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Overview: An Agenda for the Busan High-Level Forum on Aid Effectiveness

HOMI KHARAS, KOJI MAKINO, AND WOOJIN JUNG

Today's world is shaped by growing economic integration alongside growing economic divergence. Over two dozen developing economies are expanding at rates that previously appeared miraculous, reducing poverty at unprecedented rates. Conversely, thirty-five developing countries with a combined population of 940 million can be classified as "fragile," or at risk of suffering debilitating internal conflict.[1] The potential for globalization to act as a positive force for development contrasts with the prospects for globalization to threaten, or be unable to protect, development through a failure to deal with the challenges of hunger, poverty, disease, and climate change. Many developing countries have neither the safety nets nor the macroeconomic institutions to manage global economic shocks. Developing countries today are quite differentiated in terms of the challenges they face and their capacity to respond.

International support for global development is now couched in terms of a broad strategic vision of long-term engagement to assist countries to sustain progress and evolve into partners that can help build a stable, inclusive global economy. This support is built on three pillars:

—An understanding that the responsibility for sustained development lies principally with the governments and institutions of each developing country, with foreign assistance playing a supportive, catalytic role.

1. See chapter 6, this volume, for the definition of fragility and the classification methodology used in this chapter.

—A recognition that a broad array of engagements between countries contribute to development, principally through trade, investment, finance, and aid.

—A desire to fashion an improved operational model for development cooperation that reflects the differential challenges of sustainable development, the diversity of state and nonstate development partners, and the dynamics of sustained development.

Aid must be understood in this context. It can only play a catalytic role, not a leading role, in development. Development will not happen because of aid, but aid can make a difference. Developing countries are responsible for their own development. Aid is but one of many instruments of development, and the catalytic impact of aid is often seen when other forces like trade and private investment are unleashed because of better economic policies and institutions supported by aid programs.

There have been many visible improvements in the operational model for aid since the late 1990s—untying, greater alignment with global priorities such as the Millennium Development Goals, more decentralized operations, use of country systems and budgets, and better donor coordination. But other problems with the operational model have emerged:

—The mandates for aid have expanded—growth, debt relief, humanitarian assistance, anticorruption and governance, delivery of public services, state building, and climate change adaptation, to name a few. With such broad mandates, there are no simple metrics of success by which to measure the impact of aid. Some suggest the need for a new architecture, in which aid is measured in a different way and oriented toward specific targets.[2]

—Aid is terribly fragmented, with the number of official development assistance (ODA) projects surpassing 80,000 annually, delivered by at least 56 donor countries, with 197 bilateral agencies and 263 multilateral agencies.[3] The number of tiny aid relationships is daunting and, with more players, aid is becoming less predictable, less transparent, and more volatile. Despite an advisory from the Accra High-Level Forum on Aid Effectiveness to "think twice" before setting up new multilateral aid agencies, the number continues to grow. Only one multilateral development agency is known to have closed since World War II (the Nordic Development Bank). Alongside this, a new ecosystem of private development agencies has emerged—philanthropic foundations, international NGOs, church groups, corporations, and universities which command significant and growing resources. The actions of these groups are little understood, and they remain on the fringes of official development cooperation.

—The governance of aid is seen as bureaucratized and centralized at a time when more attention is being focused on the quality of aid because of pressures

2. Severino and Ray (2009).
3. World Bank (2008).

on some large donors to cut back on (or slow growth in) aid volumes. The result is overlap, confusion, and a lack of leadership in some areas.

Against this background, a major international forum on aid effectiveness will convene in November 2011 in Busan, Korea, under the auspices of the Development Assistance Committee of the OECD (OECD/DAC). The Busan meeting comes at an important juncture. Because aid is clearly not sufficient to achieve development, it is sometimes misconstrued as being unnecessary, despite the growing evidence that aid is working at both micro and macro levels.[4] The simple conclusion that aid does not work, while true in selected cases, is crowding out the more complex story of how aid helps in numerous different—but often unmeasurable—ways. Aid, as a government-to-government form of development cooperation, can also be perceived as an inferior alternative to private sector, market-determined processes and hence less relevant for development in today's world. Against this antiofficial aid movement, the Busan meeting must recapture the idea that ODA is a major instrument of development cooperation and can be made more effective if the right lessons are learned and if operational models are improved.

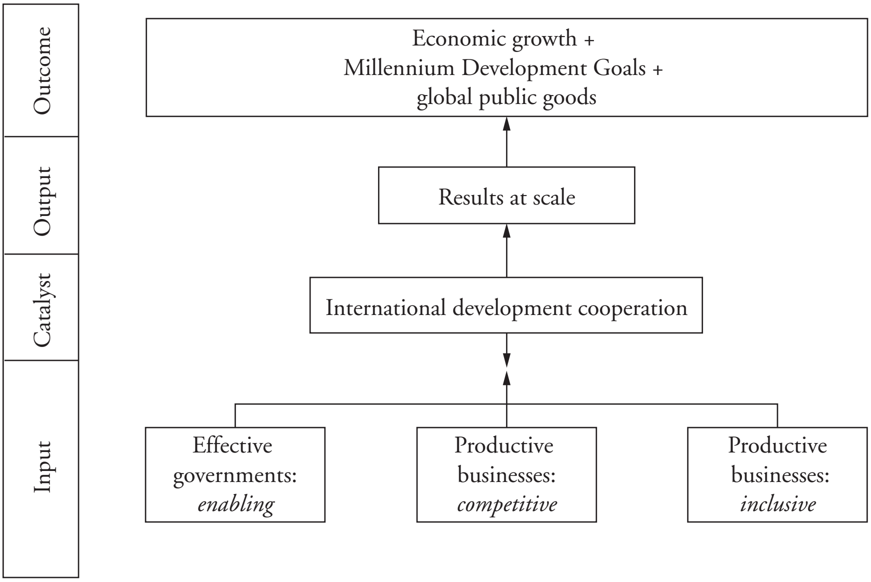
The goals of the Busan meeting are ambitious. They are nothing less than an attempt to generate a better understanding of how to improve the human condition—a twenty-first-century charter for global development cooperation by generating sustainable growth, achieving the Millennium Development Goals, and investing in a range of global public goods, like climate mitigation. Ultimately, that means cooperating to achieve sustainable results at scale. That can be done by nation-states organizing and leading development cooperation by generating the right enabling environment for development, by promoting productive businesses in a competitive setting, and by, through an inclusive process, tapping into the energies of billions of citizens worldwide engaged with development. Figure 1-1 illustrates this proposition for better contextualizing the role of effective aid in supporting development.

