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TRENDS AND ISSUES IN DEVELOPMENT AID

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Homi Kharas

EXECUTIVE SUMMARY

This note provides background data and analysis on what has been happening to aid flows and the resulting change in aid architecture. It is based on data taken from the OECD/DAC and on a review of the literature.

Key numbers on development assistance trends

- Net official development assistance (ODA) from the 22 DAC member countries has increased to over $100 billion over the last two years, with a promise of increases of 30 percent over the next three years.
- Most ODA is for special purpose needs which do not translate into funds available for development projects and programs. Developing country governments are only receiving about $38 billion in net country programmable aid (CPA).
- Sub-Saharan Africa is especially hard hit by this wedge between ODA and CPA. It only received $12.1 billion in CPA in 2005, showing almost no increase over the preceding two decades.
- Non-DAC bilateral assistance (NDBA) is growing rapidly and amounts to more than $8 billion in ODA and $5 billion annually in CPA.
- Private aid (PrA) from DAC member countries might already contribute between $58-68 billion per year, although aggregate data is sketchy.
- Total aid flows to developing countries therefore currently amount to around $180 billion annually.

Key trends in aid architecture

- Multilateral aid agencies (around 230) outnumber donors and recipients combined.
- Multilaterals only disburse 12 percent of total aid (official plus private), and about one-quarter of total net CPA.
- Multilaterals disburse more towards Africa than do bilaterals.
- The average number of donors per country is growing, while average project size appears to be shrinking, implying growing fragmentation of aid.

Key Issues

- Mechanisms for information sharing, coordination, planning and aid administration are increasingly costly and ineffective.
- There is a growing need for efficient allocation rules for donors to fund the growing number of aid agencies, but assessments of aid agency effectiveness is in its infancy.
- Scaling up, learning and innovation could advance as new players experiment with new methods, but would require more public and private sector exchanges.

INTRODUCTION

Development assistance from rich countries (DAC members) to poor countries topped US$100 billion in each of the last two years, a record high. These figures compare with development assistance of US$41.3 billion in 1974 (expressed in constant 2005 dollars) and US$63.8 billion in 2001, before the Monterrey pledge to increase aid.

On the face of it, these numbers show a remarkable increase in development assistance. But what lies behind the numbers is less encouraging. A significant fraction of the increase has gone into debt forgiveness for Nigeria and Iraq, and additional amounts have been allocated for unprecedented natural disasters and new disease burdens.

The most pressing challenge of development, the effort to raise incomes of the poorest countries in sub-Saharan Africa (SSA), has hardly seen any funding increase at all. Astonishingly, our estimates suggest that only $12.1 billion of the overall official development assistance takes the form of funds that SSA countries can use to invest in social and infrastructural development programs. This is almost the same as the amount received by these countries twenty years ago in 1985, in constant dollar terms. In terms of donor GDP or per capita support for recipient countries, the amounts now going for long-term development in SSA have declined steadily for a generation.

This note documents the trends in aid that have led to this result. It shows the growing reluctance of rich countries to funnel their assistance in the form of program or project support to developing countries. It shows that although the number of multilateral agencies has grown dramatically over time, the share of aid passing through these channels has shrunk. It shows the growth in the number of specialized agencies, each focusing on narrow developmental issues at the expense of broader, more comprehensive strategies. And finally it shows that increases in aid are more likely to come from non-DAC bilateral donors, NGOs and new corporate philanthropists than through traditional channels.

Section II of this note describes a general framework of aid flows, followed by a discussion on trends in the volume of net aid flows in Section III. Section IV looks at the changing aid architecture. Section V concludes with issues for discussion.

A FRAMEWORK FOR AID

The traditional aid framework connects three channels. Citizens in rich countries pay taxes to their governments, some of which are used for development assistance. These rich country governments on-lend or grant money to poor country governments, who in turn implement programs and policies designed to accelerate development and reduce poverty. The framework works well when the public in rich countries is willing to have tax revenues spent on aid, when rich country governments have confidence in poor country governments to develop appropriate projects and programs and when poor country governments have the capacity to implement these programs so as to generate the desired developmental results.

During the Marshall Plan, which remains the best example of external, official aid success, the channels were simple and effective. There was great public support for helping Europe get back on its feet. A single major donor, the USA, provided funds to a small number of countries whose economies had been destroyed by the war. The focus was on reconstruction, implying that development projects were easily identifiable. Planning and implementation skills in recipient countries were strong.

A more complex picture emerged when efforts were reoriented towards development of poor countries. Many more countries were potential recipients, and indeed by 1960 there were many more potential donors. The International Development Association (IDA) was established in 1960 to provide a framework for burden sharing among rich countries and to intermediate between rich countries and poor countries. If donors could provide funds to IDA, and IDA in turn vetted and funded development projects in developing countries, then each bilateral donor need have only one major "development relationship" (with IDA) and IDA in turn could have one "development relationship" with each recipient country. This would be far simpler and more efficient than each donor having a relationship with each recipient country.[1] In addition, the multilateral aid mobilization framework provided for effective "burden sharing" among donors, which contributed to a sense of fairness, a spirit of competition among donors in replenishment rounds and thus also contributed to raising the general willingness to pay.

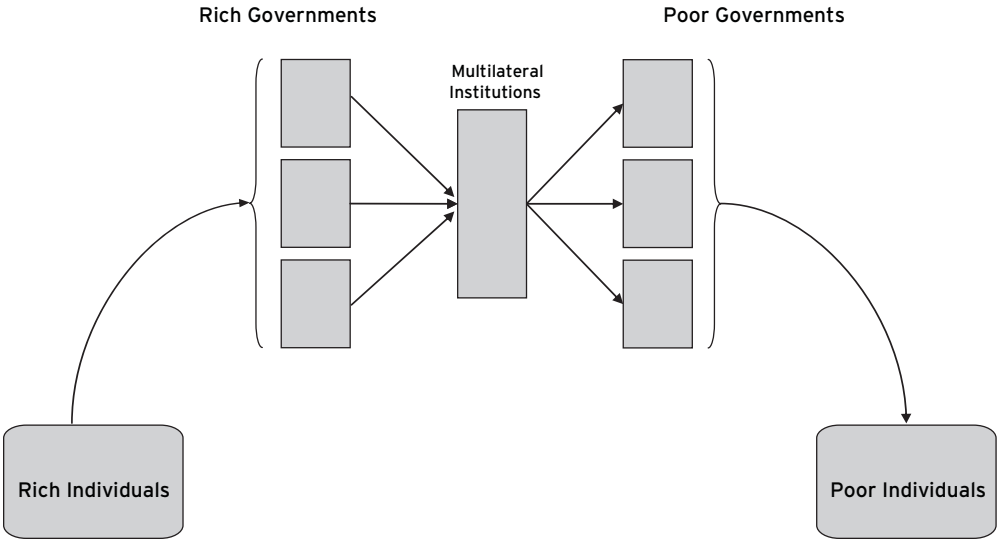
This basic system, illustrated in Figure 1, worked well through the early 1990s. It was flexible enough to accommodate many new recipients, as countries gained independence, and many new donors. Indeed, as the numbers of donors and recipients grew, the potential efficiency gains from multilateralism also grew. Several regional multilateral agencies and the United Nations System also helped expand the reach and scope of the multilateral network.

Multilateral Agencies can act to reduce transaction costs and provide a coordination function for mobilizing and disbursing funds.

In this framework, multilateral agencies have several distinct functions. First, they act to reduce transaction costs and provide a coordination function for mobilizing and disbursing funds. If there are D donors and R recipients, then the number of one-to-one relationships required for linking each donor with each recipient is D*R. If there is a single intermediary, then the number of relationships is reduced to D+R. As the number of intermediaries grow, the number of relationships also grows proportionally. When D and R are large, however, a system of multiple intermediaries can still be efficient.

Multilaterals also provide technical expertise to ensure that projects and programs are effectively de-

Figure 1: A simple depiction of the aid architecture



signed. They therefore operate to directly strengthen two parts of the aid channel: the transfer of funds from donor governments to recipient governments, and the design and implementation of good programs and projects in recipient countries providing development benefits to the poor.

This system is now under severe strain. On the supply side, there has been an explosion of bilateral and multilateral agencies, and multiple new private donors. On the delivery side, the explosion has been even more dramatic. While statistics about global numbers of NGOs are notoriously incomplete, it is currently estimated that there are somewhere between 6,000 and 30,000 national NGOs in developing countries.[2] With each additional player, the architecture becomes more complex. All of this dilutes the transaction and coordination cost savings of the old architecture and makes new solutions for efficient aid delivery difficult to implement.

