uses—such as debt relief, administrative costs for aid agencies, expenses for coordination, humanitarian aid and food security—were deducted, the actual aid for country programs was approximately 37 percent of ODA, a total of $38.4 billion. A much larger proportion of PDA associated with international NGOs and foundations supports a country's domestic development programs and associated community-level needs.[7] Though accurate estimates are complicated by incomplete data, the orders of magnitude of ODA and PDA available for country program aid are much more equivalent than the aggregate totals suggest.

It would be a mistake, however, to assess the importance of PDA solely in terms of financial resources. The reach, characteristics and distinctive approaches of international NGOs and foundations add important new dimensions to the aid system that improve its development effectiveness.

International Nongovernmental Organizations

Estimates put the number of secretariats for international nongovernmental organizations (INGOs) at about 18,000, and the development-focused revenues of the sector now exceed those of the entire United Nations system (O'Keefe 2007; Desai and Kharas 2009). At the same time, the bulk of INGO resources are concentrated in a small number of organizations. InterAction found that its nine largest members accounted for 47 percent of all revenue, compared with 1.17 percent for the 63 smallest (InterAction 2009). The largest global INGO has a paid staff of 46,000, but less than a quarter of its $2.2 billion worldwide budget is part of ODA and the official aid architecture.

The majority of the INGO community has organized its services around one or more Millennium Development Goals, with the largest global INGOs actively engaged across multiple sectors. Major INGOs have extensive project monitoring and evaluation capacity, often much larger than that of donor governments; they have thousands of highly technical staff members; their global infrastructures are overwhelmingly staffed by local personnel; and their relationships with local governments and civil society groups are often founded on decades of joint project work. Theirs is a bottom-up approach to development where the initiative and participation of poor people and local civil society groups drive programs and outcomes.

The INGOs in particular have a direct interest, as large global donors, in participating in and shaping the evolution and rules of a broader, more comprehensive frame for the global aid architecture. Their programs often complement and leverage ODA flows while fitting into the development strategies of nation-states.

Foundations

From 1980 to 2008, the number of active foundations in the U.S. increased from just over 22,000 to almost 76,000 (Lawrence and Mukai 2010). Between 2001 and 2005, these foundations' giving to international causes increased by more than 70 percent (Foundation Center and Council on Foundations 2008). And between 2001 and 2005, the number of public-benefit foundations in 13 EU member countries increased by more than 50 percent—to 95,000.

The resources of foundations are fairly concentrated. In 2008, only 25 U.S. foundations accounted for almost 25 percent of total domestic giving, and the 10 largest EU foundations held almost 25 percent of foundation assets in those countries (Foundation Center and Council on Foundations 2008; European Foundation Center 2008).

Some of this growth has been driven by a wave of successful entrepreneurs entering the philanthropic world, seeking to apply to social problems the calculated risk taking, business discipline, and drive for scalable solutions that served them well in their for-profit ventures.[8] Their activity has significantly raised the profile of philanthropy among the world's wealthiest, with much attention focused on developing countries.

Dimensions of the Relationship between PDA and ODA

For the most part, the channels through which ODA and PDA flow remain separate. Though there are a small number of public–private mechanisms, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, and though U.S. INGOs program a limited proportion of overall U.S. ODA (10 percent, according to recent estimates), ODA channels are dominated by public funds and government-led decisionmaking, whether through bilateral channels or by the boards of multilaterals. PDA flows predominantly through civil society organizations, with INGOs and foundations funding a wide array of local civil society groups. Yet PDA and ODA intersect in substantive ways, and an examination of their relationship helps to give a comprehensive picture of the aid system and its potential for achieving development outcomes.

Complementarity

PDA and ODA are often complementary (Desai and Kharas 2009), with the strengths of each enhancing or building upon those of the other. Several distinctive characteristics of INGOs and foundations facilitate this:

- *Innovation:* As mission-driven organizations whose bottom lines are social improvement, with primary accountability to governing boards of directors, both foundations and INGOs have the space to exert a high degree of independence, flexibility and risk taking. This often results in significant innovation. The Bill & Melinda Gates Foundation, for example, has pioneered new collaborations (such as the GAVI Alliance) and new approaches (such as advance market capitalizations) to accelerate the development of vaccines for infectious diseases affecting developing countries. Many essential development practices—such as participatory development, rights-based approaches, gender-based practices, microfinance and a focus on smallholder farmers—were originally championed by the INGO community.

- *From local to global:* With their objectives firmly rooted in social change and progress, INGOs place a high priority on identifying promising ideas and leaders that emerge at the community level, often investing in smaller-scale efforts grounded in a local context and culture. At the same time, they have a global presence, with global networks that act as conduits for sharing development knowledge and innovations within and across countries.

- *Knowledge:* INGOs have significant evaluative capacity and decades worth of project assessments, and foundations routinely monitor outcomes on a per-grant basis. Admittedly, many of the data for these outcomes are at the project level and unpublished, which makes their impact across sectors difficult to aggregate. At the same time, the learning that is captured makes INGOs, foundations and other private sources key experts and valuable sources of knowledge for other development actors.

PDA strives to be innovative, people centered, long term,[9] and grounded in local adaptation; ODA seeks to work at scale and build state-centered capacity. ODA grows out of, and is influenced by, the strategic political considerations of donor countries. Its primary point of entry is at the national level, supporting national governments and plans, and building physical infrastructure as well as social programs. PDA, which is primarily mission-driven, represents the personal engagement of private citizens in social issues. Its primary focus begins at the community level—in supporting local civil society and municipal and provincial governments, and in investing in poor people themselves to develop the human capacity to overcome poverty, environmental degradation and human rights violations. From this perspective, ODA and PDA together constitute a more robust definition of "country ownership" than that suggested by the Paris Declaration.

Political Interdependence

As country-to-country aid, ODA is drawn from tax revenue. Decisions about its deployment are made by elected and public officials, and its continuation depends upon their political will. PDA, conversely, represents the ideals of a large group of private citizens. In 2006, members of InterAction in the U.S. received funds from 13.6 million different U.S. donor groups that varied from community organizations and corporations to faith-based institutions and youth service groups. These groups consisted of an estimated 30 to 40 million Americans (Interaction 2009).

PDA can be characterized as less "democratic," in that it derives its force from self-selected donors and their particular motivations, ideas and interests. Yet, though all taxpayers nominally contribute to ODA, citizens have limited, if any, direct agency over the direction of those resources. PDA results from donors choosing to give—embodying decisions about the strengths of a particular INGO and who will benefit from their aid, and in what way. It not only provides an outlet for a set of compelling motivations and values; it also builds the primary domestic political constituency for ODA. The advocacy of its proponents significantly influences the public agenda for development.

Substitution

The official aid architecture is based on the notion that governments are the primary providers of social services. In many instances, however, nations or the UN structure have been unable to successfully provide basic public goods to all citizens. Civil society has evolved to fill some of these gaps. Tremendous global capacity has been developed; approximately 20 INGOs each have from 5,000 to 46,000 employees, and typically 97 percent of their staffs are local.

These resources tend to flow from INGOs in the global North to civil society actors in the South, and at times to the frontline services of municipal governments, bypassing the national infrastructure—admittedly, not an ideal situation for strengthening state governance and the delivery of services. Governments often try to structure or regulate these services, and the move to capture or restrict PDA compels it to flow to a more hospitable environment. This misses the opportunity to tap and leverage the capacity of local civil society groups.

As local civil society groups increase their capabilities to provide services and support communities, they also provide a platform for strengthening the ability of everyday citizens to engage in political processes and push the state to increase its capacity for social services and public goods. Their relationships with INGOs in the North helps amplify the voice and concerns of poor communities in policymaking discussions at the global level. This plays an important role in ensuring that policy decisions and local service delivery take the realities and challenges of day-to-day living into account.

A 21st-Century Charter for International Cooperation

The cooperative agreements embodied in the Paris Declaration and the Accra Agenda for Action have fostered concrete improvements in the delivery of ODA. However, to acknowledge that civil society—given its size and distinctive contributions—plays an integral role in advancing development outcomes and providing essential services is to recognize that the capacity of governments and state-sponsored agencies falls short of what is needed to achieve the Millennium Development Goals. To end extreme poverty, instead of just following a "whole-of-government" approach, we must gain a "whole-of-society" capacity that includes both government and local civil society groups.

From this vantage point, dialogues must expand beyond a focus on aid effectiveness to maximize the development effectiveness of the entire global aid system. This will create the space for discussing the roles and responsibilities of the various actors and for exploring ways to tap and leverage PDA's potential. A comprehensive donor framework could work to ensure a constructive relationship among the public, corporate and NGO sectors, enhancing the comparative advantages of each.