Asian Experiences with Aid and Development

In many ways, the vision for aid expressed in figure 1-1 has already been implemented in much of Asia (although Asian countries have not had to confront climate change until recently). In a number of Asian countries, the development experience shows a limited, yet pivotal, role played by aid. The host country for the Busan High-Level Forum (HLF4), the Republic of Korea, perhaps best exemplifies the contributions that aid can make when targeted in the right way and tailored to country circumstances. Korea brings a unique perspective in moving

4. Rand and Tarp (2010).

Figure 1-1. *A New Vision for Aid: Catalyzing Development*



through the entire spectrum of aid, from being a major recipient to being a major donor within a span of fifty years (see the case study for Korea in box 1-1).

Other Asian experiences also provide a reminder that the lessons drawn from Korea's experiences with aid are applicable to other countries; a sustainable development trajectory must encompass self-reliance, the building of local capacity, and the evolution of development assistance to fit changing development priorities. Brief case studies of Cambodia (emerging from a fragile state), Indonesia (a large country trying to scale up development), and Vietnam (development partner with a strong national strategy) show aid working successfully in very different environments (see boxes 1-2 to 1-4 below). These studies reveal common themes and lessons that illustrate three important principles of the successful use of aid to catalyze development, despite vastly different circumstances and economic policy approaches by recipient governments.

First, *diverse aid* providers can bring complementarities, resources, and expertise, and Asian countries benefited from the broad array of development partners. At times they were able to secure assistance from one partner even when another was unconvinced of the development approach. Such "competition" among development partners goes back to U.S.-Japanese differences in approaches in Korea, World Bank–IMF differences in approaches in Vietnam, and the division of labor among donors in Indonesia. In each Asian case study, aid has been leveraged with private corporate sector investments and an emphasis on trade as a key development strategy.

Box 1-1. *Republic of Korea*

Aid to Korea has been adapted to changing country circumstances. Before and immediately after the Korean War (1950–53) aid to Korea was focused on military support and humanitarian relief, which was crucial for the survival of the country. As Korean institutions became more stable and capable after the 1960s, development interventions were scaled up, first by graduating from grants to concessional credits, then to nonconcessional financing, and finally to private finance (appendix table 1-1). Korea was fortunate to have two stable long-term donors—the United States and Japan—providing financial and technical cooperation. Recently, Korea has joined the group of OECD/DAC donor nations.

One reason for the success of Korea's experience with ODA was its strong country ownership and leadership. Korea knew what it wanted and was not intimidated into accepting donors' policy preferences. The United States put a greater emphasis on stability, which implied relatively short-lived, nonproject aid, and it was sometimes conditional, with expectations on how aid dollars would be spent. For example, using relief aid for investment was prohibited by the United States. However, the Rhee regime expressed a desire for more investments, the separation of economic aid from military aid, and long-term predictable aid in accordance with the national development plan.

Under the Park administration, the Korean government formed an Economic Planning Board to prepare five-year economic development plans. (Launched in 1961, the Economic Planning Board was responsible for development planning, annual budget preparation, and coordination of foreign aid and foreign investment.) Aid was linked to the country's planning and budget process. The Park administration maintained a policy focusing on large-scale enterprises despite the recommendations of U.S. advisers to focus more on small and medium-sized enterprises. Most of the assistance in Korea was allocated to finance the government's industrial and financial policies implemented by *Jaebeol* (a Korean form of business conglomerate), particularly in import-substituting or export-oriented, private enterprises such as the POSCO steel mill, funded mainly by Japanese repatriation payments.[1] Many of these cases were remarkably successful. The emphasis on focusing aid on investment in large economic infrastructure and services contrasted with a low aid-allocation priority for health and education, as these were financed by Korean society itself.[2] Korea and its U.S. advisers also had different approaches toward fighting corruption. Instead of penalizing corrupt businessmen, Park expropriated their bank stocks and assigned them to invest in key import-substitution industries such as fertilizers.

Country-led development was made easier by a unique organizational structure that reflected Korea's special needs. When the U.S. operation mission system (in which the American ambassador holds jurisdiction over the disbursement of aid) was deemed inappropriate for Korea, it gave rise to the creation of the Office of the Economic Coordinator (OEC). In 1956 the OEC absorbed the functions of the Korea Civil Assistance Command and the UN Korea Reconstruction Agency and became the only aid coordinating agency in Korea. Unlike an earlier period when Japanese engineers and UN personnel in Tokyo were responsible for Korean aid, the OEC was placed in Seoul and

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1. KEXIM (2008); Chung (2007).
2. CBO (1997).

Busan, hiring almost 900 Koreans along with 300 foreigners.[3] A decentralized structure enabled the OEC to formulate harmonized and home-grown assistance policies among key donors (appendix figure 1-1).

Throughout the aid process, Korea worked on capacity building. Between 1962 and 1971 more than 7,000 Koreans received training abroad, and additionally over 1,500 experts were sent to Korea by donor nations. A high proportion of the senior personnel in government, business, and academia received foreign training. While Korea sought to improve the quality of development projects by hiring leading foreign institutes, the planning and implementation responsibilities were largely in the hands of local people. For example, for the Geongbu Expressway, general project supervision was contracted out to a foreign expert on construction technologies but implementation and feasibility studies were handled by domestic engineers. When establishing the Korea Institute of Science and Technology with U.S. assistance, Korean project managers decided the orientation of the institute and picked the most qualified advisers, instead of waiting for experts to be sent. Investment of significant local resources and time in project implementation signaled strong Korean project ownership and was in line with local efforts to learn "how to fish."

3. Lee (2009).

Second, *differentiated* aid approaches are needed to take into account recipients' characteristics, histories, and priorities. This is the essence of country ownership. For the most part, Asian countries have been able to receive aid in a form appropriate to their situation. This has been driven by strong expressions of country needs, expressed by government leadership of the development agenda and over aid resources.

Third, *dynamic* approaches are needed to adjust assistance over time as development conditions evolve. Graduation strategies and hard timetables can provide a sense of urgency and the need for speed in development programs. As the examples below show, aid in Asia has constantly adapted its approach to the evolving needs of countries, whether it be the move from grants to loans in Korea as the purpose of aid shifted, or the evolution of aid instruments toward budget support in Vietnam, or the sequenced approaches to capacity development in Cambodia, or the scaled-up approach to hydrological management in Indonesia.

The conclusion: aid works, when done right. That requires starting from an assessment of development needs and only then developing an aid strategy. Too often today the process is reversed, with donor-defined aid strategies driving development outcomes.

Our case studies suggest that in Asia aid has been effective in countries that have stable long-term donors who are invested in the success of their projects and in the development of their partner. The Asian examples point to the need for aid to be sustained over time but with graduated modalities to capture fully all development benefits. Strong local leadership is critical to align aid with evolving national development priorities. This does not always mean full agreement with donors on all aspects of development, but it does imply finding the right avenues for mutual cooperation. And capacity development beyond improvement of specific technical talent emerges as a key success factor in all the Asian cases.