Official aid channels are also facing sustained criticism for favoring political ends rather than development concerns in the allocation of funds across countries,[3] and for failing to deliver results in many cases. These trends have stoked skepticism about the effectiveness of official aid. They also undermine the ability of rich country governments to mobilize new funds for development: contemporary increases in ODA are leveraged from special use funds (which generally flow back to rich countries) and not from increases in real resource transfers. In several rich countries, the willingness to have governments intermediate foreign assistance has shrunk. Government, in both rich and poor countries, is seen by many as a source of problems rather than as a solution to problems of poverty.

In response, the aid architecture is changing rapidly. Citizens in rich countries are increasingly looking to channel their funds through private organizations, rather than through governments. Importantly, there still appears to be a significant degree of support for the concept of foreign aid among the world's rich countries. In a recent survey, 90 percent of respondents in France, Germany and Great Britain, and 84

percent of respondents in the United States agreed that rich countries have a moral responsibility to help poor countries develop.[4] The issue seems to be more that these citizens do not favor their governments or multilateral institutions to be the channel through which such help should be provided. Another poll[5] showed that only 45-51 percent of respondents in these countries felt that the World Bank, the largest multilateral aid giver, had a mainly positive role in the world, while the IMF enjoyed support of only 37 percent of respondents in the United States. By contrast, NGOs are viewed much more positively: 64-80 percent of rich country respondents feel that they have mainly positive impact.

The shift from public towards private aid has significant implications. Private aid donors are more targeted and selective about the programs they are willing to support. They do not generally provide funds for multi-purpose development programs. Single issue campaigns, such as Jubilee 2000 which brought about substantial debt relief, have proven to be more effective than pleas for general development assistance. A number of new specialized multilateral institutions have also been created to mirror this trend. These institutions, like the Global Fund for AIDS, TB and Malaria (GFATM), believe that greater accountability and greater aid effectiveness can result from a more focused approach.

While statistics about global numbers of NGOs are notoriously incomplete, it is currently estimated that there are somewhere between 6,000 and 30,000 national NGOs in developing countries.

A final major change in the aid architecture is the emergence of non-DAC bilateral donors. Some, like China, are now operating on a large scale across the world. But there are many others, like Thailand, Turkey, Brazil, or South Korea, which have a regional focus and pay specific attention to certain sectors or experiences. These non-DAC bilaterals, along with private aid, add to the resources available for development assistance, but also add to the complexity of the aid architecture.

AID TRENDS

Definitions

For many years, countries have reported their official development assistance to the OECD, using commonly agreed definitions of aid. "Aid" is defined as transfers to poorer countries (Part I countries in DAC terminology), broadly corresponding to low and middle income countries. Flows to countries such as Israel or Russia after the fall of the Soviet Union are excluded.[6] Only transfers with a grant element of at least 25 percent are included. In our analysis below, we focus largely on net aid, that is, transfers to poor countries less the amount of reverse flows in the form of repayment of principal on credits extended in earlier years.

Aid covers a multitude of different types of transfers, not all of which go directly to poor countries. Administrative overheads of development agencies, and their domestic efforts to advocate in favor of more assistance, are counted as "aid." Debt forgiveness on non-concessional flows is treated as "aid," even though these loans may never have been expected to be repaid. The "debt forgiveness" is in reality a flow directly from one branch of government in rich countries to another agency in rich countries—typically from the Treasury to Official Export Credit Agencies. At first blush, the trends in net aid seem to be consistent with donor commitments, but the devil lies in the details. The value of these types of flows may also be inflated as debt forgiveness includes amounts associated with notional interest and penalty payments that can be exorbitant, especially when accumulated over years of non-repayment. Emergency assistance and food aid is included, usually evaluated at donor country prices. For food and certain pharmaceuticals, these accounting prices may be highly inflated compared to market values in the developing countries themselves.[7] And considerable amounts of aid take the form of provision of technical assistance, the value of which reflects costs in the form of rich country salaries (sometimes topped up by hardship allowances) rather than recipient country benefits.

This note does not try to revalue aid to get a better understanding of the true benefit to recipient countries. Exercises of this type exist,[8] and are useful in showing the size of the difference between the value of aid, as accounted for by the DAC, and the value of aid, from the recipient standpoint. Here, we focus on an alternative question: how much aid money is available to developing countries to implement agreed upon projects and programs that contribute to long-term development? In keeping with others, we refer to this as "country programmable aid" or CPA.

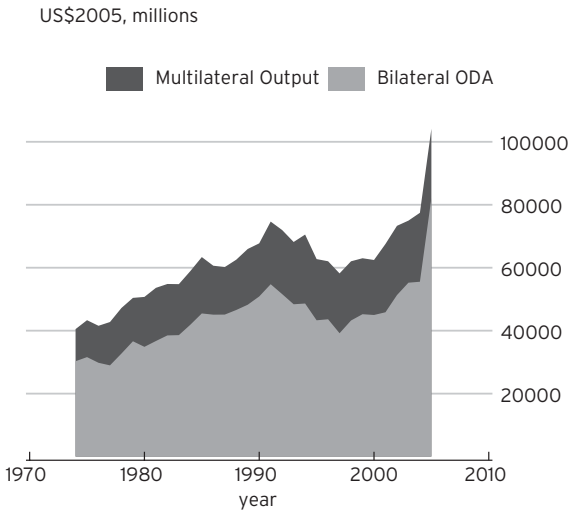
The DAC also reports on other official flows, such as financing from official export credit agencies, but these flows are non-concessional and hence not included in the analysis of aid. Most non-concessional development bank financing also falls into this category. These flows are supposed to be commercial and so do not require tax-payer support, beyond the contributions made to the equity of the development agency (which is included as aid). They are today dominated in size by flows from private commercial sources.

Net aid flows—the aggregates

Figure 2 shows the growth of total net aid as reported by the DAC. Aid has grown from $41 billion in 1974 to $107 billion in 2005, a multiple of 2.6 in 30 years, or an average compound growth of 3.1 percent per year.[9] Within this aggregate, bilateral aid accounts for roughly three quarters, while multilateral aid accounts for the remainder.

Three distinct phases of aid growth can be identified. Aid grew steadily through the 1970s and 1980s,

Figure 2: Official development assistance



Source: OECD/DAC

peaking in 1991. Bilateral aid dominated this increase, but multilateral aid also rose modestly. This pattern is consistent with bilateral, political interests being important in the determination of aid. Multilateral aid did grow, especially in the late 1970's, but at a modest rate: 4 percent annually between 1974 and 1991. For obvious reasons, this period can be classified as an era of "Cold War" aid.

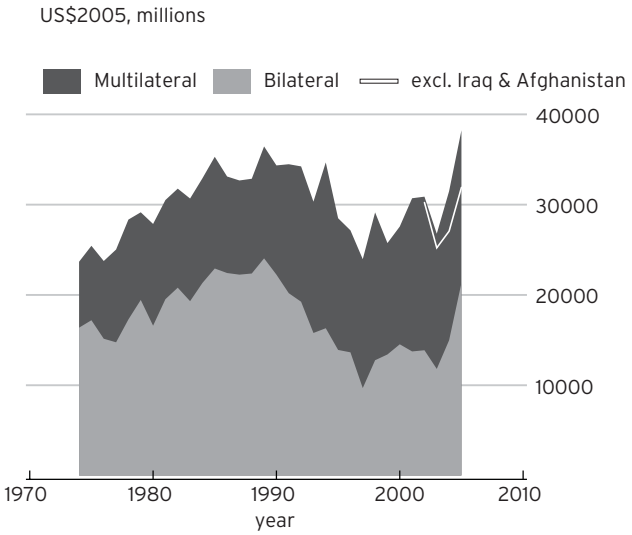
With the demise of the Soviet Union, aid flows dropped significantly for a decade, again largely driven by bilateral flows. By 1997, aid had fallen by 22 percent from its high point, before recovering slightly thereafter. This period of "aid fatigue" however was accompanied by a growing number of failed states and growing poverty especially in sub-Saharan Africa. The UN led an effort to achieve consensus around a number of development goals (the Millennium Development Goals) which included targets for financial assistance to support developing country efforts. In early 2002, donors agreed, at a conference in Monterrey, that aid should be raised substantially. Since then, the G-8 has committed to doubling aid by 2010, and to significant increases earmarked for Africa. Actual aid flows have responded to these commitments, and aid has risen by more than 50 percent since Monterrey.

At first blush, the trends in net aid seem to be consistent with donor commitments but the devil lies in the details, as shown below.

Net aid transfers into country programmable aid (CPA)

Not all the funds counted as aid are actual flows that can be applied to development projects and programs in poor countries. To measure country programmable aid (CPA), we subtract from total aid the special purpose flows: administrative costs of aid agencies, humanitarian and emergency relief, food aid, technical cooperation and debt relief (on private credits and non-aid official financial flows). This is not to argue that these forms of assistance are unimportant or of no value. Rather it simply asserts that these kinds of transfers cannot be used directly for development programs like building and maintaining schools, clinics and infrastructure.[10]

Figure 3: Country programmable aid



Source: OECD/DAC

This measure of development aid therefore includes specific investments, budget support, sector-wide program support, and many other forms of project and program mechanisms aimed at promoting development. Figure 3 shows that net CPA, defined in this way, is much lower than total net ODA, but has evolved with a broadly similar pattern over time, until recently.