The core principles of the Paris Declaration would define the overall aid agenda, but they would need to evolve significantly to reflect a broader approach. Thus, a set of PDA norms needs to emerge, building on the global effort already under way to establish a framework for PDA:

- The concept of the "enabling environment," as put forward in the Accra Agenda, would take on added importance and be introduced for all civil society organizations.

- The principle of "ownership" would expand to include local civil society groups and community leaders.

- The norms related to "transparency" would also apply to PDA, creating an incentive for achieving additional openness and the standardization of data.

- “Accountability” would extend beyond the nation-state to focus on local populations.

- “Harmonization” and “alignment” would add urgency to the emerging efforts to rationalize and map PDA.

PDA is not a panacea, nor without its challenges. Various issues threaten to undermine its impact—including incomplete transparency and partial data, limited accountability, a lack of effective coordination and excessive competition. But the formal inclusion of PDA in the Paris and Accra cooperative agreements provides an incentive for INGOs and foundations to address these issues, while giving donor governments a voice in proposing solutions.

A significant dialogue has emerged between civil society representatives and the global discourse that continues—through various High-Level Forums—to evolve and advance the commitments of the Paris Declaration. This dialogue has focused on critiques of the OECD’s Development Assistance Committee (DAC), the Paris Declaration, the nature of the global aid system, and the need to include civil society in the conversation. These advocacy efforts successfully brought some representatives of civil society to Accra and helped broaden the agenda. They did not, however, accomplish a number of important tasks—focus on the role of PDA; recognize efforts by civil society to advance development principles for the NGO community; align ODA and PDA, while recognizing the essential nonstate nature of private aid; or engage the leadership of the PDA community.[10]

An official relationship that links the leadership of major PDA institutions with the OECD’s DAC and its ministerial-level dialogues needs to evolve, not simply on an ad hoc basis but more formally within the structure of the global aid system. One concrete solution is to add six “observer” seats—but defined as active participant seats—at the OECD’s DAC ministerial table, three representing PDA donors from the North and three their civil society counterparts from the South. Though the process is challenging, global civil society has increasingly proven its ability to select its own formal representatives through a transparent and inclusive manner. Recent examples include the inclusion of civil society representatives in the Multi-Donor Trust Fund for Food Security and the INGO representative seated on the board of the Interim Committee for the Reconstruction of Haiti.

The organizations supported by PDA are by definition not nation-states and, as such, they are not they trying to become an official part of the ODA infrastructure. Private aid structures will remain independent, but it makes little sense for official discussions of the aid infrastructure to keep leading private donors out of the formal leadership dialogue. As nonprofit actors, funded largely funded by the public at large and narrowly focused on a specific mission, they play an important role that is significantly different and complementary to those of sovereign states engaged in development efforts.

The global aid architecture continues to suffer from a proliferation of uncoordinated actors, poorly applied principles, a lack of rationalization and parallel official and private aid systems. Its overall effectiveness can only benefit from a recognition of the value, role and operational limits of private development assistance, and from the formal inclusion of PDA’s leaders in the shaping of a more global and inclusive dialogue to advance development effectiveness.

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Endnotes

1. As defined by the World Bank, the aid architecture is the set of rules and institutions governing aid flows to developing countries

2. The member governments of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) have traditionally been the dominant sources of aid flowing from developed to developing countries.

3. "PDA" is used here to describe the international aid that flows from private philanthropic sources. In this usage, PDA does not include private capital investments or re-mittances, though these also have development effects.

4. Though the Index of Global Philanthropy and Remittances includes an estimation of the monetary im-pact of volunteer services, we have omitted this estimate from this analysis, in order to focus solely on actual cash flows. Nation-states and the OECD's DAC often ques-tion the total amount of PDA. Though there are grounds for further analysis, the total private resources raised by international NGOs continue to grow. For InterAction members, it is currently about $8.5 billion a year. In the U.S., these private aid flows continue to grow sig-nificantly.

5. This total represents contributions by congregations to local civil society organizations, including both short-term or long-term missions. Contributions to faith-based NGOs, such as World Vision International and Catholic Relief Services, are represented in the international NGO category.

6. Corporations, like for-profit organizations, have pres-sures, motivations and goals that diverge from the domi-

nant mission orientation of international NGOs and foundations.

7. For the $8.8 billion managed by members of InterAction in 2006, an average of 92 percent was spent on program activities. Also, though it has been customary to think of international NGOs as primarily delivering emergency relief, the best recent estimate of U.S. NGOs programs sets the level of humanitarian aid at 36 percent (Hudson Institute).

8. Notable among these are Bill and Melinda Gates and Warren Buffett, but the movement extends across the world, from Carlos Slim in Mexico to Yu Pengnian in China. Different monikers—venture philanthropy, philanthrocapitalism—have emerged to describe their approaches.

9. Many INGOs routinely plan to spend PDA as 10-plus-year investments into a particular program area or civil society group.

10. Civil society groups engage in advocacy at High-Level Forums and other DAC-led events. These efforts tend to gather the advocacy side of global civil society. The leaders of the large INGOs and foundations rarely participate in these gatherings because there is little or no space for CEO-level dialogues.

RESPONDING TO A CHANGING CLIMATE: CHALLENGES IN FINANCING CLIMATE-RESILIENT DEVELOPMENT ASSISTANCE

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Executive Summary

The inherent link between poverty alleviation, sustainable development and climate change has changed the concept of official development assistance, expanding its traditional focus from economic development and welfare to include environmental sustainability and protection from catastrophic climate change threats. Reflecting this change is the recent proliferation of climate change financing instruments to address these new and rising challenges. Accompanying this rapid expansion are complexities that must be carefully considered as development assistance reform evolves to account for changes in the world's climate and to ensure low-carbon sustainable growth.

This policy brief underlines four key challenges in achieving climate-resilient growth in developing countries:

1. substantial climate change finance resource gaps in developing countries;

2. limitations of the international financing climate change architecture;

3. difficulties in defining "additionality" in resources and incremental costs; and

4. differing perceptions, expectations and levels of trust among developed and developing countries.

The Climate Change Challenge

Addressing climate change is one of the most important challenges of the 21st century. A changing climate has an impact on all people in all countries, but its negative effects most drastically endanger the world's poorest populations. Around the world, millions of poor people are already at risk of tragic crop failures, reduced agricultural productivity, increased malnutrition and hunger, water scarcity and the spread of infectious diseases. *World Development Report 2010* estimates that the developing countries will bear between 75 and 80 percent of the costs of damages associated with climate change (World Bank 2009).

Fighting climate change is a global public good with two principal aspects, *mitigation* and *adaptation*. First, efforts to *mitigate* climate change help to ensure long-term sustainable development for the entire global community, in both developed and developing countries. Second, *adaptation* assistance is critical in protecting the world's poorest people from potentially devastating climate change effects. In addressing climate change, it is important to take careful note of the differences in the conceptual assistance frameworks for adaptation and for mitigation.

Adaptation aid fits conceptually into the traditional development assistance framework because it helps vulnerable countries cope with actual or expected climate change. Take, for example, the resources provided for the construction of climate-resilient rural access roads or early warning systems for extreme weather events. These resources directly benefit local recipients, with little spillover to regional or global populations, and they should therefore appropriately be categorized as resources dedicated to poverty reduction. As with traditional development assistance, there is a moral duty to act. This is particularly strong for adaptation, because the developing countries will suffer most from the past actions of the developed countries, which are responsible for the majority of historic greenhouse gas emissions (GHGs).

Mitigation finance can be seen more as providing a global public good and does not fit so cleanly into the traditional development assistance framework. Mitigation efforts benefit all countries and require a joint financing effort for the global public good of GHG emissions reduction. Although the high-income countries are responsible for the majority of the cumulative atmospheric GHGs, the infrastructure and policies pursued by the rapidly growing emerging economies will have a major role in defining our future path of global emissions. The advanced economies currently account for about 45 percent of global emissions, and assuming that current trends continue, this is estimated to drop to 35 percent by 2030 (World Bank 2009). Countries that rely heavily on coal, such as India and China, are on a path to emit GHG concentrations that rival developed countries' levels. Reducing GHG emissions requires a coordinated international effort.

Thus, it is important to distinguish the conceptual differences between climate change adaptation and mitigation. But it is also necessary to recognize that provisions for both adaptation and mitigation must meet sustainable economic development objectives.