The Aid Effectiveness Agenda Today

Since 1960 rich countries have given $3.2 trillion in aid to poor countries, mostly through a handful of bilateral and multilateral institutions.[5] Despite misgivings as to its effectiveness, aid continues to enjoy strong political and public support in rich countries. Emerging economies also have substantial development cooperation programs. And a variety of private international NGOs (INGOs), foundations, corporations, and individuals are actively engaged. Aid has become a $200 billion industry: $122 billion from the OECD/DAC donors, $53 billion to $75 billion from private donors, and $14 billion from emerging economy donors.[6] The last two components are growing rapidly. China, India, Brazil, Venezuela, Turkey, and the Republic of Korea, to name just a few, have developed aid programs that could soon each surpass $1 billion annually.

For most of the past decade the aid agenda has focused on increasing the volume of aid flows—with considerable success. Net ODA disbursements from members of the OECD/DAC rose from $54 billion in 2000 to $122 billion in 2008.[7] This is a substantial increase even if it is not as high as hoped for when significant pledges were made at Gleneagles. The experience of the last decade is that ambitious targets for increasing aid volumes can work if there is strong leadership. Gratifyingly, prospects for aid volumes in 2010 are not as bleak as feared, despite the gravity of the public finance situation in many donor countries.[8] With the growth in aid from private and non-DAC donors, as well as resources from hybrid financing, issues about the quantity of aid revolve around questions of ensuring a better division of labor and better coordination of activities so as to avoid overlap and waste.

As scrutiny over public funding has grown, more attention has shifted to the quality of aid. Much of this agenda revolves around assisting partner countries to achieve self-reliant development. The prevailing framework for action on aid effectiveness has been articulated in high-level conferences at Rome (2003), Paris (2005), and Accra (2008). The Paris Declaration on Aid Effectiveness, endorsed on March 2, 2005, committed over one hundred countries and organizations to enhance aid effectiveness by 2010 by respecting five principles: ownership by

5. Cumulative net ODA disbursements in 2007 constant dollars.
6. OECD/DAC (various years); chapters 2 and 3, this volume.
7. OECD/DAC (various years).
8. OECD/DAC (2010).

recipient countries, alignment of development partners with country-led poverty strategies, harmonization of activities among development partners to avoid duplication and waste, results in terms of development outcomes, and mutual accountability for performance.

While there has been significant progress under the Paris-Accra agendas, a number of challenges have emerged. The growth of aid resources and aid donors has been accompanied by a fragmentation into ever smaller projects, with the mean project size falling from $2.01 million to $1.46 million between 2000 and 2008 (in real terms). 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, which reduces dollars available for final beneficiaries.

Recipient countries each received an average of 263 donor missions in 2007. Their senior finance officials spend one-third to one-half of their time meeting with donors; in the case of Kenya, Ghana, and others, governments have resorted to "mission-free" periods to allow officials time to handle their domestic obligations. The efficiency 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.[9] Better division of labor would result in larger aid flows between a given donor and recipient and would reduce the number of donor-recipient aid relationships, as some donors would exit from some countries. In fact, the OECD/DAC estimates that, if half of the smallest donor-recipient relationships were abandoned, only 5 percent of country programmable aid would have to be rechanneled. In some countries with strong leadership, like Vietnam, donor coordination has made good progress, leading to more effective use of aid, but this model cannot be readily applied to all countries, especially not to fragile states (box 1-2).

In the old aid architecture, coordination at the country level was done through UN Roundtables or Consultative Group meetings. The ten largest donors could be gathered in a single room and would collectively represent 90 percent of all aid to that country. Today, the share of the largest ten donors typically covers around 60 percent of aid. It is not easy for recipient countries to host a forum that is representative and inclusive of the experiences of all development partners while at the same time being effective in coordinating, harmonizing, and prioritizing activities.

In fact excessive coordination can alienate small donors. Large recipient countries, like India and Indonesia, have already expressed their unwillingness to debate national policy issues with small donors, and several donors have reduced their support to these countries. But small developing countries cannot afford the luxury of alienating any potential donors. They need to find ways to ensure that small donors are not marginalized by building a relationship of development cooperation that is about more than just provision of money.

9. Rogerson (2010).

Box 1-2. *Vietnam*

Vietnam has grown fast, dramatically reducing poverty from 58.1 percent in 1993 to 12.3 percent in 2009. Vietnam's development is especially remarkable since over the last thirty years it has had to recover from war (1955–75), adapt to the loss of financial support from the old Soviet bloc, and overcome the rigidities of a centrally planned economy. While problems such as inequalities persist—for example poverty in Vietnam is concentrated among ethnic minorities in remote mountainous areas—the country is a worthwhile case study on how to develop rapidly based on economic integration, market liberalization, and the strategic use of aid.

Vietnam is one of the largest recipients of ODA, with aid volumes approaching $4 billion (compared with $1.5 billion in 1995). Although Vietnam receives a lot of aid, it is not an aid-dependent nation. ODA was only 4 percent of its GDP in 2009.

Vietnam shows strong country ownership of its aid receipts, led by the Ministry of Planning and Investment. Coordination is based on an internally drafted five-year socioeconomic development plan and a local version of the Paris Declaration called the Hanoi Core Statement. The government, rather than donor groups, has driven the poverty reduction agenda, sometimes defining priorities that are different from donors' priorities. After the 1997–98 East Asian crisis, Vietnam focused on stabilizing its economy, and reforms progressed very slowly until 2001, leading to a halt in structural adjustment lending from the World Bank. Only when the leadership felt comfortable did reforms start up again. Vietnam also allowed its program with the International Monetary Fund to lapse over disagreements with the pace of financial sector reform and audits of the central bank. It has resisted donor pressures for greater freedom of journalism and civil society development.

These examples are not meant to indicate that the decisions made by the government of Vietnam were always best from a development perspective but rather to demonstrate that a successful development partnership must be based on serious dialogue even if disagreements between development partners occur. The critical issue is to find ways of fostering cooperation in areas where agreement and progress can be made.

A result of strong country ownership is that donor aid in Vietnam has been well aligned with country priorities. With specific sectoral programs and projects working well, Vietnam has been able to organize an umbrella instrument to channel aid in support of these activities through the budget. Initially, only a few donors agreed to general budget support for Vietnam, but once it showed a track record of success, more joined in. In recent years ten or eleven co-financiers provide budget support, accounting for 25 percent of ODA.[1] All ODA provided through budget support is automatically subjected to reasonably transparent financial reporting systems. It also has been disbursed on schedule, in contrast to project disbursements.[2] In particular, poverty reduction support credits is an exemplary practice on policy dialogue in a mature development partnership. Given the leadership and capacity demonstrated by the government, the instrument provides a soft financial incentive in place of conditionality.