If DAC pledges for total aid increases are to be realized, aid excluding debt relief will have to increase by $45 billion by 2010.

Like ODA, CPA rose steadily until 1991, then fell sharply through 1998 before starting to recover. But unlike ODA, CPA has not seen a major increase recently and is only slightly higher today than it was twenty years ago in 1985. If CPA to Iraq and Afghanistan is excluded ($6.4 billion in 2005), net CPA was lower in 2005 than in 1985 in absolute terms. The same pattern holds for bilaterals and multilaterals. Net CPA from multilateral institutions has been almost stagnant for the last 20 years (0.4 percent growth). The share of CPA in total aid has correspondingly fallen from 59 percent in 1975 to 37 percent in 2005.

These figures suggest that it has proven to be easier to mobilize funds for non-project related purposes, like technical assistance, debt relief, food aid and emergencies, than for real development projects and programs. By providing funds in this fashion, donors bypass the need to have well-designed and implemented development projects and have less need for multilateral agencies to play a coordinating and technical role.

Looking forward, it is unlikely that aid increases can continue to be expanded at the same rate through special purpose flows. Debt relief will not be required at current levels in 2010, simply because there is less and less debt eligible for relief. In 2005, debt relief was $25.4 billion (including the Paris Club's extraordinary debt cancellation for Iraq and Nigeria) and accounted for nearly one-quarter of total ODA. But debt relief is a limited instrument: 30 countries (of which 25 are African) have participated in the Heavily Indebted Poor Countries (HIPC) Initiative; 22 of these countries have already reached their HIPC completion points, indicating full and irrevocable disbursement of their relief package. These countries will not receive

Table 1: ODA and CPA

(US$2005, millions)

Official Development Assistance

Year	Bilateral	Multilateral Output	**Total**	Contributions to Multilateral Institutions
1975	31598.04	11731.79	**43329.83**	13324.97
1985	45472.18	17903.55	**63375.73**	17715.22
1995	43298.23	19439.76	**62737.99**	20014.91
2005	82133.43	22002.20	**104135.63**	24643.71

Less: Non-development Items & Interest Received

Bilateral

	Tech. Coop.	Food Aid	Emerg. Aid	Debt Relief	Administrative	**Sub-Total**	**Interest Rcvd.**
1975	9451.97	2486.44	503.69	62.45	0.62	12505.17	1894.12
1985	13214.61	2564.07	1307.60	731.66	2009.69	19827.63	2715.48
1995	15590.81	1608.36	2752.59	4065.34	3200.56	27217.66	2121.90
2005	20925.60	886.54	7169.46	24962.63	4319.92	58264.15	2380.47

Multilateral

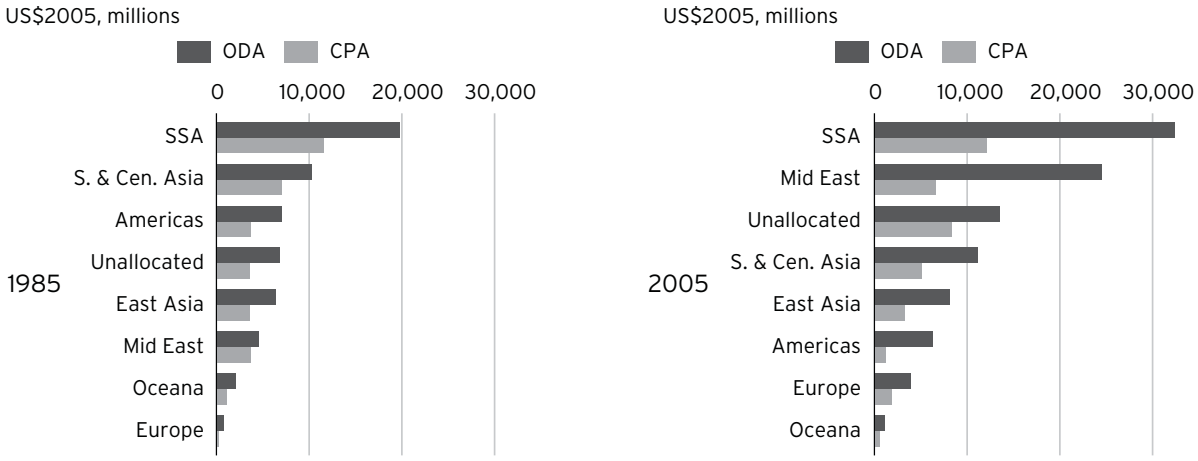
	Tech. Coop.	Food Aid	Emerg. Aid	Debt Relief		**Sub-Total**	**Interest Rcvd.**
1975	2535.28	634.31				3169.59	320.06
1985	4215.62	591.35				4806.97	727.36
1995	2872.81	250.74	677.98			3801.53	1051.99
2005	1509.70	405.30	1188.17	475.7371		3578.90	1514.18

Equals: Country Programmable Aid

	Bilateral	Multilateral Ouput	**Total**
1975	17198.75	8242.13	**25,440.88**
1985	22929.07	12369.22	**35,298.29**
1995	13958.67	14586.24	**28,544.91**
2005	21488.81	16909.12	**38,397.93**

Source: OECD and Author's Calculations

Figure 4: Geographic trends in ODA and CPA



Source: OECD/DAC and Author's Calculations

any more funds in debt relief. The remaining eight countries will all reach their completion points by 2009 at the latest. So the majority of debt-relief under HIPC/MDRI is nearly finished: new disbursements by bilaterals of debt relief (including reimbursement to IDA and AfDB for MDRI) are not expected to exceed $4 billion in 2010.[11]

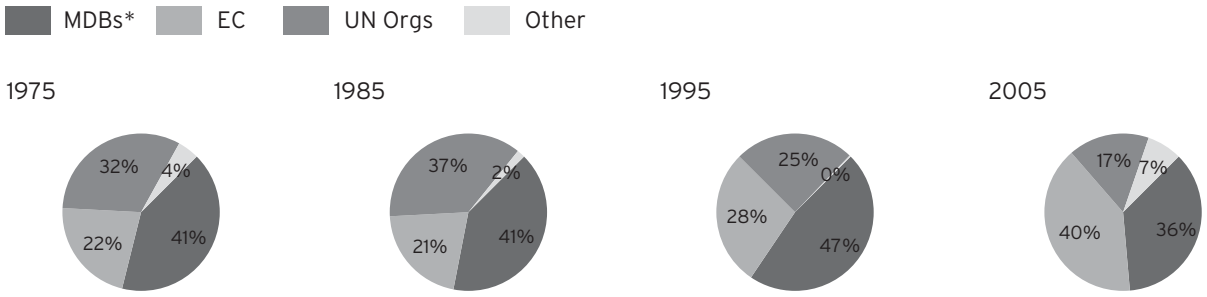
The implications of debt relief shrinking from $25.4 billion to $4 billion are significant. It suggests that other modalities of aid will increase from $81 billion in 2005 to $126 billion in 2010, if the DAC pledges for total aid increases are realized.[12] Of this additional $45 billion in other types of aid, excluding debt relief, one would hope that a majority would be devoted to projects and programs in developing countries. But this would mean more than doubling funding for development projects and programs because the current level of total disbursements of CPA is only $38 billion per year. Simply put, there may not be enough good projects and programs in the pipeline to be able to disburse such a large increase.

Destination of aid

It is instructive to ask where the development aid actually goes, and if there are any geographic trends in the data, especially considering the importance attributed by many to a focus on sub-Saharan Africa (SSA). The results are striking. Sub-Saharan Africa received $32 billion in aid in 2005, but just $12.1 billion of this was in the form of money available for development programs, fractionally more than the $11.6 billion that these countries got in 1985. The Middle East has received a much larger portion of total aid than in the past, with $24 billion, of which $6.7 billion was for development projects (Figure 4). These figures compare very unfavorably with what one estimate calculates as "optimal" aid allocations which would give Africa two-thirds, while giving almost nothing to middle income countries in the Middle East (or Latin America and Caribbean or East Asia).[13]

Most of sub-Saharan Africa's money for development projects came from multilateral agencies ($7.9 billion). They provided almost half their net development aid

Figure 5: Multilateral aid (ODA)



*IDA and regional development banks

Source: OECD/DAC and Author's Calculations

to SSA. Bilaterals, by contrast, only gave $4.2 billion in development aid to SSA, one-third less than the amount they gave in 1985.