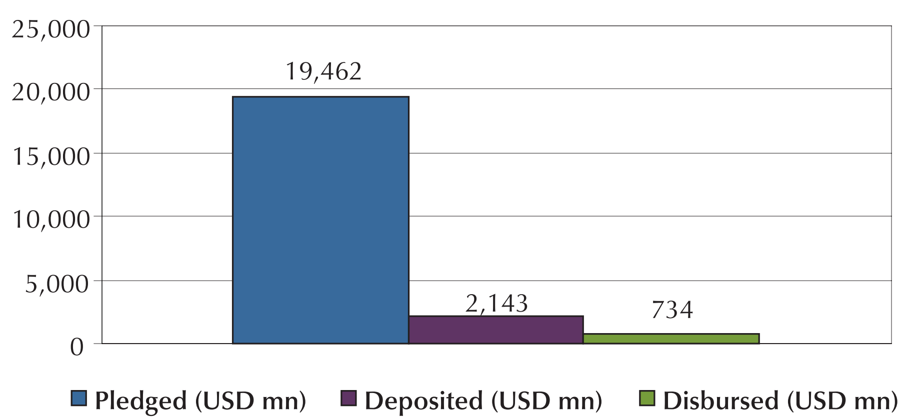
Substantial Climate Change Finance Resource Gaps in Developing Countries

Estimating the costs of addressing climate change is inherently difficult, for a number of reasons—including the heterogeneous effects of climate change across countries, the uncertainty of the force and magnitude of climate change and the variability of a country's capacity to pay. Nevertheless, there have been various attempts to estimate these costs. For adaptation alone, all estimates indicate that these costs to developing countries are, at a minimum, tens of billions of dollars annually.

In *World Development Report 2010*, the World Bank (2009) estimates that annual incremental mitigation costs in developing countries—using the target that global average temperature increases should not exceed 2 degrees Celsius—could be between $140 and $175 billion a year during the next 20 years, with associated total investment financing needs of anywhere between $265 and $565 billion. It also estimates that adaptation costs in developing countries could average anywhere from $30 to $100 billion a year from 2010 to 2050. The current financing commitments by developed countries to assist developing countries will cover less than 5 percent of these estimated mitigation and adaptation costs. With the Adaptation Fund as the exception (capitalized through a 2 percent levy on the Clean Development Mechanism), the majority of current financing instruments rely on voluntary contributions and lack the predictability required for effective climate-resilient development assistance (figure 1).

Not included in figure 1 are the recent pledges outlined in the Copenhagen Accord in December 2009. Within the accord, many developed countries pledged to provide "new and additional resources" of $30 billion for "fast-start finance" for 2010–12 that will be used equally for adaptation and mitigation ef-

Figure 1. Climate Change Funds: Overall Totals (millions of dollars)



Note: Pledges represent verbal or signed commitments from donors to provide financial support for a particular fund. Deposits represent the funds that have been transferred from the donor into the account(s) of the fund. Disbursed funds represent those funds that have been spent, either through administrative means or directly to an implementation program or project, with proof of spend. Funds totaled include AF, FA, CTF CBFF, CEP, FCPF, FIP, GCCA, EREF, ICI, IFCI, LDCF, MDG, PPCR, SREP, SCCF, SPA and UN-REDD Program.

Source: Climatefundsupdate.org.

forts. These countries also proposed a "Copenhagen Green Climate Fund," which includes a loose commitment from developed countries to "mobilize" $100 billion a year by 2020. Although this proposal clearly shows progress in international cooperation in bridging the resource gap, it is ambiguous and lacks critical detail. For example, no baseline was defined to determine what are new and additional resources; nor is it clear what sources and fund types will be made available, what entities will govern the funds, and how the funds will be prioritized and disbursed.

The quantity of resources required to combat climate change is massive, and conventional public financing alone will not be sufficient to close the resource gap. Innovative funding mechanisms and private-sector finance will also play a key role. One of the most prominent market-based mechanisms involving developing countries is the Clean Development Mechanism, one of three market-based mechanisms established under the Kyoto Protocol to mobilize mitigation efforts. The CDM allows developing countries to earn certified emissions reduction credits, each equivalent to 1 metric ton of carbon dioxide, which can be traded or sold to other countries, which can then apply them to their emissions reduction targets.

Although the CDM has been successful in mobilizing projects (so far, approximately 4,000) and in reducing emissions, it also faces critics who question its ability to function as an efficient financing mechanism. In particular, the process for project qualification has been time consuming and expensive, and there is concern that those projects in the pipeline will not really alter the current growth path. There is also the possibility of gaming the system by wrongly defining the difference between the baseline and the projects submitted. In addition, critics argue that the CDM has largely bypassed low-income countries. *World Development Report 2010* reports that 75 percent of carbon sales revenues have gone to Brazil, China and India, whereas only 3 percent have gone to low-income countries.

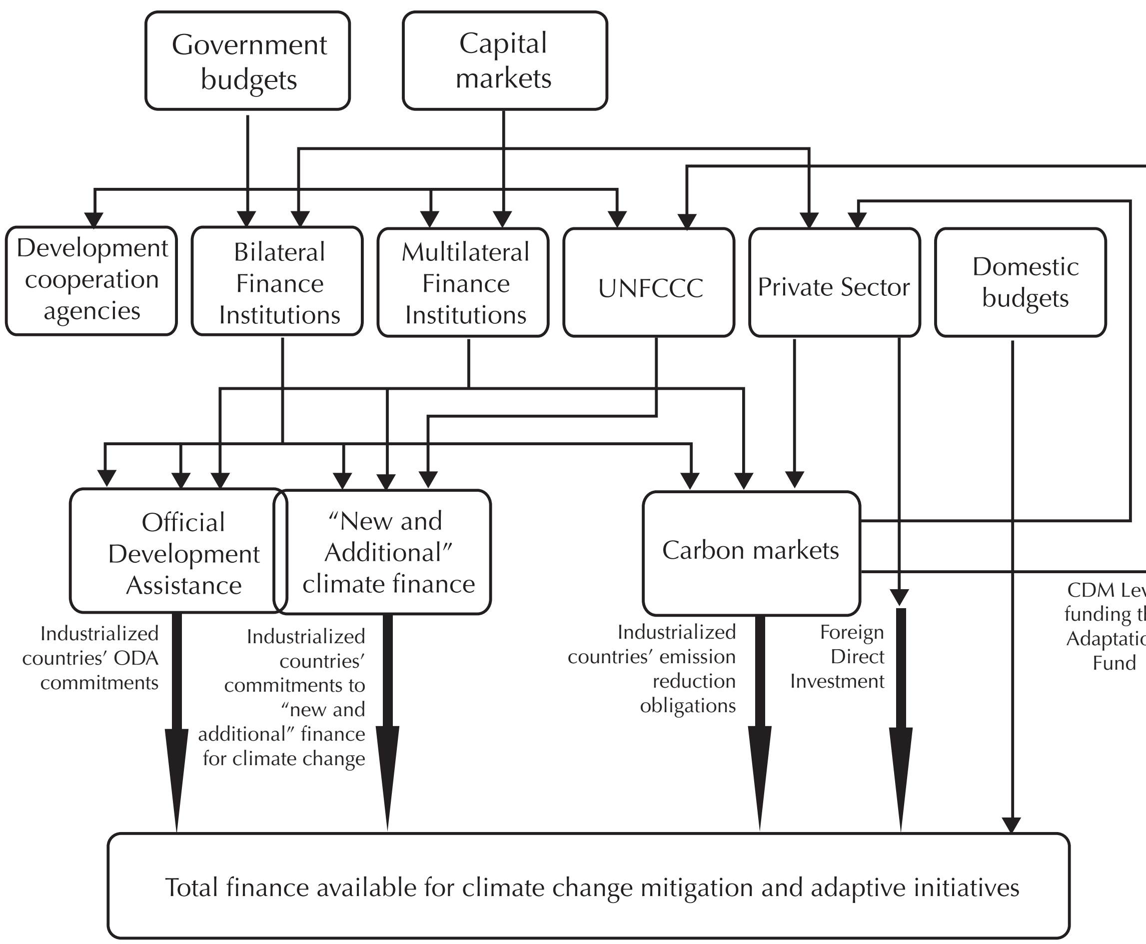
Limitations of the International Climate Change Financing Architecture

In addition to significant gaps in financial resources, the current climate change financing architecture has clear limits and inefficiencies, and it has changed dramatically in the past few years—most notably with the recent rise in the role played by the World Bank and the multilateral development banks. Funding streams are diverse and complicated, and the process of ensuring measurable, verifiable and consistent monitoring and reporting of climate change action has become a major challenge. This new architecture also poses risks of inefficiency, a lack of coordination and duplication of effort, and it raises new concerns about the governance of these funds.