One challenge that Vietnam faces is that its aid is becoming more fragmented as donors are attracted by its success. Vietnam has become a donor darling, with around

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1. OECD (2008).
2. Ibid.

twenty-eight bilateral donors and twenty-three multilateral agencies. The Paris Monitoring Survey of 2008 reports that Vietnam hosted 752 donor missions in 2007—more than three missions per working day. The number of missions conducted by some donors appears extremely disproportionate to the amount of aid they provide. For example, UN agencies provide less than 1 percent of ODA, but the number of these agencies operating in Vietnam increased from four in 2006 to twelve in 2007. While such aid is costly, Vietnam has been able to manage donors well. Large donors, such as the Six Bank Group, finance large infrastructure, while smaller donors, such as the Like-Minded Donor Group, the European Commission, and the UN, typically work in areas not served by the larger donors, addressing problems like social inequality and exclusion. Probably having more donors is a net positive for Vietnam, although waste and overlap may be occurring.

Vietnam's relative success in using aid is based on two pillars. First, Vietnam has a strong relationship with its major donors; 60 percent of its aid comes from its top three donors: Japan, the World Bank, and the Asian Development Bank. Second, infrastructure development has been identified as the key focus of aid money. Specifically, road transportation, power generation, water supply, and sanitation systems have been prioritized and developed.

If aid is to be seen as a mechanism of development cooperation, an instrument for achieving results on the ground, it follows that aid must be governed and managed through processes within each recipient country, not just at the global level. Two types of aid relationships have matured: government to government and civil society to civil society. In each case, there is more to be done to reinforce these relationships, especially in situations where governments are weak and lack either capacity or legitimacy. But what urgently needs strengthening is links across these relationships: civil society donors to government recipients and government donors to civil society recipients. These links are weak and sometimes confrontational but cannot be ignored.

The 2008 *Survey on Monitoring the Paris Declaration* stresses that the pace of improvement had to accelerate in order to meet the targets set for 2010.[10] In particular, the report calls for strengthening and use of country systems, stronger accountability, and lowering of transaction costs for partner countries and donors in the delivery of aid. The discussions at the Busan High-Level Forum on Aid Effectiveness in 2011 will be based in part on the evidence from the third survey on achievement of the Paris Declaration targets for 2010. It is safe to say that at least some of the indicators will not be met and that a significant agenda will remain to advance the Paris principles. This agenda will need further articulation in Busan.

But equally, there must be a discussion around two other broad questions. How should other development actors, the so-called new players, who by and

10. OECD (2008).

large were absent when the Paris principles were drafted, be incorporated in a new global aid architecture? And is there a need to adapt the Paris indicators to deal with new challenges of development, in particular to the emerging discussion on climate change financing, the practical problems experienced in applying the Paris principles to aid in fragile states, and the mixed results with capacity building?

We refer to this as the Paris++ agenda for Busan. Considerable work remains to achieve the Paris Declaration targets, and a focus on this should be maintained, but at the same time other agendas are pressing. Lessons from experience need to be absorbed. For example, Cambodia could have some lessons on phasing and sequencing of aid that are more broadly applicable to countries emerging from conflict. Its future prospects are still not assured, but considerable progress is already evident, thanks in part to the generous provision of development assistance (box 1-3).

This volume offers specific suggestions for framing an agenda for Busan through ten essays on game changers for aid—actions that we believe will transform the development landscape. We do not go into the details of how to pursue the Paris Declaration targets beyond 2010, even though this is an essential part of the agenda. Those discussions are well in-train through an extensive work program under the auspices of the Working Party on Aid Effectiveness of the OECD/DAC. Instead, this volume focuses on the "plus-plus" part of the agenda.

It is already evident that the Paris Declaration is most relevant to the portion of aid that is shrinking. To start with, the Paris and Accra Accords only cover ODA from DAC countries, covering perhaps 60 percent of total aid, a share that appears likely to shrink further as non-DAC donors and private development assistance are expanding aid faster than DAC donors. The other concerns are that the Paris-Accra processes have not been fine-tuned to reflect the specific challenges of fragile states, capacity development, and climate change, each of which accounts for a large portion of today's aid.

Table 1-1 shows how most of the increase in aid since the 1990s has gone into fragile states, where ideas like reliance on recipient country ownership and alignment of donors with country preferences and practices are difficult to implement and require unorthodox approaches. Fragile states received about $15 billion a year ($21 per capita) in aid in 1995–98 and $46 billion ($50 per capita) in 2005–08.[11] Even when the exceptional cases of Iraq and Afghanistan are excluded, ODA to fragile states grew considerably. In contrast, aid to nonfragile states hardly grew at all in aggregate and fell in per capita terms over this period, from $10.3 per capita to $10.0 per capita (the same broad pattern holds excluding the dynamic large economies of China and India). The reality is that only $20 billion a year goes to nonfragile states in a fashion that is programmable by

11. See note 1.

Box 1-3. *Cambodia*

The polity and society of Cambodia are not yet free of fragility. The Khmer Rouge government, 1975–79, participated in genocide, which led to the deaths of 21 percent of the entire population. The overthrow of that regime did not end the violence, and peace efforts did not completely succeed until much later. In 1991 a cease-fire was finally agreed to by all sides. Although Cambodia attained political stability by the late 1990s, weak accountability and corruption of the government hamper the consolidation of a genuinely legitimate state. Cambodia is among the lowest countries in Transparency International's (TI) ranking of corruption. Between 2005 and 2009 Cambodia's TI ranking dropped from 130th (among 159 countries) to 158th (among 180 countries). Furthermore, due to the history of conflict, Cambodia presents a unique development challenge. In 2008 the population cohort of ages thirty through thirty-four was smaller than any other age group and had the lowest male literacy rate. The lack of middle-aged, highly skilled people is a serious problem for the management of state institutions.

Despite these drawbacks, Cambodia has achieved rapid growth, enjoying five years of double-digit growth in the decade before the 2009 global recession. It received $5.5 billion in aid from thirty-five official donors and also benefited from the activities of hundreds of civil society organizations. Foreign aid played a pivotal role in rehabilitating infrastructure and improving basic services, thereby providing the Cambodian people with peace dividends in an early stage of the peace-building process. Improved infrastructure served as a basis for the economic development in the later stage.

Because of Cambodia's poor human capital, donors have focused on state capacity building but have addressed it through funding foreign experts. Technical cooperation has been about half of ODA in Cambodia but has been criticized domestically as being mostly supply driven, poorly coordinated, and a substitution for domestic capacity rather than an addition to it.

The Royal Government of Cambodia has tried to take ownership of the aid agenda through establishment of technical working groups in nineteen sectors and thematic areas. Through this mechanism, it has aligned aid with the National Strategic Development Plan but still finds that donors are uncomfortable with program-based approaches and budget support due to poor governance in the system. New donors like Thailand and China are important but have a development cooperation process outside this structure.

In Cambodia tangible impacts of aid can be most clearly seen at the level of specific programs. One example is the case of National Maternal and Child Health Center (NMCHC), which currently functions as the country's largest obstetrics hospital as well as the national training center for improvement of public health service. In the first phase of the project (1995–2000), priority was given to building the capacity of the NMCHC staff in both organizational management and specific health care skills. Building on the achievement of the first phase, the second phase (2000–05) expanded the training program for midwives and physicians across the country. This example shows how capacity can be developed in specific areas when foreign experts and local staff engage in a process of mutual learning.