Net aid flows—multilateral agencies

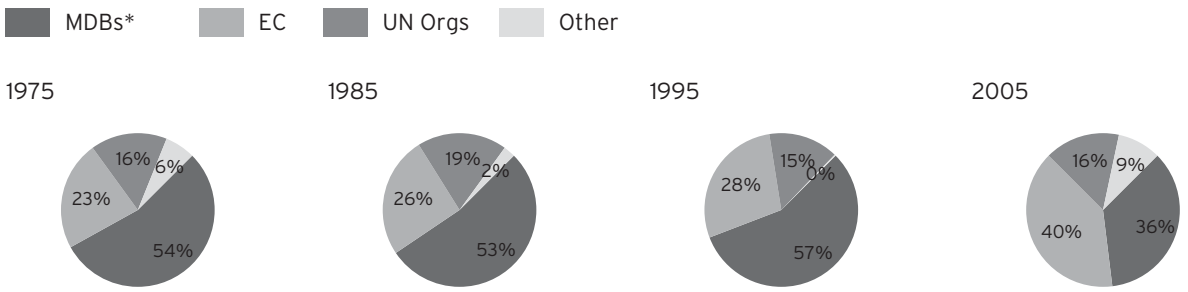
Multilateral aid has expanded steadily over time, doubling in 30 years from $11.7 billion in 1975 to $22 billion in 2005, or about one-fifth of total net ODA. The multilateral system traditionally has had two pillars. IDA and other regional development banks have based their assistance on country programs, while the UN system of specialized agencies has been used to provide advice (and some funding) for specific sectoral themes. In 1995, IDA and regional banks accounted for 47 percent of total multilateral aid. By 2005, this share had fallen to 36 percent. Meanwhile, the share of UN agencies in total multilateral aid fell even more steeply: from 37 percent in 1985 to 25 percent in 1995 to 17 percent in 2005 (Figure 5).

This trend is due to two new elements in multilateral assistance. Members of the EU have provided increasingly large sums to the European Commission for development purposes. The EC is now the largest single multilateral development aid agency, consistently surpassing IDA since 1997. In 2005 the EC disbursed $9.7 billion, or 40 percent of all multilateral aid, more than IDA and all the regional development banks put together ($8.5 billion).

The second trend is the emergence of new "vertical" funds such as the GFATM. This fund, in just four years since its inception, has grown to almost $1 billion in annual disbursements and is expected to continue to grow rapidly. Other specialized funds, like the Global Environment Facility and the Montreal Protocol have also increased in size. From negligible levels, these new funds now account for 7 percent of total multilateral aid or $1.8 billion in 2005.

The pattern is similar when one considers net CPA (Figure 6). As expected, the multilaterals disburse a large fraction (over three-quarters) of their total aid in projects and programs. They provided $16.9 billion in such aid in 2005. The growing importance of

Figure 6: Multilateral aid (CPA)



*IDA and regional development banks

Source: OECD/DAC and Author's Calculations

the EC and the vertical funds, which now account for one-half the multilateral system, also comes through. What is more striking, however, is the decline in the share of IDA and the regional banks, from 57 percent of net multilateral CPA in 1995 to 36 percent in 2005. IDA and the regional banks tend to be the agencies with the closest relationships to country development agencies, and tend to have the strongest field presence. The implication, therefore, is that the largest, fastest growing multilateral agencies (the vertical funds) are the least well equipped to share information, coordinate with government programs in the field and respond flexibly to new development demands because they are specific-purpose and with centrally-designed and run programs.

What is more striking, however, is the decline in the share of IDA and the regional banks, from 57 percent of net multilateral CPA in 1995 to 36 percent in 2005.

Non-DAC aid donors

The mixed record of ODA, in terms of how much is actually delivered to poor country governments to meet pressing development needs, has created space that has been quickly taken over by two new groups of players: non-DAC bilateral donors;[14] and foundations, NGOs, religious organizations and other types of private givers (private voluntary organizations or PVOs). Because these new groups have no formal place in the aid architecture, they do not report their activities in the same way. Quantitative trends are hard to document, but the limited evidence that does exist suggests that amounts are rising dramatically.[15]

Our best guess is that the non-DAC bilaterals contributed about $8 billion in total aid in 2005. Some countries do report to the DAC, including some Arab countries, Korea, Turkey and Chinese Taipei. To this figure, we have added a reported $2-3 billion from China and $1 billion from India, as well as smaller amounts from countries like Thailand and Brazil.[16] Unlike traditional donors, the non-DAC bilaterals give little in the form of emergency and food relief, debt relief (as they have small outstanding liabilities) or technical cooperation (as the domestic consulting industry is small). Correspondingly, a greater fraction

of their aid is in the form of projects and programs. To estimate non-development aid expenditures, we used the averages of data reported to the DAC from the Czech Republic, Korea and Turkey. Subtracting emergency and food aid ($0.5 billion), debt relief ($0.4 billion) and administration ($0.4 billion), the non-DAC bilaterals contribute $6.7 billion. An additional $1.4 billion (17.5 percent) is deducted as technical cooperation. These calculations put development project and program aid from non-DAC bilaterals at about $5.3 billion for 2005.

The new official players are also among the most dynamic in terms of incremental funds flowing into development programs. China, for example, has announced very substantial increases in aid over the next three years: $10 billion for LDCs, with an incremental $5 billion for ASEAN, $3 billion for Pacific Islands, and $3 billion for Africa plus another $2 billion in preferential credits. Korea is aiming to provide $1 billion per year by 2010.[17]

Private aid donors

Evidence of the total giving from the private sector is scattered. In the United States, however, there have been cooperative efforts to combine data systematically. Synthesizing figures from, among others, the Urban Institute, The Foundation Center and the Committee Encouraging Corporate Philanthropy the *Index of Global Philanthropy* estimates total US private aid to developing countries at $33.5 billion in 2005.[18] This figure extends across a number of private foundations, voluntary organizations, universities, corporations and religious groups.

In arriving at this figure, the *Index* has used best estimates to eliminate the double counting that can arise from the simple summing of all private aid agency program expenditures. For example, if the Soros Foundation gives money to the Open Society Institute, then counting both Soros and OSI contributions would lead to an overestimate of what ultimate beneficiaries really receive. The Soros contribution must be netted out; its value will show up in the OSI contribution.

NGOs, like official donors, have been generous in mobilizing funds for a wide range of operations in developing countries. In this paper, we are principally concerned with development project and program aid, not with humanitarian assistance or relief works. In the United States, the best estimate for humanitarian aid and relief works is 36 percent of the total,[19] much more than is the case for official aid. This implies that $21.4 billion of private giving from the United States goes to development projects and programs.

Estimates suggest that about 18,000 NGOs have operations which span across international borders. Total private aid could be in the range of $58-$68 billion per year.

Cross-country estimates suggest that US philanthropic giving is about 49-58 percent of the global total.[20] So, if US private aid, excluding humanitarian aid and relief, is about $21.4 billion per year, then global private aid might be around $37-44 billion per year. Not all of this is available for development projects. In the US, there are estimates that administrative overhead and fundraising amount to 11 percent of NGO expenditures.[21] Applying this percentage to all private aid organizations gives an estimate for private giving directly for projects in the range of $33-39 billion per year. This can be compared with aid (less analogous deductions) from traditional official donors ($61 billion) and new bilaterals ($6.7 billion). These comparisons are made in Table 2.

Unfortunately, private giving in the form of free-standing technical cooperation cannot be independently estimated to arrive at a figure comparable to the $38

Table 2: Comparing official and private aid, 2005

US$2005, billions	Official Aid		Private Aid	
	DAC members	New bilaterals	DAC members	US only
Total	**104.1** [1]	**8** [3]	**58-68**[6]	**33.5** [7]
Less emergency and food aid	(9.6)	(0.5)[4]	(21-24)	(12.1)[8]
Subtotal	94.5	7.5	37-44	21.4
Less debt relief and interest	(29.4)	(0.4)[5]	0	0.0
Subtotal	65.1	7.1	37-44	21.4
Less adminstrative costs	(4.3)[2]	(0.4)[4]	(4-5)	(2.4)[9]
Subtotal	60.8	6.7	33-39	19
Less technical cooperation	(22.4)	(1.4)[4]	?	?
Subtotal	38.4	5.3		
CPA	**38.4**	**5.3**	?	?

Source: Author's calculations and:
1. Totals and deductions from OECD/DAC.
2. Includes costs for raising awareness.
3. Official and unofficial estimates, see Table 2.
4. Based on 2002-2005 average of Czech Republic, Korea and Turkey, OECD/DAC.
5. Based on 2002-2005 average of Czech Repulic and Korea, OECD/DAC.
6. Extrapolated from US figures. Lower bound assumes US private aid represents 58% of total (OECD/DAC). Upper bound assumes US private aid represents 49% of total (Salamon, L., 2007).
7. Index of Global Philanthropy (2007).
8. International relief NGOs accounted for 36% of international nonprofit sector revnues. Kerlin and Thanasombat (2006).
9. 11% of international nonprofits' expenditures oriented to adminstration and fundraising. Kerlin and Thanasombat (2006).

billion for official DAC CPA.[22] But it seems reasonable to expect that these expenditures would be minor. Firstly, the advocacy work done by private groups in developed countries is already removed from the estimates of international giving. Private organizations also have few high priced expatriates in the field and do not engage in considerable studies and free-standing advisory projects in developing countries. Finally, there are case studies showing that contractors to private NGOs charge a third of what equivalent experts get paid by official agencies to work in developing countries.[23] This all suggests that the amount spent by the private nonprofit sector on technical cooperation is comparatively low.