Figure 2 illustrates the complexity of the current fragmented climate change financing landscape, which lacks an overarching global framework. Such a framework could help ensure coordination among resource channels, harmonize monitoring methods and fill in data gaps, increase transparency and legitimacy, minimize transaction costs, prevent duplication and streamline the distribution of funds to programs and projects. The challenge is that no single binding global treaty will work. The framework must be flexible enough to allow ample policy space for national policy implementation, but it must also provide consistent measurement and monitoring methods to ensure the transparent verification that is critical for garnering international trust and cooperation. In this way, climate change assistance is just like broader development assistance.

With this surge in international climate change financing instruments, new concerns have been raised regarding governance. Some developing countries, worried about high administrative fees and overly prescriptive conditions, have challenged the principle that climate change finance mechanisms should be housed in the World Bank and the multilateral development banks (MDBs). Instead, some argue, such funds should be consolidated under a "Global Climate Fund" that is administered by the United Nations Framework Convention on Climate Change (UNFCCC), where developing countries feel they are more fairly represented. Yet there are specific advantages to increasing the MDBs' involvement in international climate finance, particularly their strong project experience and ability to leverage additional funds. Moreover, it is entirely possible to put in place specific governance arrangements, separate from the

Figure 2. Financial and Investment Flows to Developing Countries for Climate Change Adaptation and Mitigation Efforts



Source: World Bank 2010b, figure 1.

overall governance of the MDBs, that would apply to climate change finance.

Difficulties in Defining "Additionality" in Resources and Incremental Costs

One of the biggest debates underlying the international climate change negotiations is the concept of additionality. In 2007, the parties to the UNFCCC agreed in the Bali Action Plan that the financing used to manage and control climate change should be "new and additional." However, there is no clear agreement on the definition of what should be considered "new and additional" resources—specifically, new and additional to *what* benchmark? Without a baseline that is universally acknowledged, the concept of new and additional becomes almost irrelevant.

In this context, most developing countries are understandably concerned about "aid diversion"—the situation that without a clear definition of additionality, previously promised development assistance commitments will simply be diverted to climate change finance.

On one hand, to ensure additionality, almost all the developing countries (and some developed countries, that is, Norway and the Netherlands) agree that this baseline should be defined as a commitment of 0.7 percent of a nation's gross national income (GNI) to official development assistance (ODA)—a benchmark to which most wealthy nations recommitted in 2002 in the Monterrey Consensus on Financing for Development. Under this scenario, only the portion of climate change finance that is above and beyond the commitment of 0.7 percent GNI would be classified as climate change aid (IIED 2010). Though this seems arithmetically straightforward, there are challenges to using the 0.7 percent benchmark. Many OECD countries have not met this target, notably the U.S., which has not even committed itself to it. Therefore, it will be quite difficult to determine whether the climate change financing provided by these countries is actually rerouted ODA contributions or is truly additional. In particular, the U.S., by not having committed itself to the target of 0.7 percent of GNI, would find problems with this approach. Also, because the 0.7 percent target will not become effective until 2015, this baseline would not be appropriate for another five years (World Bank 2010b).

On the other hand, many donor countries claim that this baseline or any baseline is unreasonable, considering the close link between adaptation and development. Take, for example, the resources provided for the construction of climate-resilient roads, heat-resilient crops and more efficient irrigation systems. These projects both reduce poverty and assist countries in adapting to changing climates. For this reason, most donor countries argue that all concessional aid should be considered ODA and counted toward the commitment of 0.7 percent of GNI, without a particular distinction between adaptation and other forms of poverty reduction. However, even if one were to accept this position, the global public goods provision through mitigation surely cannot be classified as traditional ODA. It is clear that the financing of incremental mitigation costs must be classified under a different heading. Climate change assistance that directly benefits the citizens of developed countries cannot be defined as ODA.

Another complicated task associated with climate change financing is determining the *incremental* costs of climate change projects. The UNFCCC defines these as the "costs required to equalize the costs of a project having global environmental benefits with those of a project designed to achieve the same developmental benefits but without the global environmental benefits"—for example, the difference in cost between a coal-fired power plant using standard technology and the cost of the "cleanest available coal-based technology." Conceptually, the distinction is clear. In practice, however, past experience shows that it is often difficult to quantify the actual incremental costs.

Differing Perceptions, Expectations and Levels of Commitment among Developed and Developing Countries

A major underlying tension within the international climate change negotiations is how to reconcile differing perceptions among developed and developing countries on what is considered to be *equitable* climate change financing. Most developing countries feel that climate change financing (particularly for adaptation) is an entitlement rather than aid, because the developed countries are responsible for the bulk of historic GHG emissions. And therefore, these countries feel that assistance should be structured as grants rather than loans (albeit under concessional terms) or foreign aid. Under current rules, most climate change financing is ODA-eligible. A new Oxfam report argues that public finance for adaptation efforts should be entirely in the form of grants and that at least two-thirds of financing for mitigation should be in the form of grants (Oxfam 2010). This distinction, in a conceptually accurate way, differentiates financing for adaptation from financing for incremental mitigation costs. But this view contrasts with the positions of many OECD countries, which feel that the close link between climate change finance and development finance makes it difficult to separate the two, and that all concessional aid should be recorded as part of their "traditional" ODA.

These tensions surrounding climate change finance are embedded in the broader challenge of overcoming the "trust deficit" that has plagued climate change negotiations and has grown considerably since the drafting of the Copenhagen Accord, a nonbinding political agreement, in December 2009. Many countries consider the accord to have been driven by just a handful of countries, with most countries excluded from the last-minute closed-door discussions to draft the text. Furthermore, the failure of the developed countries—the historic major emitters of GHGs—to produce sufficiently ambitious, binding emissions targets and to deliver on their climate change finance pledges has exacerbated suspicion and mistrust among the developing countries. The recent breakdown of climate change legislation in the U.S. Congress has further added to this trust deficit.

Beyond the challenge of rebuilding trust is the underlying global issue of apathy among the general public, a mood reflected in many nations' policies toward the potential severity of climate change and the global imperative to act now. Climate change is a complicated science that is extremely technical and difficult to narrate; its effects are slow, long term, global and uncertain. The mood has become all the more somber in the aftermath of the Copenhagen meeting, where the inflated expectations for a bold, binding and comprehensive international agreement were met with disappointment. It is crucial to establish a new narrative about the challenge of climate change—one that effectively depicts the economic and security interests at stake, and is able to stress both the uncertainties we face and the threat's potential magnitude.

From Copenhagen to Cancún: Steps toward Progress

"The Copenhagen meeting may have postponed an outcome for last year, but it did not postpone the impacts of climate change" noted the newly retired UNFCCC executive director, Yvo de Boer, at the opening session of the climate change talks in Bonn in June 2010. The challenges outlined above are complex and cannot realistically be overcome in the lead-up to the next UNFCCC meeting in Cancún in December 2010. However, as de Boer explains, the climate change challenge continues despite these obstacles, and we must push forward in our efforts to respond to its immediate effects and to implement policies that will ensure a sustainable future. To best pursue these efforts, we can take at least four major steps.

The first step is to manage expectations through a two-track process. The perceived failure in Copenhagen has been detrimental to climate change action, and this is in large part due to the inflated expectations leading up to the conference, which, for many, included a "universal grand coalition" for collective climate change action willing to sign off on a "grand deal," similar to what is called a "single undertaking" in WTO language. Such a grand deal is unrealistic in the near term—it would require, among other things, the simultaneous implementation of a worldwide price for carbon accompanied by side payments to distribute the burden fairly among all countries; a complex and harmonious system for measurement, reporting and verification; enforcement mechanisms to discourage free riding; and an international governance system capable of overseeing this grand international framework. Even if this grand global coalition could be formed, it would take many years for each member country to receive approval from its national government, years during which the climate change challenge would intensify and the costs to react would grow exponentially.

We cannot afford to set ourselves up for failure again at the upcoming climate change meetings in Cancún and Cape Town. Thus, a two-track approach should be pursued to manage expectations and increase the likelihood of making short-term progress. The first track might consist of more manageable agreements of a sectoral, functional or regional nature in which smaller coalitions of actors might reach mutually beneficial arrangements that also provide the global public good of reducing GHG emissions. These agreements would likely be much more politically palatable than a grand overarching treaty and would increase the chances of making near-term progress on adapting to and mitigating climate change. Such arrangements could be appropriate for sectors such as forestry, motor vehicle manufacturing, aviation and steel and aluminum production (Bradley and others 2007). Though individually these sectors, with forestry as the exception, are a relatively small slice of the GHG emissions pie, together they would considerably curb aggregate emissions released into the atmosphere and extend our window of opportunity to reach the 2 degrees Celsius stabilization target.