Table 1-1. *Aid to Fragile and Nonfragile States, 1995–98 and 2005–08*[a]
U.S. dollars

	1995–98		*2005–08*	
Aid	*Billion*	*Per capita*	*Billion*	*Per capita*
ODA from DAC donors	73.3	. . .	119.0	. . .
Aid to fragile states				
Net ODA	15.3	21.4	45.7	50.4
Less ODA to Iraq and Afghanistan	14.7	21.8	28.3	33.1
Aid to nonfragile states				
Net ODA	39.3	10.3	43.5	10.0
Less ODA to India and China	33.9	20.6	40.1	20.9

Source: OECD/DAC, aggregate aid statistics online; World Bank, World Development Indicators online.

a. The sum of aid going to fragile and nonfragile states does not add to total net ODA because some aid is regional, not allocable by country, or used for non-country-specific purposes.

recipient countries, or about 10 percent of total aid.[12] Thus the Paris-Accra discussions are relevant to only a small portion of total aid.

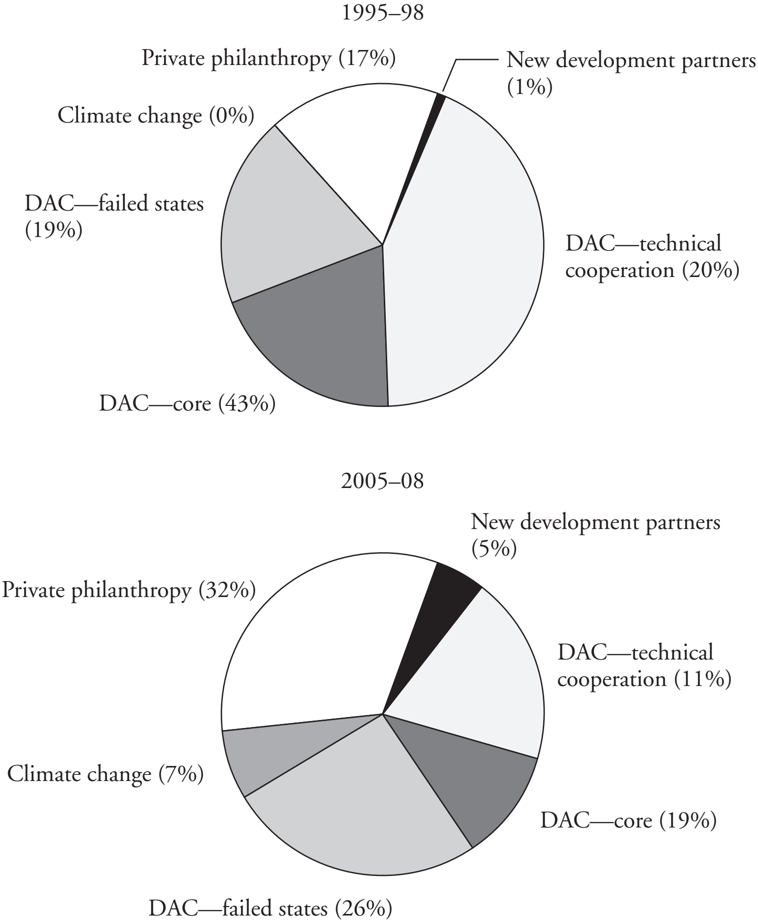
Figure 1-2 highlights the changing nature of the composition of total aid. Using approximations for the volume of aid from private assistance and emerging donors, DAC development assistance was over 80 percent of total aid in 1995–98. While allocations for fragile states (19 percent) and for technical cooperation (21 percent) were significant, the bulk of DAC aid (40 percent) went for other purposes.[13] By 2005–08, the aid environment had changed significantly. Non-DAC official donors (5 percent) and private philanthropy (32 percent) became large players and are expected to grow even more. Climate change adaptation (as measured by Rio markers) emerged as a major component of total aid and is also certain to become even larger. The portion of aid going toward fragile states rose from 19 percent to 26 percent. The portion of core DAC aid shrank to just 19 percent of total aid.

In 2005, the year the Paris Declaration was signed, more than half the world's poor lived in stable, low-income countries (table 1-2). In 2010 only 10 percent of the world's poor live in such countries, while the majority live in middle-income and fragile states. The traditional aid model must respond to these changed circumstances. Aid was originally envisaged as an instrument to help low-income countries develop until such time as they could sufficiently provide

12. About 54 percent of aid is country programmable. OECD/DAC (2010).

13. Technical cooperation is used as a proxy, albeit a highly imperfect one, for capacity development—for which unfortunately time-series data do not exist. In comparing the volume of aid for various types of capacity development in the Creditor Reporting System for 2008, we find it is close to the volume for technical cooperation reported by the DAC.

Figure 1-2. *Aid Composition, 1995–98 and 2005–08*



for the material needs of their citizens. The complication for aid policymakers is that aid is often deemed unnecessary in middle-income countries and ineffective in fragile states—precisely where today's poor people can be found. Development cooperation in these settings requires differentiated strategies, usually tailored to each specific country case.

The Paris Declaration principles and targets have been most successfully implemented, and have achieved the greatest development impact, in stable countries where donors have reliable partners and have confidence in their ability to deliver the right sorts of interventions and reforms. But as the demography of global poverty has evolved, donors will have to adjust to different environments.

Table 1-2. *Where Do the World's Poor Live?*
Percent

	2005		*2010*	
State	*Low income*	*Middle income*	*Low income*	*Middle income*
Stable	53.9	25.6	10.4	48.8
Fragile	19.6	0.9	23.7	17.2

Source: Based on Chandy and Gertz (2011).

Plan of the Book and Summary Findings

The new environment for aid depicted in figure 1-2 shows where important conversations are needed at Busan to enhance aid effectiveness and improve aid architecture. This volume is an effort to inform these conversations through research on each of the three key topic areas: new players, new challenges, and new approaches.[14]

Chapters 1 through 5 discuss the new aid ecosystem from the perspective of the new players, including non-DAC donors (chapter 2), international NGOs, philanthropists, and a vocal public engaged in thousands of civil society organizations (chapter 3), and multinational corporations (chapter 4). The existing global aid architecture, built around a few major official donors, is straining to accommodate this diversity of views and must become better networked (chapter 5). With so many interacting stakeholders, it may not be possible to have a single architecture, as in the past, but rather a set of guidelines, responsibilities, and accountabilities to shape how each group should act and interact—what might be called a new aid ecosystem.

Chapters 6, 7, and 8 describe the new challenges that must be considered today. The details of implementation, sequencing, and phasing of aid in fragile states, for capacity development and for climate change, are being vigorously debated, with no clear understanding of the best way forward.