The point here is not to place any great credibility on the precise magnitude of the amounts given by these new donors, but to simply point out that in terms of CPA they are today of the same order of magnitude as official DAC member flows.

Private aid is expanding rapidly. Estimates suggest that about 18,000 NGOs have operations which span across international borders.[24] Estimates for the United States suggest a fourfold increase in international giving in the 1990s, a pace which, if anything, is accelerating further in the 2000s. European foundations have also expanded rapidly and by some measures now exceed the total size of US foundations. Foundation giving has been linked with stock market performance in rich countries, so the recent strength in these markets augurs well for continued rapid short-term gains in private international giving.

AID ARCHITECTURE

Changes in aid architecture

The description above of trends in aid flows suggests that the simple aid architecture, summarized in Figure 1, has changed. As in the past, money still flows (eventually) from rich individuals to poor individuals. But as Figure 7 illustrates, the simple aid architecture has grown into something much more complex. There are more bilateral donors (37 reporting to DAC and several others who do not report) and more recipient countries (151 Part I countries). There are now more multilateral agencies (233) than donors or recipients.[25] 25 new multilateral agencies have been created between 2000 and 2005 alone. There are increasing numbers of international NGOs receiving money from bilaterals (38), and thousands of private sector groups engaged in aid, both as donors and as implementers of non-governmental programs.[26]

Figure 7 offers a graphic representation of what happens to resources when they are put into the development-assistance system. The figure shows the extent of aid flows between major players.

The largest source of development finance is taxes. In 2005 rich individuals put $105 billion of their tax revenues into the official development aid system. What becomes of this $105 billion? Major amounts stay within rich states in the form of debt relief ($26 billion) or administrative costs ($4 billion). $22.5 billion of technical cooperation, essentially the salaries of western aid-industry workers, cycles back to rich country individuals. $6 billion is transferred from the official sector to civil society to implement ODA through NGOs (some funds flow in the opposite direction, as when the Gates Foundation contributes to the Global Fund). $25 billion is transferred to multilateral aid organizations to fund their operations, while $26 billion of bilateral assistance goes to developing country governments themselves for humanitarian and development purposes. These uses actually exceed the $105 billion in taxes, because developing countries are repaying $2 billion in interest payments which also gets recycled back into the system.

With multilateral loans and grants added in and humanitarian assistance subtracted out, less than one-third of the $105 billion ($33 billion) goes to poor country governments as flexible, development oriented funds from traditional agencies. And these governments have to pay back $3.5 billion in interest payments each year, despite the fact that most aid is highly concessional and increasingly on grant terms.

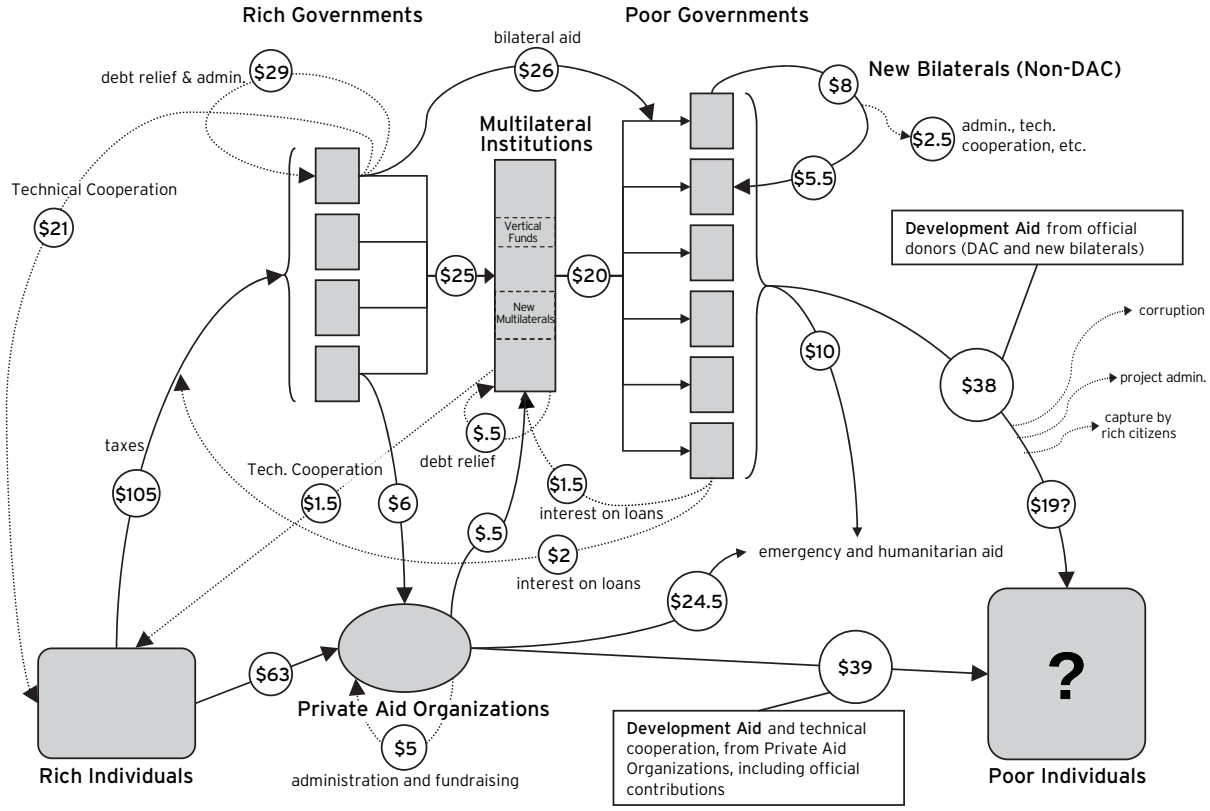
Taking all the official aid flows together, poor country governments receive about $38 billion in net CPA. A conservative estimate is that only $19 billion of this actually gets to final beneficiaries

Several new channels have also developed for resource flows. Non-DAC bilateral donors, like China and India provide $5.5 billion in CPA.

Taking all the official aid flows together, poor country governments receive about $38 billion in net CPA. A conservative estimate is that only $19 billion of this actually gets to final beneficiaries, although how much actually filters down to the poor remains a topic for further research. Some funds might be illegally siphoned off through corruption; other amounts go into overheads for project administration, including audits and other reporting required by donors;[27] other amounts are captured by rich citizens in poor countries.

Private aid flows operate in parallel to official aid, but the ultimate source of funds is the same: individuals in rich countries.[28] Private donations to international aid

Figure 7: New aid architecture



groups could now amount to $63 billion. An additional $6 billion flows in from official agencies that use NGOs to implement a variety of programs. A small portion of NGO funds are directed back to the official sector, into public-private partnerships. Some funds ($5 billion) also drain away into overhead and fundraising expenses. That leaves more than $63 billion to be disbursed by private aid groups, which takes the form of emergency and humanitarian assistance (perhaps $24.5 billion) and development project and program financing ($39 billion), roughly the same amount as the official sector gives for CPA.

Despite the considerable increases in private aid, it is safe to say that the amount of development aid being delivered falls far short of the estimates of "need." Sachs estimates a need of $124 billion; the Zedillo Committee called for an incremental $50 billion over 2001 levels (or about $115 billion per year); the World Bank called for $90-140 billion per year in incremental funds (or $150-200 billion per year); the UN Millennium project called for $135 billion to fund the MDGs.[29] These amounts relate to what is needed at the project and program level: even combined, official and private aid resources currently available fall short of each of these estimates. But if resources can be partly increased and partly redeployed, then the amounts required could be made available. The challenge then is to structure the system so that aid flows through the most efficient organizations, to countries where need is greatest and capacity to program and implement projects is highest, and where development concerns are pre-eminent.

KEY ISSUES

Rich countries have made commitments to increase development contributions by around 30 percent over the next three years, by 2010. In a world with a complex aid architecture, the decisions about how best to channel these funds are harder to get right. Countries must choose between expanding their own programs and contributing to an ever expanding list of multilateral agencies, providing funds either through program support or specific projects, or for special purpose needs, like technical assistance, debt relief, or through vertical funds. They have the option to funnel more funds through NGOs. They can encourage more direct giving by their private and voluntary organizations through adjustments to their tax codes.