However, such a sector-only approach would not be sufficient and would likely result in duplication of effort, coordination failures, higher transaction costs and other inefficiencies. So a second track is also needed. This track, which would run in parallel with the first, would consist of the annual international meetings—but meetings with a new mission to bring all the parties together to review data, to evaluate progress, to exchange views on distributional issues and resource flows and to develop a dynamic framework within which the more limited agreements could fit. There would no longer be the expectation of reaching a grand universal deal, but each annual meeting could help improve the sectoral agreements and enlarge the coalitions participating in these more limited deals.

This two-track approach would be second best to the theoretically optimal approach of a "grand deal," because there would admittedly be some loss of efficiency and equity by only having sectoral agreements. The marginal costs of mitigation would not be equalized across all sectors and countries. Yet compared with doing nothing, partial cooperation in the near term—along with continued efforts toward more inclusive global action for the medium to long terms—could be the path forward that would bring tangible progress and allow momentum to build for increasingly more ambitious steps.

The second step is for the developed countries to deliver on their fast-start finance pledges. Since Copenhagen, 17 developed countries have pledged a total of $27.9 billion for fast-start financing—though it is not clear whether all pledges consist of "new and additional" resources for climate change action, and all pledges have not gone through the national budget appropriation process. It is essential that these pledges be above and beyond previous commitments and be delivered as quickly as possible in a transparent and coordinated manner. This will not only allow the developing countries to adapt to the potentially devastating effects of a changing climate but will also help build the mutual trust that is currently missing in the international negotiation process and may facilitate more cooperation at the upcoming UNFCCC meeting in Cancún.

In addition to short-term fast-start financing, the developed countries have also pledged long-term financing efforts to mobilize $100 billion a year by 2020 to address the needs of the developing countries. Yet is unclear how these funds are to be mobilized. The High-Level Advisory Group of the UN Secretary-General on Climate Change Financing has been tasked with identifying potential sources to meet this goal, and its recommendations should play an important part in the discussions at the meetings in Cancún.

The third step is to resuscitate the innovative climate change finance discussions that began before Copenhagen. The lead-up to Copenhagen was full of creative and innovative intellectual work on how to maximize the available resources, such as auctioning assigned amount units, international emissions levies on marine and aviation, offset levies, swapping debt for clean energy, carbon taxes and special drawing rights. However, many delegations, academics, civil society and thought leaders are still recovering from their "Copenhagen hangovers," for that meeting fell far short of inflated expectations. It is essential that we reinvigorate these efforts with a renewed sense of urgency in the lead-up to the next round of negotiations, where climate change finance is surely to be one of the key obstructions.

Finally, the fourth step is to create a new narrative for climate change action. In the wake of the 2008–9 global financial and economic crisis, continuing high unemployment, budget deficits and the immediate threat of economic instability have pushed the climate change imperative to the back burner for many people. The complexity of the climate change challenge, its long-term threats and the uncertainty still surrounding the process have resulted in a lull in support from the general public. Moreover, considerable political capital was expended in Copenhagen relative to the small amount of progress that was made, and thus there is burnout in both the public and private sectors.

A new narrative that better connects national interests with climate change action is crucial. There are environmental, national security, economic, political and humanitarian rationales for fighting climate change that currently are not registering with people. For instance, the Pentagon's February 2010 *Quadrennial Defense Review* says that climate change may act as "an accelerant of instability or conflict, placing a burden to respond on civilian institutions and militaries around the world." Many countries, such as China and Germany, have already attracted serious foreign investment to their clean energy markets, and other countries have a vested interest in positioning themselves to compete (Diringer 2010). A new narrative on these issues as well as the more flexible and realistic two-track approach proposed in this brief may help revive public support for climate change action and allow both the 2010 Cancún and 2011 Cape Town meetings to make real progress rather than fuel frustration. And achieving real progress is becoming more urgent with every year that passes.

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CIVILIAN-MILITARY COOPERATION IN ACHIEVING AID EFFECTIVENESS: LESSONS FROM RECENT STABILIZATION CONTEXTS

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Executive Summary

Another international stabilization, reconstruction and state-building effort on the scale of the recent efforts in Iraq or Afghanistan is unlikely in the foreseeable future. However, there will continue to be a substantial number of insecure and fragile areas where effective international aid will be needed but difficult to provide. Recent efforts to assess international aid effectiveness in fragile states have provided a framework of general principles and have begun the difficult work of assessing donors' efforts according to those principles. In addition, scholars and practitioners have recently begun to question more basic assumptions about aid in insurgency environments—that is, whether aid actually has the effect of promoting stability.

However, missing from these debates is a focused discussion of the role of foreign militaries in delivering the range of assistance needed in fragile, postconflict and conflict areas. Donor countries and the international community need to consider how to deliver the right mix of military- and civilian-provided aid, how militaries can best support the delivery of civilian-provided aid, and how to incorporate the civilian and military contributions of nontraditional donors like China. As a starting point, consider these lessons from recent stabilization contexts:

- *Develop the capacity of the host country to coordinate, manage and implement aid programs*. Host-country-led aid efforts have a better chance of success and sustainability. Ideally, the question of the right mix of military- and civilian-provided aid would be answered through a well-informed host-country analysis of needs and priorities.

- *Clarify the mission*. A lack of clarity regarding the aid mission's purpose has plagued recent stabilization efforts, especially in Afghanistan. Clearly articulating a realistic vision makes it more likely that civilian and military entities will work together effectively to achieve common goals.

- *Beware hastily planned and executed aid projects*. Many quick-impact projects pursued under exigent circumstances did not work, had unintended negative consequences or were not sustainable. With some exceptions, aid projects should fit into a broader longer-term strategy, and civilian experts should have input on all development projects. Sequencing is key.

- *Innovate ways to protect aid delivery*. Security is still the major issue inhibiting project implementation in stabilization contexts. Donors need to find more innovative, effective and varied ways to deal with security issues in aid delivery.

The Context

Civilian and military cooperation in providing international aid is not new. Governments will continue to turn to militaries for help in humanitarian emergencies, because militaries are able to mobilize quickly to provide robust logistics, labor resources, and lifesaving aid such as food, medicine and fuel. Militaries are also indispensable for restoring order and maintaining postconflict security through multilateral peacekeeping missions. In addition, militaries should take the lead in building the capacity of other military forces to contribute to regional and international peacekeeping efforts. Militaries should also be involved in security-sector reform, especially in countries emerging from decades of conflict.

Beyond these areas, donor countries and the international community need to consider how best to deliver effective military- and civilian-provided aid in insecure and fragile environments. Pakistan, Somalia, Sudan, the Democratic Republic of Congo, Yemen, the Palestinian territories and other fragile areas will continue to pose serious challenges similar to those encountered in Iraq and Afghanistan. These low-capacity and so-called opposed development environments (that is, development activities undertaken in the presence of an armed opposition) require a different aid response from what is appropriate in more stable countries (see U.S. Institute of Peace 2010).

Traditional donors providing assistance to insecure and fragile areas will also need to agree on how best to utilize new actors interested in stability in certain regions and willing to commit resources and labor power in support of common goals. For example, the United Arab Emirates has shown an interest in supporting the development of effective security forces in Yemen and is looking to donor countries for guidance on how best to do this. China, once a critic of UN peacekeeping efforts, has quietly ramped up its contributions to such missions in recent years and is now a major contributor. In 2009, Beijing declined NATO's invitation to send Chinese troops to participate in joint military operations in Afghanistan; but China continues to provide substantial amounts of assistance (more than $250 million since 2002) to support security and development in Afghanistan.

Recently, the international aid community has made efforts to monitor the effectiveness of international aid in fragile countries. The Organization for Economic Cooperation and Development adopted a set of 10 "Principles for Good International Engagement in Fragile States and Situations" in 2007 to guide international engagement in fragile states across a wide agenda—including security, diplomacy, development cooperation, peace building, humanitarian action, trade and investment (OECD 2010).[1] These principles complement the commitments set out in the 2005 Paris Declaration on Aid Effectiveness and are integrated into the 2008 Accra Agenda for Action.[2] Early in 2010, the OECD released a report reviewing the progress by donors, based on qualitative and quantitative indicators, in implementing its principles in six fragile countries: Afghanistan, the Central African Republic, the Democratic Republic of Congo, Haiti, Sierra Leone and Timor-Leste.