Some thirty-seven fragile states, with one-third of the world's billion extreme poor, have development needs that are quite different from those of other countries. Already there has been a diversion of aid resources toward fragile states, where development outcomes are far harder to achieve and sustain, raising issues of scale of activities, phasing, and sequencing (chapter 6). The same risks pertain to climate change financing. Despite all the talk of additionality, there is concern that more

14. While not all aspects of this changing environment are strictly new—for instance, China has been providing aid to other countries since the 1950s, and capacity building has long been an objective of aid—they nevertheless represent a range of issues that have come to prominence in recent years and that demand greater attention in the evolving aid effectiveness agenda.

resources for climate mitigation will mean fewer resources for development and that development funds will be channeled prematurely toward climate adaptation activities. At a minimum, because climate change financing has aspects of a public good and universal implementation, it is not easy to integrate delivery modalities with development financing practices that focus on selectivity (chapter 7). In both these cases, and to achieve development more broadly, partner countries need to upgrade their technical and administrative capacity to absorb and utilize to maximum benefit the bewildering array of new resources. Yet capacity development is one of the least well understood aspects of aid, and several donors are radically rethinking their approaches in order to mainstream capacity development (chapter 8).

Chapters 9, 10, and 11 discuss several new approaches that appear promising in delivering better results. Aid must move beyond small successes, with projects to demonstrate that it can achieve results at scale. Donors can have a far-reaching impact even in large countries, as the experience of Indonesia shows (box 1-4). More donor agencies are focusing on the need for interventions that have the potential to be scaled-up in terms of impact (chapter 9). Technological change also opens up the possibility for far-reaching improvement in the transparency and quality of aid data, with benefits that could amount to $11 billion by some estimates, especially if new sources of information, like beneficiary feedback and local evaluation, are collected (chapter 10). And more recipient countries are finding that the practical experiences of their peers with implementing development programs are of enormous value. South-South cooperation has been enthusiastically welcomed (chapter 11).

Taken together, the ten chapters that follow this overview provide specific recommendations for game changers that could radically improve the development results from aid. They provide an action agenda for the Busan HLF4. Gaining consensus and developing an implementation plan will not easy, but there is a compelling need for new thinking on aid. The Busan HLF4 provides an opportunity to mobilize the political support needed to move the agenda forward.

New Players

Chapters 2, 3, 4, and 5 look at the new players in the aid architecture.

New Development Partners

Kang-ho Park (chapter 2) highlights the rise of new development partners, countries that are not part of the OECD and that may not have subscribed to the Paris Declaration but that are now providing significant resources for development. He estimates that these cooperation programs were tiny in 1995, accounting for only $1 billion, or 1.7 percent of ODA, but that they may now account for $15 billion; by 2015 new development partners could disburse one-fifth of ODA if their growth continues to outstrip that of developed country partners.

Box 1-4. *Indonesia*

Indonesia is the largest country in the ASEAN, and its political stability and economic development is crucial to the development of the rest of the region. As one of the East Asian miracle countries, it reduced the number of people living in poverty from roughly 50 million (about 40 percent of the population) in 1976 to approximately 20 million (about 11 percent of the population) in 1996. Development in Indonesia has been pursued along three parallel axes: growth, poverty reduction, and security. In the second half of the 1980s Indonesia implemented policy reforms in such areas as trade, foreign direct investment, and tax revenues to reduce reliance on primary commodities. These reforms were highly successful, resulting in average annual growth rates of 7 percent through the mid-1990s.

Indonesia has a strong relationship with its primary donor, Japan. Around 30 percent of the electricity used in Indonesia comes from the power plants developed or enhanced with Japan's ODA, 30 percent of dam capacity was developed with Japan's ODA, and a quarter of the rice that Indonesian people eat every day comes from paddy lands developed with Japan's ODA.

Other donors were also important but in different areas. There is evidence of a successful division of labor. The United States focused its aid mainly on education, governance, and health, while the Asian Development Bank (ADB) extended loans for infrastructure projects. The Indonesian government has taken ownership of its aid and actively coordinates its development partners. In 2009 the Jakarta Commitment was signed by the government and twenty-two donors as a local version of the Paris Declaration.

One striking feature of Indonesia's experience is the long-term engagement exhibited in some programs. For example, the Brantas River Basin development project in East Java was set up to manage a watershed of forty rivers. It was created in 1961 and continues to this day; the Japanese government has been providing assistance to the project continuously for fifty years. Every decade the plan is reviewed to see if goals are being met and updated. The gradual institutional evolution of this project, in the relationships between central and provincial authorities and other stakeholders, is at the core of the efficient water resource management seen today throughout Indonesia.

The long-term horizon taken to resolve a major development issue like water resource management encouraged supporting institutions to be developed along with the infrastructure of dams and irrigation canals. Local capacity was built; 7,000 engineers and technicians were trained through the Brantas project, for example, many of whom have gone on to work in other projects across Indonesia. Their skills were honed through a series of joint works with foreign experts on river basin development. This project showcases the synergies between hard aid (development of the actual dam) and soft aid (capacity development) and the extent of development externalities that can accompany successful projects when they operate at scale. At the same time, the Brantas project operated with strict budget constraints; social obligations were funded out of project revenues, not additional grants. Impacts, not resources, were scaled up.

As much as money, new development partners bring valuable know-how and technology to their development cooperation. They are valued by recipients for their practical experiences in overcoming development challenges and in implementing successful strategies in an environment that is close to that faced by today's developing countries. Many of the new donors present a challenge to the norms and standards of development aid. Their guiding principles are Southern solidarity, mutual benefit, and cooperation. Many are simultaneously recipients and providers of development funds. Some even reject the term *aid* as not fitting their concept of mutual benefit and cooperation. In this view, the blending of aid with other instruments to achieve economic, commercial, and political benefits for both development partners is simply how mutually beneficial cooperation functions. It is a different approach from that of traditional aid donors, which demand conditionality in return for assistance.

New development partners do not fit within the frame of the existing aid architecture. Some of the Paris concepts, such as untying of aid and provision of resources through programmatic means, go against the perceived advantages of new development partners, namely the provision of their own development experiences in a speedy way with emphasis on the how-to aspects of implementing development projects and programs. The Paris emphasis on harmonization is also seen as diminishing the new development partners' contribution, since harmonization limits the scope for alternative approaches and is dominated by larger, more powerful donors. There are no incentives for new development partners to participate in such efforts.

There is some common ground. All development partners agree on the principle of country ownership, although there may be differences in how this is interpreted. All development partners have also agreed on the Millennium Development Goals as a valuable framework for establishing country development objectives. The issue is with implementation.

Park proposes an elegant solution, based on the long-standing international principle of common but differential responsibility. Applying this solution to development assistance, he suggests that development partners be tiered into three groupings: DAC donors that have subscribed to the Paris principles but that have still to implement many of the aid effectiveness targets; non-DAC OECD or EU countries that are committed to the shared values of the OECD and hence are prepared to take the Paris principles as a reference guide; and other countries that are both recipients and providers of aid and that would abide by a more flexible, but defined, set of principles.