The greater complexity of the international aid architecture raises three sets of issues:

- **Information sharing, coordination and planning;**
- **Results, effectiveness and aid allocation rules;**
- **Scaling up, learning and innovation.**

Information sharing, coordination and planning

Perhaps the greatest impact of the exploding number of aid agencies is the growing difficulty of providing adequate information, coordination and planning for effective development assistance. The basic mechanism for information sharing and planning among different donors and between the donor community and recipient governments has long been Consultative Group or UN Round Table meetings. These meetings bring together, in one place and time, representatives from key aid agencies and government officials. They discuss development projects and programs and the funds needed for implementation.

A physical meeting is no longer able to accommodate the large number of aid players. There are many anecdotal stories about the number of actors in any specific sector. The issues that emerge are clear. There can be waste, duplication and overlap in certain functions, especially on the policy planning front. On the other hand, there can be gaps where no-one is taking on responsibility for high priority efforts. Aid among a number of disparate groups raises questions of equity (very evident in the Tsunami reconstruction effort where different housing standards were applied by different NGO providers) and of efficacy of delivery. There can be competition for scarce skills and distortions in civil service structures when donor salary top-ups are provided. Administrative costs can rise, especially for key government functionaries and in the proliferation of dedicated project management units. In short, planning and implementation become more complex when there are more players to coordinate.

Knack and Rahman (2004) show that there can be substantial costs to donor fragmentation and to project proliferation in recipient countries.[30] Their index of donor fragmentation measures the number of small aid donors per country. They show that this measure has risen from 1975 onward. They also look at project proliferation. Roodman also reports that the number of development projects tripled between 1995 and 2003.[31] And in 2005, the OECD reported that there were more than 60,000 active aid projects, with 85% of these projects costing less than $1 million.[32] Knack and Rahman argue that fragmentation and project proliferation reduce aid effectiveness and cause institutional destruction: the poaching of scarce staff from key government positions, the by-passing of government structures and procedures, and the lack of government ownership.

Table 3: Aid Harmonization Trends

	HHI (Average)				HHI (Sample Weighted Average)			
	1970-79	1980-89	1990-99	2000-05	1970-79	1980-89	1990-99	2000-05
All Observations	**0.52**	**0.41**	**0.38**	**0.30**	**0.35**	**0.28**	**0.26**	**0.22**
All Observations, *excluding unallocated disbursements*	0.49	0.39	0.37	0.31	0.34	0.28	0.28	0.24
Income per capita ≥ $500	0.53	0.40	0.38	0.32	0.47	0.40	0.36	0.29
Income per capita < $500	0.33	0.18	0.18	0.17	0.23	0.18	0.18	0.17
Sub-Saharan Africa	0.39	0.25	0.24	0.22	0.28	0.17	0.18	0.17
Oceania	0.82	0.63	0.61	0.59	0.89	0.73	0.70	0.62

Source: Author's calculations and OECD/DAC Table 2a

Here we look anew at donor fragmentation. One measure of donor fragmentation, from the perspective of a recipient country, is the Herfindahl-Hirschman Index (HHI) of aid received by the country from different donors. When applied to aid receipts, the HHI can be constructed as the sum of the squared shares of aid from each donor. When there are a large number of small donors, each donor's share in total aid to a country is small, and the HHI is low. When aid is concentrated in one or two donors, the HHI is relatively high.

The results of constructing a HHI for aid are presented in Table 3. The figures shown are weighted averages of individual country HHI levels, with the weights being the share of each country in the ODA of that group. They show that the HHI is getting smaller over time (more fragmentation); that it is smaller for Africa and larger for Oceania; and that it is smaller for poorer countries.

These trends can be formalized in a regression model (Table 4). The HHI measure of aid fragmentation can be constructed for each recipient country for every year.[33] This is regressed against the country's per capita income; its population; a time trend; the volume of aid per capita; and dummies for whether it is located in Africa or Oceania. We run the model with and without well-known examples of "special case" aid (Egypt, Iraq, Afghanistan). The results do not change appreciably as the data set contains several thousand observations. We therefore only present the results with the full data set.

All the coefficients are significant and of the expected sign. Poorer countries tend to suffer from greater fragmentation of aid. They deal with more donors. So do small countries. The time trend (year) in the regression is also highly significant, indicating that fragmentation has increased substantially in recent times. Countries with high aid per capita also tend to be less fragmented, partly because high aid per capita usually results from one dominant donor providing substantial resources. Sub-Saharan countries suffer from markedly greater aid fragmentation, while Pacific Island countries have markedly less fragmentation.

Table 4: Determinants of aid fragmentation

Regressand: ln(HI/1-HI)

GNI pc	Population	Year	Aid pc	SSA	Oceania	Constant
0.0002106***	2.38E-07**	-0.0333145***	1.864776***	-0.3215125***	0.426831***	64.97967***
(0.00000689)	(0.000000121)	(.0016123)	(.1313428)	(.0362926)	(.069521)	(3.203295)
Observations:	3312					
R-Squared	0.4232		Standard Error in parentheses			
Prob > F	0		** significant at 5%, *** significant at 1%			

Source: Author's calculations and OECD/DAC Table 2a

The unfortunate conclusion is that the countries experiencing the greatest amount of fragmentation—small, poor, African states with relatively modest amounts of aid—are precisely those countries most in need of better coordination by donors.

The issue of fragmentation might be even more severe than that suggested by the analysis above because there has also been a proliferation of agencies within donor countries, while we have assumed each donor country to be a single entity. To manage this issue, some donors, like Australia, have moved towards a whole-of-government approach to coordinate their agencies. Others, like the UK, have moved towards greater clarity on institutional responsibility, with Dfid taking the lead role in development matters but shedding other bilateral concerns such as trade. The US system is particularly fragmented, although there is an effort now to have a coordination role played by a single department within State.[34] One further layer of fragmentation concerns the interaction between the official and private aid systems. Little can be said about this in quantitative terms, but it is clear from anecdotal evidence that this is a severe issue in some sectors (notably health) in some countries.

A number of proposals to reduce these problems are being implemented. The Development Gateway Foundation has a technological platform, the Aid Management Platform, that is designed for use by governments and their development partners. This is a good step forward on the sharing of information, but is not yet used fully as a vehicle for discussing priorities and promoting an effective division of labor across donors. The Development Gateway also does not have information on many private sector aid activities.

The Paris Declaration on Aid Effectiveness, endorsed by 100 agencies in March 2005, seeks to reduce overlap among donors. The Paris Declaration calls for aid to be responsive to national development strategies, use national systems for procurement and financial management, give more funding under programmatic approaches and to be based on shared analytical underpinnings. Quantitative targets are laid out for specific indicators to be achieved by 2010, but monitoring of progress towards the Paris Declaration has been hard to implement, and only a few case studies and surveys are underway. Furthermore, the Paris Declaration does not engage the new bilaterals or private organizations. Thus it focuses on the traditional aid architecture at the expense of the most dynamic part of aid flows.

One conclusion is that serious effort should be made to consolidate official aid agencies at both the multilateral and bilateral level. At the OECD Forum on Aid effectiveness in March, 2007, there was little support for an organized architect for reforming the system. The number of interests to be accommodated appears too great. Similarly, UN efforts to harmonize agency activity have run up against bureaucratic obstacles. There is more promise in efforts being made at a national level, and to some degree at the level of existing institutions such as the EC. But at a minimum, the proliferation of new aid agency creation should be halted until there is better understanding, based on solid research, of the implications for the system as a whole.

The challenge of harmonization can be seen by looking at the correlation matrix of each donor's allocation of aid across countries (Table 5). If donors gave money to the same recipients, then it might be easier to harmonize their strategies as it would suggest that donor interests are aligned. We report on major bilateral and major multilateral donors. The results show that the correlations between country recipients are quite low. There are a few notable exceptions to this rule. The UK's DFID and the IDA have a very strong correlation in their lending allocations across countries (0.86). The Swedes closely parallel lending of the UN Relief Agency for Palestine (0.92). The Germans and Japanese have the highest correlations with the Global Environment Facility. Correlations among European countries and Canada tend to be higher than with the United States. The implication of this is that donor interests appear to diverge from each other. Thus, it is not surprising that there is a proliferation of new agencies. Each serves as a conduit for a unique combination of donor preferences on a specific topic. But without greater uniformity in donor interests, with some subsidiarity to broad development goals, the prospects for effective harmonization are not good.

Results, effectiveness, and allocation rules

Results measurement for development is in its initial stages, driven mostly by official agencies. Despite their growing size, civil society and private philanthropists generally have not adopted transparent standards of governance or results themselves. A new partnership of multilateral and bilateral agencies (and recently joined by partner countries), Managing for Development Results (MfDR) was set up in 2002 and has just had its third Roundtable meeting in Hanoi in February 2007, focused on improving strategic national planning systems and sector-wide monitoring and evaluation. The IDA also has a new results management system (RMS) introduced for IDA 14. The RMS has two levels, one a higher order set of indicators of development outcomes, the other a set of indicators of IDA's own performance (with indicators such as quality of projects).