The report did not focus on civilian and military roles, though it did point out some weaknesses in the relationship between civilian and military providers of assistance. It found that one of the main challenges in introducing an integrated approach linking donors' political, security and development objectives in fragile states was a lack of effective coordination structures. In Afghanistan, various military–civilian platforms have been established but have proven ineffective, mainly because of the dominance of the military agenda, the failure of the various parties to understand each other, and the rapid turnover of staff, particularly among the military. The report found no recorded occurrences of whole-of-government strategies—one strategy for a given donor, integrating political, security and development goals—in any country except for the United Nations' 2009 Joint Vision in Sierra Leone. It found that, generally, international military forces and peacekeepers operate outside national frameworks for security and development.

Scholars and practitioners have recently focused attention on whether aid activities actually promote stability in insecure environments. There is surprisingly little empirical evidence to support this notion, and more work is needed. In the context of NATO's counterinsurgency strategy in Afghanistan, there is a serious question of whether aid activities are winning "hearts and minds" or losing them. In the context of longer-term development, aid may be more effective in consolidating stability in more secure areas rather than promoting stability in very insecure areas (see Feinstein International Center 2010; Bradbury and Kleinman 2010).

For international aid to be effective in fragile and conflict-affected areas, a consensus needs to be reached on the lessons of civilian–military cooperation learned from recent stabilization missions. A more detailed and comprehensive look is needed at the difficulties of deciding who should provide certain types of assistance, the appropriate sequencing and integration of civilian and military efforts, and how best to incorporate the civilian and military components of nontraditional aid providers. As a starting point, it is useful to consider the following four lessons from recent stabilization contexts.

Lesson 1: Develop the Capacity of the Host Country to Coordinate, Manage and Implement Aid Programs

Ideally, the question of the right mix of military- and civilian-provided aid in fragile and postconflict areas would be answered by the host government based on a well-informed analysis of needs and priorities. A consensus is emerging that, to the extent feasible, the international donor community should demand and support leadership and guidance from recipient countries on aid priorities and implementation, even in fragile, conflict and postconflict environments. This approach can help harmonize donors' effort and build the recipient government's capacity to manage its development.

This challenge is indeed great. The lack of such competent and legitimate governmental entities is often the heart of the problem. In some contexts, civil society groups and the private sector may be the only viable recipients of donors' technical assistance and resources. But for the most part, fragile countries that receive aid have at least some functioning government entities that can be assisted in developing their capacity to manage donors' aid efforts. Even in Afghanistan, where governance structures are still weak, a consensus has emerged that the only way to sustain success in the development effort is for it to be led by Afghans. There have been significant successes in certain areas, for example, in health care delivery.

The key to building host-country capacity is to start early and to advocate it as the framework for providing assistance. Technical assistance to government ministries and efforts to develop a competent civil service should begin as soon as possible, even in advance of democratic elections. To the extent possible, projects should be implemented by local government ministries and local aid organizations rather than large, donor-based development firms. Building the capacity of such local institutions should be among the first aid projects begun in fragile and postconflict areas.

Lesson 2: Clarify the Mission

The international aid effectiveness dialogue recognizes that each stabilization situation is different, and that the regional and country context must be the starting point when providing assistance in fragile areas. Some progress has been made by donors in this regard. Policymakers and aid providers are acknowledging that understanding and working within the political context of the host nation are critical for success.

What is often lacking, however, is high-level guidance from donors' civilian leaders regarding the overall scope of the aid mission. There is a continuum of potential end states that can potentially be achieved through stabilization and assistance activities, from simply maintaining a cease-fire to full nation building—complete with functioning democratic institutions and access to livelihoods. In stabilization contexts, military and civilian planners and implementers need high-level officials to articulate feasible, achievable goals for each phase of engagement. Without such clarity, military and civilian entities pursue projects and activities that meet their own goals—which are often different—and fail to integrate efforts. A clearly articulated and realistic vision makes it more likely that civilian and military entities will work together, including instituting appropriate coordination mechanisms, to achieve common goals.

In addition, there must be a credible forum where civilian and military entities can coordinate their activities and share the lessons learned with others engaged in development efforts in a particular context. Being able to share real-time information about what works and what does not in the context of a particular fragile state can make the difference between a successful and an unsuccessful stabilization mission.

Lesson 3: Beware Hastily Planned and Executed Aid Projects

In Iraq, the U.S. Commander's Emergency Response Program began in 2003 to enable military commanders to pursue, with little oversight, quick-impact humanitarian and reconstruction projects as part of the U.S. counterinsurgency effort. This program has since been expanded to Afghanistan. In both Iraq and Afghanistan, provincial reconstruction teams, which include military as well as civilian experts, were created to promote stability by facilitating the provision of aid in very insecure environments.

Some projects were a great success in their own right. Some "foot-in-the-door" projects enabled engagement that generated the understanding needed to form a more strategic approach. But many projects did not work, had unintended negative consequences or were not sustainable.[3] Over time, as civilian–military integration became better, quick-impact projects also got better because they were linked to a longer-term development strategy.

With some exceptions, projects designed under emergency circumstances should fit into a broader longer-term strategy. Civilian experts should have input on all development projects. Sequencing and sustainability must be considered at the beginning of the planning process. Where the military is taking the lead on development, military units need to be appropriately incentivized to pursue projects that will have the most positive impact rather than projects that can be concluded during a single tour. All entities implementing development projects must monitor and evaluate the projects' effectiveness. On the funding side, policymakers must balance the need for flexibility in the use of funding for aid projects with the need for transparency and accountability in the use of the funds.

On a broader level, donors need to seriously consider the consequences of pouring large amounts of aid money into a particular area as part of a counterinsurgency strategy, that is, to employ locals so they do not join the insurgency. Beyond the risks of waste and fraud, this approach can spark tensions and rivalries within the community and undermine the local government's attempts to build capacity and legitimacy by providing basic services to local populations (see Filkins 2010). Moreover, if not incorporated into a broader development strategy for the town, province and country, this approach can raise public expectations for handouts that the local government will be unable to sustain once donor funds are withdrawn (see Chandrasekaran 2010).

Lesson 4: Find Innovative Ways to Protect Aid Delivery

Security is currently the major issue inhibiting the implementation of aid projects in Iraq and Afghanistan. Insurgents, terrorists and other armed groups will continue to be a reality in fragile states and regions for donors looking to provide assistance.

In very insecure environments, a foreign military presence may be indispensable. UN-led and other peacekeeping missions staffed by military contingents from UN member nations will continue to be called upon to provide breathing space for civilian aid efforts. To be successful, peacekeeping missions need adequate resources and achievable mandates. Donors must bear in mind that in some circumstances, a peacekeeping mission may be the easiest political solution but not the most practical one, particularly if the mission is not given the resources and authority to actually succeed, or if there is no peace to keep.

The most important recent innovation in securing the provision of international aid in postconflict environments are the provincial reconstruction teams in Iraq and Afghanistan. PRTs evolved over time and will continue to be a useful tool in particularly dangerous contexts. The most important challenge facing the PRT experiment today is how best to transition the functions performed by PRTs into more permanent, longer-term aid structures. In some instances, such a transition will mean moving to local ownership of the mission (including training indigenous security forces to protect aid delivery), and others may require the creation of a permanent or semipermanent donor presence.

To deal effectively in a variety of fragile contexts, both militaries and civilian aid providers will need to innovate more ways to deal with security issues, depending on the particular situation. Using local implementers will be the right answer in many contexts, though higher security concerns will still exist for program monitors.

The bilateral involvement of militaries may also be crucial in certain circumstances. For example, the civilian side of the U.S. government is using its military to implement programs in areas of northwestern Pakistan that are too insecure for civilians to enter. These programs include teaching the Pakistani military how to manage aid programs. Training local security entities in how to provide aid and how to secure the provision of civilian-provided aid can fill a crucial gap in aid delivery when a foreign military is seeking to downgrade its profile in a country but civilian aid providers still cannot operate freely due to the security situation.

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Endnotes

1. The 10 principles are (1) take context as the starting point; (2) do no harm; (3) focus on state building as the central objective; (4) prioritize prevention; (5) recognize the links between political, security, and development objectives; (6) promote nondiscrimination as a basis for inclusive and stable societies; (7) align with local priorities in different ways in different contexts; (8) agree on practical coordination mechanisms between international actors; (9) act fast, . . . but stay engaged long enough to give success a chance; and (10) avoid pockets of exclusion (that is, areas or social groups).

2. The Paris Declaration, endorsed on March 2, 2005, is an international agreement to which over one hundred ministers, heads of agencies and other senior officials adhered and committed their countries and organizations to continue to increase efforts in harmonization, alignment and managing aid for results with a set of actions and indicators that can be monitored.