In Park's view the missing element in the aid architecture is any effort to develop such a tiered approach. The current dialogue tries to persuade new development partners to join the club of traditional aid donors. But there are few incentives for this, nor can the exchange of views reduce the inherent tensions of different approaches. Instead, he advocates that the Busan HLF4 be a platform for new development partners to base their own standards and responsibilities for aid effectiveness that will maximize their potential development contribution.

Private Development Aid

Sam Worthington and Tony Pipa (chapter 3) discuss international aid that flows from private philanthropic sources in developed to developing countries.[15] This private development assistance (PDA) includes international NGOs, foundations, individual philanthropists, corporations, universities, diaspora groups, and religious congregations and networks. The key distinction of this type of private funding is that it is philanthropic in origin, as opposed to direct foreign investment or remittances, which may also have important development impact but have quite different motivations.

The scale of PDA is significant. It is estimated that private philanthropic aid from fourteen developed countries totaled $52.6 billion in 2008. Extrapolating this to all developed countries and making adjustments for underreporting, the actual figure for PDA could be in the range of $65 billion to $75[16] billion. Although many individuals contribute to PDA, it is increasingly organized, project-oriented, and consistent with international norms on delivery. PDA can no longer be caricatured as small-scale, humanitarian assistance. In a 2006 survey of InterAction's members, 73 percent of respondents identified long-term sustainable development as a primary program area.[17] The largest global INGO, World Vision International, counts 46,000 staff, manages a $2.5 billion global budget, and is larger than several official DAC donors.

International NGOs are both local and global. They regularly establish a long-term presence in poor communities, generating community trust and the expertise necessary to be effective. A 2008 five-country analysis of a hundred INGOs and local civil society organizations found that 90 percent of INGOs had been working in country for at least five years, 77 percent for more than ten years.[18] Between 90 and 99 percent of INGOs' in-country staff are local citizens.[19] Globally, networks of NGOs form a conduit for sharing development knowledge and innovations based on an increasingly extensive body of evidence. Many INGOs have entire divisions dedicated to evaluation; the 2008 survey found that 92 percent of

15. While this chapter focuses on flows from developed to developing countries, it is important to note that local NGOs and civil society organizations are beginning to raise sums from individual donors in developing countries. Many local NGOs also get significant amounts of in-kind assistance from citizens of developing countries.

16. Hudson Institute (2010).

17. InterAction (2009).

18. Long (2008).

19. In meetings with U.S. officials in 2009, InterAction members said that their staff in Afghanistan numbered 11,000, with 98 percent being local hires.

the INGOs had measurement and evaluation systems. The foundation sector is in the midst of a metrics revolution, pursuing new and better methodologies for impact assessment.[20] Unfortunately, much of this is unpublished, so the aggregate contribution of PDA to development results cannot yet be measured.

PDA is complementary to ODA, although because they have different approaches and areas of focus they are sometimes opposed to each other. PDA strives to be innovative, people-centered, long term, and grounded in local adaptation.[21] It works with communities and local civil society in the delivery of public services. In contrast, ODA grows out of, and is influenced by, the strategic political considerations of donor countries.[22] Its primary point of entry is at the national level, supporting national governments and plans, state capacity, physical infrastructure and social programs.

Taken together, PDA and ODA offer a more robust definition of "country ownership" than that suggested by the Paris Declaration. Worthington and Pipa call this taking a whole-of-society approach. They call for a greater voice for local civil society in the articulation and assessment of development programs and a formal role for NGO representatives at DAC ministerial meetings. In return, the organized PDA sector would take responsibility for developing norms of behavior and transparency to permit a more constructive dialogue with ODA agencies and recipient governments. In many ways, this proposal is similar in spirit to that of Park: recognize and seek to maximize the development contribution of new players while encouraging them to organize themselves in an agenda-setting process that provides a "grand bargain" of inviting their participation in return for specific responsibilities.

Private Corporations

The private sector has long been seen as the key to sustained growth and development, but private corporations have traditionally been viewed as motivated solely by profit, so traditionally the relationship between the private sector and aid has been largely passive. The logic was that if aid could improve the enabling environment for business, the private sector would produce the investment and jobs that would create economic growth and alleviate poverty. Because private sector resources are so large, this logic meant that aid could be leveraged many times if properly focused on a private sector development agenda.

Jane Nelson (chapter 4) suggests that focusing on creating an enabling environment for business is essential but not sufficient. She argues that this is a simplistic picture of the private sector's evolving contribution to development. Among

20. See, for example, McKinsey and Co. (2010); Tuan (2008); Grantmakers (2009).

21. Many INGOs routinely plan to spend private development assistance as ten-plus-year investments into a particular program area or civil society organization.

22. This case is articulated by Alesina and Dollar (1998).

other approaches, she documents the growing concept of "impact investing" as "actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor."[23] Nelson cites studies suggesting that impact investments could grow to $500 billion in the next ten years. With this scale, impact investors and the networks that support them are creating effective leadership platforms featuring new development models that blend economic viability and market-based approaches with social and environmental objectives.

The private sector has not always been regarded as a champion of development, and the first priority is to ensure minimum standards that avoid exploitative types of development that have been seen in the past. One way of doing this is through the business leadership coalitions that are being formed at the country level to focus on development and on poverty alleviation. Some of these coalitions are freestanding and some are dedicated units of well-established chambers of commerce. These convene multistakeholder initiatives and mobilize private sector engagement in development at national and global levels. The contributions of the private sector are several: delivering base-of-the-pyramid products and services; building accessible, affordable, and reliable physical and communications infrastructure for remote and low-income groups; leveraging science and technology; building skills; and spreading international norms and standards. The private sector renders these contributions by making core business practices more development friendly (by establishing value chains with low-income producers for example); through corporate philanthropy; and through policy dialogue, advocacy, and institutional development.

Nelson's view is that, while there are many examples of projects in which private and official aid sectors collaborate, these are often small in scale and impact. She advocates an approach in which groups of companies and other stakeholders join forces in collective action to solve development problems.

Nelson singles out two areas for action. First, private corporations can help donor countries take an approach toward development that addresses trade, investment, and commercial ties as well as aid. Second, business leaders in recipient countries can be mobilized to champion strategies and public campaigns for inclusive and green growth. Nelson suggests targeting selected sectors—such as agriculture, forestry, health, water, infrastructure—in national multistakeholder pilots. The private sector in each pilot country would take on agreed roles and responsibilities. The innovative feature of Nelson's idea is that cooperation with the private sector be organized on a sectoral basis rather than on a donor-recipient basis. There are only a few examples of such vertical funds in the current aid architecture; expanding this to include inclusive and green growth would be a worthwhile way of showcasing the development potential of public-private partnerships.