While the international system of measuring results for development is slowly evolving, it is still oriented to process improvements. Meanwhile, new official agencies are focusing more narrowly on sector- or thematic-specific results: the Global Fund, PEPFAR and others have specific targets that are easy to measure but which are intermediate inputs into development. The broader assessment of the impact of these programs remains unaddressed.

Results cannot be achieved when aid flows are highly volatile over time. Unfortunately, volatility appears to have increased recently. We construct an index of volatility by looking at aid from a recipient perspective. For each decade since 1970, we can construct a measure of volatility for each country. As a comparison, we also measure the volatility of the country's national income (a proxy for the volatility of tax and other revenues). The ratio of the two is an indication

Table 5: Donor aid allocation correlations

	Canada	Sweden	France	Germany	Japan	UK	USA	AfDB	IDA	EC	GEF	UNRWA
Canada	1											
	4083											
Sweden	0.5377	1										
	2447	*2619*										
France	0.2245	0.1109	1									
	3420	*2399*	*3989*									
Germany	0.5846	0.3145	0.2953	1								
	3826	*2592*	*3758*	*4602*								
Japan	0.4139	0.1738	0.2075	0.5263	1							
	3695	*2485*	*3694*	*4239*	*4595*							
UK	0.6566	0.5383	0.1419	0.554	0.3362	1						
	3709	*2425*	*3361*	*3987*	*3866*	*4465*						
USA	0.2667	0.1312	0.0862	0.3625	0.1975	0.2026	1					
	3345	*2323*	*3186*	*3655*	*3565*	*3416*	*3810*					
AfDB	0.2726	0.3282	0.0783	0.1247	0.0406	0.2214	0.0241	1				
	1153	*834*	*1133*	*1156*	*1130*	*1062*	*1133*	*1163*				
IDA	0.6762	0.5578	0.2267	0.6082	0.4033	0.8608	0.3083	0.3941	1			
	2645	*1808*	*2464*	*2778*	*2687*	*2598*	*2579*	*1050*	*2822*			
EC	0.3822	0.4089	0.274	0.3465	0.1271	0.3591	0.1954	0.3241	0.3976	1		
	3611	*2418*	*3523*	*3788*	*3730*	*3638*	*3308*	*1161*	*2614*	*4162*		
GEF	0.2462	0.0034	0.0504	0.5044	0.472	0.1762	0.0228	0.1249	0.3453	-0.0338	1	
	615	*552*	*612*	*612*	*617*	*562*	*596*	*215*	*478*	*616*	*617*	
UNRWA	0.6537	0.9219	0.6991	0.1627	-0.1407	0.8981	-0.0286			0.81	0.5051	1
	36	*36*	*36*	*36*	*36*	*36*	*30*	*0*	*18*	*36*	*14*	*36*

Number of observations in italics.
Source: Author's calculations and OECD/DAC

of the excess volatility of aid. The simple average of this measure across all countries is shown in Table 6. Table 6 shows that both total aid and CPA are much more volatile than national income. It also shows that volatility has risen since 1990, compared to the two preceding decades.

Results, and attribution to specific agencies, should be a critical element in the allocation rule for a bilateral donor. An efficient aid allocation system would be one where more effective agencies receive greater allocations, while contributions to less effective agencies are reduced over time. Especially in a system where "mergers, acquisitions, or exits" of international agencies appear to be politically too hard to consider, the allocation of official funds becomes the most important signal of perceived effectiveness.

An initial step towards tracking official aid agency performance has been made in the Multilateral Organization Performance Assessment Network (MOPAN), a grouping of nine donor countries that jointly conduct an annual in-house survey of multilateral partnership behavior in developing countries (partnerships with national governments, civil society and other bilateral and multilateral development

Table 6: Aid volatility over GNI volatility

Average RMSE/Mean, weighted by recipient's share of total aid

	70-79	80-89	90-99	00-05
Gross ODA	23.71	17.95	26.73	31.04
ODA less TC and debt relief	28.75	21.90	31.45	22.08
GNI	11.74	14.19	12.62	8.94
ODA/GNI	3.08	3.32	5.48	4.67
ODA (less TC and debt relief)/GNI	4.69	5.58	7.39	6.02

Source: Author's calculations and OECD/DAC
Note: Each observation is individually calculated. The Root Mean Squared Error and mean of the relevant flow is calculated for each recipient. The quotient is then weighted by the recipient's share of total aid to obtain the reported statistic.

agencies). The survey is based on the perceptions of MOPAN member embassies or country offices, arising from their day-to-day contacts with multilateral organizations. The MOPAN Annual Survey is not an evaluation and does not cover actual results on the ground. It does, however, show the demand for assessing aid agency performance.[35]

The UK DFID has a Multilateral Effectiveness Framework initiative, to look at the efficiency of multilateral institutions. Along with other country program evaluations, these efforts have a focus on the nature of the internal evaluation systems within each agency, and the professionalism and credibility of that and other management systems.

The Consultative Group to Assist the Poor (CGAP) has also undertaken several Microfinance Donor peer reviews, for 17 agencies, focused on what donors can do to improve their own processes in increasing aid effectiveness. The assessment is done against five core elements of effectiveness: strategic clarity and coherence; strong staff capacity; accountability for results; relevant knowledge management; and appropriate instruments. These reviews include bilateral agencies. The focus, however, is exclusively towards pro-poor financial services.

The peer review mechanism of the OECD/DAC is another forum for sharing experiences across aid agencies. As each review is done by a different agency, there is no systematic process that permits comparable treatment across agencies being reviewed. It also does not cover all types of agencies.

Despite this knowledge and evaluation gap as to agency effectiveness, donors today have a pressing practical need: they must choose how to allocate their scarce official development assistance among an ever-growing array of multilateral institutions, global funds and programs, bilateral agencies and NGO groups.

The literature on aid allocation finds that aid flows respond to donor "self-interest" (as proxied by commercial flows between countries such as trade, geographic links like colonial ties, or political factors such as common voting patterns in the United Nations), as well as to recipient need (proxied by per capita GDP

and debt burdens) and governance.[36] Despite significant rhetoric, the importance of the latter is still quite limited in both bilateral and multilateral aid flows.

The literature does not, however, try to assess which aid channels are most effective and whether more aid goes through those channels over time. This could be an interesting topic for research. It would require a measure of aid agency effectiveness, from the perspective of the recipient countries. That could best be done by building on client surveys that have already been pioneered by the World Bank and the Asian Development Bank, and informally through MOPAN, to use informed opinions to analyze the strengths and weaknesses of different agencies in different policy settings. These client surveys could be combined with other research findings to evaluate the strengths and weaknesses of agencies in different settings.

Another important avenue for research is on the "need" side. Efforts to cost the MDGs are one approach, but require detailed country case studies which are hard to aggregate. An alternative approach is to estimate the size of the poverty gap for each country – the amount it would take to lift every individual above a given poverty line. Country "need" can be considered as proportional to the country poverty gap.

Scaling up, learning and innovation

The aid effectiveness literature finds mixed evidence of the impact of aid on broad aggregates such as country growth. Aid proponents sometimes argue that this is because aid flows have been so modest that it is unreasonable to expect them to have economy-wide impact. But those arguments belie ample evidence that in certain instances programs can be taken to scale with limited resources. In a more fragmented world, understanding the obstacles to scaling up becomes ever more important.

One challenge with scaling up is that programs might achieve narrowly defined objectives but not contribute to broader development outcomes, or in extreme cases, worsen non-targeted outcomes by competing for scarce resources. The World Bank's Annual Review of Development Effectiveness (2006) illustrates this issue with an example of education enrollment in Uganda. A highly successful program to increase enrollment appears to have a trade-off in higher numbers of children per classroom, and fewer textbooks per child. While enrollment did in fact increase, educational achievement declined. Another example comes from Haiti, where it is reported that the prevalence of HIV in the country fell from six percent to three percent between 2002 and 2006, while other indicators of health outcomes actually worsened.[37]

Other challenges to scaling up come from ensuring continuity across political transitions and resisting political capture.[38]

Scaling up has received relatively little attention since the seminal Shanghai Poverty Conference of May 2004. In fact, a review of World Bank evaluations shows that less than half mention scaling up, while only one-third address scaling up issues in any detail.[39] Partly, this stems from the fact that donor evaluations lack the mandate to assess activities outside those supported directly by their own institutions. Partly, it reflects the fact that scaling-up is neither explicitly part of the DAC principles for evaluation nor a concept that is deeply embedded yet in development assistance thinking or practice. At a minimum, scaling up requires a better understanding of country development programs and of how donor supported activities can be integrated into country programs.