3. For example, in April 2010, the special inspector general for Iraq reconstruction found that after four years of effort and about $35.5 million in expenditures on 46 projects at the Baghdad International Airport, 24 projects valued at $16.1 million had unsuccessful outcomes. The report found that Multi-National Corps-Iraq did not coordinate sufficiently with civilian agencies, lacked adequate expertise in development projects, and had no plan in place to evaluate the projects' results (Office of the Special Inspector General for Iraq Reconstruction 2010).

RETHINKING THE ROLES OF MULTILATERALS IN THE GLOBAL AID ARCHITECTURE

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Executive Summary

The multilateral aid agencies are an important pillar of the global aid architecture, but the multilateral system is increasingly fragmented with overlapping responsibilities between agencies. The core, country-based multilateral system faces challenges of governance, legitimacy and effectiveness, as development knowledge moves from a "technical expert" phase to a "power of the many" phase. At the same time, earmarked vertical funds and trust funds are playing a noticeably larger role in the multilateral system. These developments call for a rethinking of the core comparative advantages of multilateral agencies in the global aid architecture—one that takes into account their strength in addressing global public goods, leveraging resources, their role in fostering knowledge for development and their tolerance of risk.

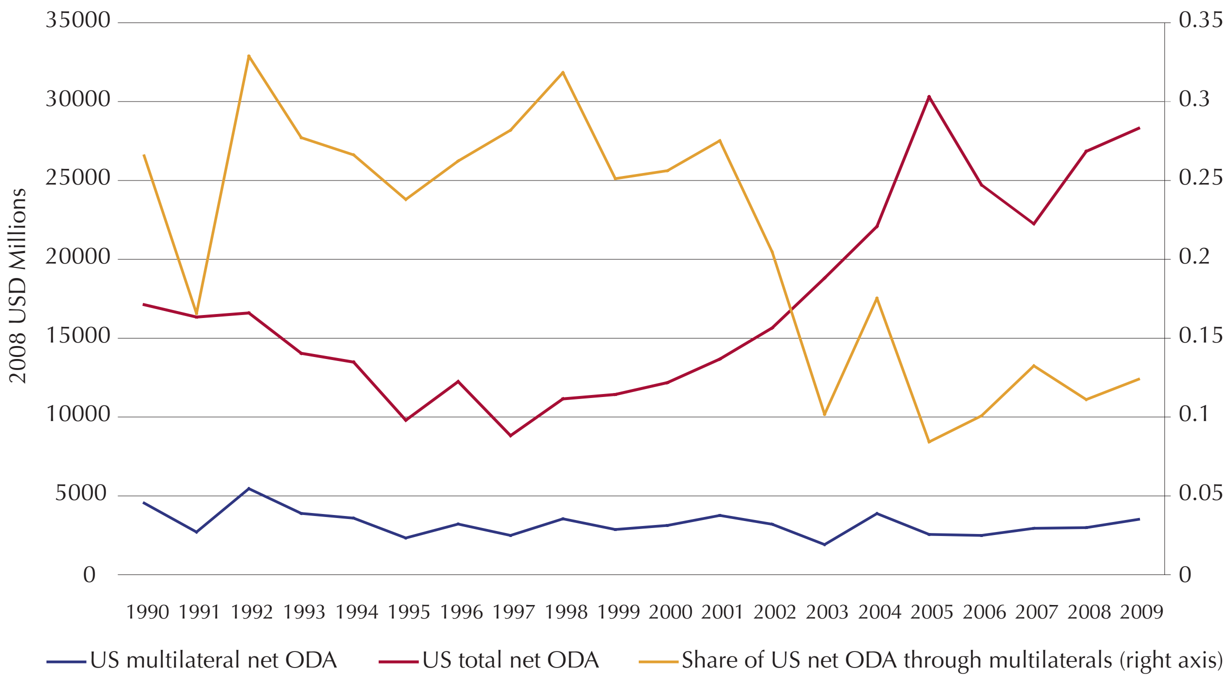
What Is the Issue?

Multilateral aid agencies are an important pillar of the global aid architecture, accounting for about a quarter of net disbursements of official development assistance (ODA). Over time, the number of multilateral aid agencies has proliferated—today there are 263 agencies funded by rich-country governments. One of the newest multilateral agencies, the European Commission, has become the second-largest aid donor in the world since 2008. And the concessional facilities of the multilateral development banks expect to receive substantial replenishments this year.

On the face of it, this evidence would suggest that the multilateral system is healthy and vibrant. But the system is increasingly fragmented, with overlapping responsibilities between agencies. It faces challenges of governance, legitimacy and effectiveness. Excluding the European Commission, which operates in many ways more like a bilateral rather than a multilateral donor, the multilateral system only accounts for 16 percent of total ODA. More and more donors find it politically easier to channel their resources through their own bilateral systems or by creating new, narrower agencies to address particular issues under specific governance arrangements.

The most striking sign of the reduced role for multilaterals is the declining leadership of the United States in multilaterals. Since 2000, U.S. ODA has increased significantly by almost 10 percent a year in real terms (see figure 1). But U.S. aid channeled through the multilateral system has stagnated. The increase in U.S. assistance has been through new bilateral programs like the President's Emergency Plan for AIDS Relief and the Millennium Challenge Corporation. As a result, the share of U.S. foreign assistance channeled through the multilateral system has fallen to 11 percent, less than half its level in 2000. In comparison, the United Kingdom gives one-third of its foreign assistance through multilateral organizations.

Figure 1. U.S. Bilateral and Multilateral Foreign Assistance



Source: OECD DAC Table 1 ODA Disbursements, 2010

Other indicators reveal the same problem. Only 12 percent of U.S. aid missions are coordinated with those of other donors, according to the OECD's Development Assistance Committee. And only one-third of U.S. analytical work on development problems is done jointly with other development partners.

Until 2005, the U.S. had systematically been the largest donor to every multilateral development fund. But it lost this spot in the World Bank's 14th International Development Association (IDA) replenishment to the U.K. and became the fourth-largest donor to the African Development Fund's 10th replenishment, after the U.K., France and Germany.

Whither Multilateralism?

Multilateralism is being questioned because its initial raison d'être has disappeared. When IDA was founded in 1960 as the World Bank's concessional lending arm, multilateral aid approaches were conceived of as (1) encouraging equitable burden sharing across donors, (2) reducing transaction costs by pooling resources into larger country programs and (3) building a critical mass of development professionals to share global knowledge and expertise.

Today, the volume of aid is no longer tied to multilateral commitments. It is still modestly influenced by collective action through pledges made at global summits like the Group of Eight and common European commitments to set joint aid targets. However, some large donors have found that domestic political support is more easily obtained for domestic aid programs than for multilateral programs. In today's severely resource-constrained environment, there is a premium on innovation, impact and aid exit strategies that is being pursued by trying new ways of doing business.

Similarly, multilaterals no longer enjoy a major advantage in having low transaction costs. Their compliance procedures have become more cumbersome and costly while technology has helped smaller donors operate with low transaction costs. South Korea, Spain and Portugal provide aid with administrative costs of 4 to 5 cents per $1 disbursed, while IDA and the African Development Fund have administrative expenses of around 10 to 12 cents per $1 disbursed (table 1).

Significant development knowledge is still embedded in the staffs of multilateral agencies. More than 200

Table 1. Why Provide Multilateral Assistance?

Pros	Cons
Economies of scale	Perceived institutional complexity
Political neutrality and legitimacy	Lack of transparency
Scale of resources (capital and knowledge)	Higher absolute costs
Low transaction costs per unit of output	Remoteness and lack of accountability
Provision of public goods	Insufficient evidence of multilateral effectiveness

Source: Development Assistance Committee, OECD, 2010 Multilateral Aid Report.

multilateral agencies do not have a resource transfer mandate but are normative and standard-setting bodies. They absorb about 18 percent of multilateral ODA, but their work is not well understood by the public. More striking is the veritable explosion of local knowledge about what works in specific country settings. Development-focused civil society organizations and community-based organizations number in the hundreds of thousands. Development knowledge is moving from a "technical expert" phase to a "power of the many" phase. Greater clarity about the core mission of each multilateral is needed as a benchmark against which to assess efficiency and effectiveness.

These three developments call for a rethinking of the core comparative advantage of multilateral agencies in the global aid architecture—one that is already visibly shifting the nature of multilateralism.

Two important new trends in multilateralism are vertical funds and trust funds. Vertical funds, most notably the Global Fund to Fight AIDS, Tuberculosis and Malaria, provide a greater sectoral focus and hence an easier link between resources and development outcomes. The Global Fund has already committed $19.3 billion in 144 countries since 2002, showing its advantages in terms of speed and scale compared with traditional multilateral structures. The newest vertical fund, the Global Agriculture and Food Security Program, was launched in April 2010, signaling a continued interest by donors in such approaches.

Features of the new vertical funds show the emergence of a new form of multilateralism. These include:

- A clearly specified results-chain.
- More representative governance with a balance between donors and recipients on the executive boards and participation from civil society organizations.
- Stronger private-sector participation in the delivery of fund programs, with explicit private-sector windows in some cases.
- A strong commitment to transparency, evaluation and learning.
- A framework where recipient countries compete for resources via the quality of their funding requests.
- Time-bound programs, in some cases, to instill a sense of urgency.
- A clear approach to global public goods.

Trust funds are another rapidly growing part of the multilateral system. These funds are administered by multilateral agencies on behalf of bilateral donors. They currently disburse $14 billion a year, almost 40 percent of core multilateral funding. Trust funds can be used by donors to target specific sectors, areas or countries of interest. For example, trust funds are heavily used to respond to humanitarian disasters (the World Food Program is among the largest beneficiaries) or for specific purposes that fall outside the normal multilateral structures (such as Timor-Leste in its immediate postindependence phase and Kosovo). Trust funds have been used for knowledge for development, aid for trade, and various environmental and energy efficiency programs. On the margin, trust funds can affect the overall allocation of resources, although there is some evidence that easily available trust fund grants can crowd out regular aid allocations to the same countries or sectors.

Trust funds and vertical funds reflect the inherent tensions in multilateral aid. From the point of view of aid effectiveness, core multilateral funding allows for maximum flexibility and a potential ability to respond to the needs of recipient countries. Conversely, the new funds offer earmarking and focus as game changers that can produce results with speed, scale and efficiency.

Issues for Multilateral Aid

The four main issues for multilateral aid include the appropriate multilateral share of total aid; whether to stop creating new agencies, and which multilateral agencies deserve support; whether multilaterals are the best channels for knowledge exchange; and whether multilaterals can be better leveraged to raise resources for development. Here it is only possible to suggest the parameters of each issue.

Issue 1: What Is An Appropriate Multilateral Share of Total Aid?

Some forms of aid are best handled multilaterally. Funding for global public goods (GPGs) is a classic example of where multilateral aid channels are probably superior to bilateral programs. A multilateral structure can solve the collective action problems inherent in public goods, such as free riding, the prisoner's dilemma and the tragedy of the commons. Free riding is a problem of getting agreement on funding, which is nontrivial, as demonstrated by the climate change discussions. The prisoner's dilemma is a problem of getting coordinated action when incentives and priorities for implementation differ among countries. And the tragedy of the commons is a problem of legitimacy, participation and agreeing to a consensus among all parties. Multilaterals have shown flexibility in funding, incentivization and governance and representation to resolve these problems flexibly for a variety of different public goods.

As the International Task Force on Global Public Goods suggested in 2006, GPGs are significantly underfunded at present. Thus, it makes sense to expand the multilateral share of aid. For more traditional development aid, multilateral agencies must reform to demonstrate greater effectiveness compared with bilateral aid agencies. Some research, however, does suggest that multilateral agencies have a greater development impact than bilateral agencies, with a greater share of their aid being used for programs in recipient countries, a greater orientation toward poor countries, more stability and predictability of disbursements, and less tying of aid.

On balance, a renewed emphasis on multilateralism appears to be warranted.

Issue 2: Should We Stop Creating New Agencies, and Which Multilateral Agencies Deserve Support?

Because traditional multilateral development funds are slow to change, the prospects are slim for efficiently reorienting existing multilateral funding toward GPGs. The trend toward new multilateral agencies to address specific GPGs is probably efficient, especially because there is little evidence that the administrative costs involved are any larger than if traditional multilateral funds were simply expanded. The Global Fund to Fight AIDS, Tuberculosis and Malaria, for example, has a relatively low share of administrative costs compared with other multilaterals.

The problem is more that existing multilateral agencies do not exit from GPG support activities when a new fund is created. Furthermore, within a particular GPG, a plethora of multilateral agencies has emerged. This could lead to fragmentation and waste.

Multilateral agencies have not embraced work on a division of labor to the extent that even some bilateral agencies have done. The bureaucratic pressures within multilateral agencies are biased toward expansion, not efficiency. There are no strategic meetings between the boards of major multilateral organizations. More political discussions are needed to improve coordination.

Through their funding, donors have the ability to shift resources between multilaterals and, over the past few years, there has been a distinct shift away from funding the UN specialized agencies and toward agencies like the Global Fund to Fight AIDS, Tuberculosis and Malaria. This seems to have emerged out of an informal assessment about effectiveness.

Donors should invest in more explicit measures of aid agency effectiveness, whereby bilateral and multilateral agencies could be compared. For example, the Multilateral Operational Performance Assessment Network is one mechanism for reviewing multilateral agencies, but all agencies are not reviewed on an annual basis. This assessment is based in part on surveys and the perceptions of those in its network. Several bilaterals also have their own strategies for multilateral development cooperation.

An approach based on funding decisions informed by assessments of multilateral effectiveness is more likely to shift resources toward more efficient agencies than the alternative approach of having a high-level commission review and rationalize mandates across organizations. The latter would need to navigate complex political territory that could ultimately jeopardize the objective of a more efficient, rational multilateral system. Also, it would not be able to address the continued emergence of new multilaterals.

Issue 3: Are Multilaterals the Best Channels for Knowledge Exchange?

Ideas and knowledge are key ingredients in development, and multilateral development organizations have specialized staffs with a wealth of experience. Multilateral agencies are still the best sources of analytical diagnostic and capacity-building work on developing countries. They play a critical role in helping developing countries stay abreast of the relevant events and risks in the global economy, the country-level implementation of global codes and standards, the country-level development of robust markets and social and environmental assessments.

However, the demand for knowledge is shifting. South–South cooperation is flourishing because of a sense that experiences in other developing countries, as interpreted by practitioners, are more relevant for development than the experiences of advanced economies. The organization of this knowledge exchange, however, is underdeveloped. Multilateral agencies do not have significant representation from important countries in the South to help identify relevant solutions, and recipient countries are used to working with traditional donor structures that exclude middle-income countries. What is needed is a radical increase in the voting power of emerging donors, as well as other ways to engage them in multilateral organizations.

Organizing South–South exchanges in a more effective way is an appropriate challenge for multilateral agencies. It implies moving the concept of knowledge management away from capturing and disseminating internal organizational experiences and toward building platforms that facilitate knowledge exchange among large numbers of global practitioners. The form of these platforms—Web-based, event-based and transaction-based—is still evolving, but knowledge for development is certainly a GPG in which there is significant underinvestment.

Issue 4: Can Multilaterals Be Better Leveraged to Raise Resources for Development?

Because aid focuses on the poorest countries, some regions, like Latin America and Eastern Europe, are receiving ever-smaller shares of aid. Latin America only received 7 percent of total aid in 2008. However, many middle-income countries are growing vigorously and have the fiscal space to expand their indebtedness, thanks to reforms undertaken since the Latin American debt crises of the 1980s. These countries have turned to commercial capital markets to finance their development needs, only to find themselves subject to significant swings in access to these markets during the recent global financial and economic crisis.

Economies that do not have secure, stable financing cannot afford to take risks. Without multilateral support, middle-income countries have become more cautious about spending, at the cost of slower expansion of infrastructure and social safety nets. Multilateral agencies have ceased to play a role in major development financing. In 2007, before the global financial and economic crisis, net disbursements from the major five multilateral development banks had fallen to roughly zero; that is to say, repayments of past loans to the MDBs from developing countries approximated total gross disbursements of $23.4 billion. Even with the higher capital for MDBs that was recently approved, they will play a small role in the net transfer of resources to the developing world.

The most promising way for multilaterals to expand their lending more aggressively is to increase the leverage of loans relative to capital. Very conservative commercial banks operate with a loan-to-capital ratio of 6 to 1. The MDBs operate with a ratio of 1 to 1.

The alternative mechanism for leverage is by partnering with the private sector, especially in nonsovereign loans, which made up the fastest-growing portions of the MDBs' portfolios before the global financial and economic crisis. These nonsovereign flows provide flexibility in pricing country and project risk, so they are more suitable for private cofinancing arrangements. But nonsovereign lending is still only one-third of MDBs' total nonconcessional lending. A much higher share will be needed to expand leverage through this mechanism.

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