Private foundations and the new philanthropists may have something to offer in the way of scaled up approaches. Yet these voices are muted in evaluation

circles. The private sector has several devices to promote effectiveness: a focus on specific performance measures; competitive contracting for inputs; modern management practices, including team empowerment, leadership from the front and informal reviews to periodically assess performance against intermediate targets and adapt approaches. They also often adopt business models which start small, and learn from experience, but have a vision, listen to the people (assess "demand") and adapt.[40]

What are the factors that militate against scaling up by donors? Some have argued that they are inherent to the internal incentives of the organization. A "results" orientation, while important for benchmarking the efficacy and efficiency of aid agencies, also leads to a desire for attribution of development outcomes to specific interventions, best typified by a project, not a coordinated, scaled-up program.[41]

A new dialogue

One striking feature of the new aid architecture is the lack of venues bringing the private and official sectors together to share experiences. This may reflect each group's suspicion of each others' activities. Several private foundations in the USA have developed a new "California Consensus": that official aid has not worked, and a completely new, grass-roots based approach is required. Conversely, official aid agencies and some governments complain of the lack of accountability of private aid donors and the difficulties in engaging them on systemic, sustainable reform.

Given the magnitude of private aid and non-DAC bilaterals in the new aid architecture, it would be opportune to develop a structured dialogue about how the issues of information sharing, agency effectiveness and scaling up should be approached. A structured dialogue, aimed at generating ideas for constructive partnerships or bridges between private donors, bilaterals and multilateral agencies, is urgently needed.

Looking to the future there are three priorities for the new international aid architecture:

- A better mechanism for information sharing, planning and coordination, perhaps through a new technological platform. This may also need to be complemented by new codes of conduct for private aid donors and implementers to ensure that they work within the system and not at odds with the system. It could also result in a better division of labor between official agencies.
- A revised approach towards the allocation of aid by donors that is based on the effectiveness of the development contribution, not on the politics, voting shares, or philosophy of the agency.
- A focus on scaling up where proven solutions have already been demonstrated.

ENDNOTES

1. Donors of course continued to have relationships through their bilateral programs, but as we shall see, these often focused on non-development aspects of the relationship.
2. 2Duke University Non-Governmental Organizations Research Guide.
3. See H. Morgenthau, "A political theory of foreign aid," *The American Political Science Review,* 56:2 (1962): 301-309; D. Dollar and L. Pritchett, *Assessing Aid* (Washington, D.C.: World Bank, 1998); and M. Edwards, *Future Positive: International Cooperation in the 21st Century* (London:Earthscan, 1999) for accounts of the link between aid and politics.
4. See http://www.pipa.org/OnlineReports/Other percent20Studies/GlobalIss_Jun04/GlobalIss_Jun04_quaire.pdf The same respondents also overwhelmingly believe that helping the poor is in their own economic self-interest.
5. See the BBC World Service Poll at http://www.worldpublicopinion.org/pipa/articles/btglobalizationtradera/162.php?nid=&id=&pnt=162&lb=btgl
6. The DAC defines Part I countries as those with a per capita GNP below $9000 in at least one of the prior three years.
7. One estimate by the GAO is that 30 percent of US food aid may reflect the excess cost of transport from the US. For drugs, differences between prices for generics and brand name drugs can be even higher.
8. See D. Roodman, *An Index of Donor Performance,* (Working Paper 67, Center for Global Development, Nov. 2006).
9. All amounts are in constant 2005 US dollars.
10. There may be some exceptions to this. For example, some food aid is monetized by selling food in local markets, with the proceeds used for development projects. But these numbers are small compared to the aggregates discussed above. We also deduct interest received by donors from total aid to get net development aid.
11. 8 other countries fall under HIPC's financial criteria for debt-relief, but are not expected to qualify for debt relief under "decision-point" rules.
12. The DAC projects that as extraordinary debt relief subsides (like that granted to Iraq and Nigeria) total ODA levels will decline in 2006 and 2007. Total ODA is not expected to exceed $100 billion again until 2008: this trend requires aid to increase by $30 billion ($22 billion, less our projections of debt relief efforts) in two years.
13. A. Wood, *Looking Ahead optimally in Allocating Aid* (Oxford: QEH, August 2006, mimeo).
14. We use the term "new bilateral donors" to refer to all non-DAC donors, even though some of them, such as the oil-exporting countries, have been generous donors for over thirty years.
15. One report suggests that US foundation giving abroad rose fourfold in the 1990s.
16. In 2005, the DAC reports ODA from Korea ($0.7 billion), Turkey ($0.6 billion), Kuwait ($0.5 billion), Chinese Taipei ($0.5 billion) and the UAE ($0.1 billion). Data for Saudi Arabia is missing, so we conservatively estimate their ODA to be $1 billion, following past performance. Chinese ODA estimates are from personal communications with Export-Import Bank of China chairman Li Ruogu. Estimates of Indian ODA and remaining emerging donors follow general estimates from a variety of sources.
17. World Bank (2007). *Africa's Silk Road.*
18. *The Index of Global Philanthropy* (Hudson Institute, 2007).
19. Kerlin, J. and S. Thanasombat, "The International Charitable Nonprofit Subsector," Urban Institute Policy Brief, No. 2 (September 2006).
20. Salmon, L., *The Comparative Nonprofit Sector Project*, Johns Hopkins University, www.jhu.edu/~cnp/research/compdata.html. Accessed March 2007. This includes both domestic and international giving and shows the US is 49 percent of private giving from all DAC countries combined. The DAC itself reports on private giving, but in a very partial way. The DAC reports US private giving as $8.6 billion in 2005, compared to total reported private giving of $14.7 bn., im-

plying that the US is 58.5 percent of the global total.

21. Kerlin and Thanasombat (2006) op. cit.

22. It is clear that the figures for NGOs are extremely rough. The fact that there is so little data on such major contributors makes the point that the current aid architecture is failing in one of its major tasks, that of information coordination and accountability of donors.

23. *The Index of Global Philanthropy*, op. cit.

24. *Global Civil Society Yearbook 2004/5*, page 302. Quoted in Joseph O'Keefe, "Aid—From Consensus to Competition," Brookings Blum Round Table Paper, August 2007, available http://www3.brookings.edu/global/aspen/2007o'keefe.pdf

25. These figures have a wide range: IDA estimates over 230 international organizations, funds and programs. IDA 15, *Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows* (IDA, February 2007).

26. Duke University Non-Governmental Organizations Research Guide estimates between 6,000 to 30,000 national NGOs in development.

27. For example, almost every aid project has a separate Project management unit to administer the project. Some anecdotal stories suggest that around 50 percent of funds actually reach the targeted beneficiaries.

28. Private giving from rich individuals in poor countries will likely be a trend of the future. Proof of this potential can be found, for example, in the world's wealthiest individual, Carlos Slim Helú of Mexico, who has made clear his interest in philanthropy. However, there is little evidence at this point that rich individuals in poor countries disburse their gifts to countries other than their own.

29. J. Sachs, *An End to Global Poverty* (New York: Penguin, 2005); Zedillo Report 2002; Devarajan, Miller and Swanson, *Goals for Development: History, Prospects and Cost* (Washington, D.C.: World Bank, 2002); *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals* (UN Millenium Project, 2005).

30. S. Knack and A. Rahman, *Donor fragmentation and bureaucratic quality in aid recipients* (World Bank, mimeo, 2004).

31. D. Roodman, "Aid project proliferation and absorptive capacity" (UNU-WIDER Research Paper, 2006/04).

32. Johnston, Donald and Richard Manning (2005). "Doing Aid Better." February/March. OECD.

33. To improve the performance of regression diagnostics, we transform the regressor using the formula Y = ln(HHI/1-HHI). This transformation results in a specification where model residuals are more randomly distributed.

34. See Lael Brainard, *Security by Other Means* (Washington: Brookings Institution Press, 2007).

35. MOPAN members are: Austria, Canada, Denmark, Finland, Netherlands, Norway, Sweden, Switzerland, UK. Three agencies are reviewed each year, including AfDB, ADB, FAO, ILO, UNAIDS, UNDP, UNFPA, UNICEF, and the World Bank.

36. See for example, Jean-Claude Berthelemy, "Aid Allocation: Comparing Donors' Behaviours" *Swedish Economic Policy Review* (2006); or Bobba and Powell, "Aid and growth: Politics Matters" (IADB mimeo, January 2007).

37. One cannot of course infer that the HIV programs caused the deterioration in other health outcomes. But this example does serve to remind that the broad development outcome (better health) can move in different ways from more narrowly defined intermediate indicators. See Laurie Garrett, "The Challenge of Global Health," *Foreign Affairs* (Jan/Feb 2007).

38. S. Levy, *Progress Against Poverty* (Washington, D.C.: Brookings Institution, 2007).

39. Based on preliminary research carried out by Uma Lele for the Wolfensohn Center in 2006

40. S. Ahmed and M. French, "Scaling Up: the BRAC Experience," *BRAC University (Dhaka) Journal* (2006).

41. R. Picciotto, "The Evaluation of Policy Coherence for Development," *Evaluation* 11 (2005).

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