23. Monitor Institute (2009).

Aid Coordination

Ngaire Woods (chapter 5) tells powerful stories about the lack of coordination of aid and the problems caused by the asymmetrical relationship between small developing countries and powerful donors. She distinguishes between coordination and cooperation. The latter refers to joint activities, usually harmonized, to achieve common goals. But Woods suggests that cooperation is a far-off goal (as reflected in the declining share of aid channeled through multilateral agencies, one of the major instruments for cooperation). She suggests that, while cooperation may be desirable, it is unlikely to be pervasive given the rivalries and differences in approach and experiences among development partners.[24]

Woods argues that coordination is a more realistic goal because all parties stand to benefit. Coordination seeks to avoid waste and damage when the actions of any one development partner affect the outcomes of another's activities. As she says, "Coordination is not ambitious; principally it serves to prevent inadvertent damage caused when donors are ignorant of each other's actions." In Woods's view the key ingredient of coordination is information sharing. But how?

Woods describes two levels of coordination: standard setting for all donors at the international level and country-level coordination of international agencies active in any specific country. While she reports on some progress on both fronts, the pace is slow. Woods documents the problems that have emerged with trying to use meetings for coordination: far too many stakeholders (because donors have not yet developed an adequate division of labor); some of them ill informed, with only limited experience of the country; many of them with too little technical expertise and too little institutional memory. The result: limited impact, leading in a vicious cycle to less attention being given to proper planning and to attendance at meetings.

Woods proposes that aid recipients should manage the coordination process but warns that this will not be easy. Quoting the World Bank, she notes that "to date, the move to genuine country-led partnerships that effectively combine ownership and partnership is being made in only a few IDA countries, typically in one or two sectors." She lists various arguments in favor of a country-led approach, including the incentive to coordinate effectively, as citizens reap the benefits in terms of development effectiveness, and the information to make sure that coordinated approaches meet country needs. But she cautions that donor incentives work in the opposite direction and that therefore much stronger political will is required to implement a country-led coordination model. Not only must donors

24. The easiest way of cooperating is through multinational institutions. Yet even traditional donors are channeling a smaller share of their resources through multilaterals, showing the practical limits to cooperation in today's world.

provide resources to strengthen the capacity of countries to manage aid by themselves, but they must also make sure that well-meaning donor officials on the ground give governments enough space to manage by themselves—even if that means allowing them to make mistakes. Woods concludes that trust is the missing ingredient that needs to be created through high-profile political events such as the Busan HLF4.

New Challenges

Chapters 6, 7, and 8 present important new challenges facing development aid.

Fragile States

Foreign aid to support economic development in fragile states is fraught with contradictions. State building is inherently an indigenous process, and foreigners must find ways to be part of the solution, not part of the problem. The gap between need and ability to implement successful development projects is greatest in fragile states. Many fragile states suffer the effects or aftereffects of conflict, with destroyed infrastructure coexisting with destroyed institutions and service-delivery mechanisms. The need for justice and security in postconflict environments means that achievement of a durable peace is the overriding objective rather than economic development per se.

Shinichi Takeuchi, Ryutaro Murotani, and Keiichi Tsunekawa (chapter 6) divide fragile states into two groups, those in a "capacity trap" and those in a "legitimacy trap." The former cannot deliver basic security and services to the population. The latter cannot satisfy people's expectation of enhancement of social inclusion, economic equality, and political participation. Countries that fail in either regard risk suffering a reversal into conflict—in fact a country reaching the end of a civil war has a 43.6 percent chance of returning to conflict within five years.[25]

Takeuchi and colleagues stress two points. First, they caution that the interdependence of traps in fragile states implies that solutions must be broad based and long term. Quick results should not be expected; sustainability is hard to achieve. But without significant assistance dealing with a range of development challenges, the risk of a development collapse is high. Better metrics for measuring state building are needed. Second, in cases in which the central government has difficulty in capacity building, a bottom-up approach may offer opportunities to construct a legitimate state. When development projects are designed and implemented with well-structured participatory approaches that protect the socially weak, as in the case of community development councils (CDCs) in Afghanistan, they generate trust in elected community leaders, providing the foundations for

25. Collier and others (2003).

legitimacy while also delivering priority services for the public who have a positive view of the results.[26]

But there is a warning here as well: because state building must be based on an indigenous political process, the donor community may find it hard to accelerate the pace of change simply by increasing the volume of aid resources. Finding the balance between excessive aid that is wasted and too little aid to make a systemic difference is the heart of the problem. Regional mechanisms can provide insight into the appropriate balance.

Climate Change

Climate change poses a challenge to development aid on three counts. First, the significant resources needed to fight climate change have the potential to divert money from other forms of development assistance. Kemal Derviş and Sarah Puritz Milsom (chapter 7) point out that large new bilateral funds have sprung up recently, most notably Japan's Hatoyama Initiative, which has pledged $11 billion (of which $7.2 billion is ODA) over three years (2010–12) for mitigation and adaptation efforts. Under the Copenhagen Accord, rich countries promised to provide "fast-start financing" to developing countries for 2010–12 of approximately $30 billion and to try to mobilize $100 billion a year by 2020, almost as much as total ODA today.[27]

It is evident that all climate financing cannot be in the form of ODA, considering the costs to address climate change are unprecedented: the UN Framework Convention on Climate Change (UNFCCC) estimates costs for adaptation alone to be between $40 billion and $170 billion a year.[28] Rather, the scale of climate financing needs requires a hybrid approach, where aid is leveraged with nonconcessional resources as in the Global Environment Facility model.

The second challenge is that climate change adds to development needs, and developing countries worry that climate concerns could slow their growth and poverty reduction trajectories. This is especially true in the large emerging economies—India and China—that depend heavily on coal to power their development. Both adaptation and mitigation activities are costly for development.

Third, climate change requires verification and accountability or, more broadly, strong governance. The mutual accountability processes developed in the aid archi-

26. Of the respondents who were aware of CDCs in 2009, 78 percent expressed their satisfaction with the performance of their local CDCs. Furthermore, 81 percent believed that their CDCs are capable of representing their interests before the provincial authorities, while 62 percent believed that they are capable of doing so before the national government. Rennie, Sharma, and Sen (2009, pp. 80–84).

27. As of June 2010 fast-start commitments were about $28 billion, but it is unclear if these are additional to prior development assistance. The question is the credibility of these commitments. This year marks the end point for achievement of the Gleneagles targets of increasing aid to Africa by $25 billion. Only half that target is likely to be achieved.

28. IPCC (2007).

tecture are "soft." They revolve around debate, an exchange of views, inclusive participation of many stakeholders, and sharing of experiences. Accountability in the aid world is more about relational approaches than about substantialist, regulatory, or legal processes. In fact, the latter (also termed *conditionality*) have been largely discredited as a tool of effective development cooperation.

But climate change requires verification. If parties cheat on climate emissions (and the incentives to cheat are significant because of the trade-off seen between long-term, sustainable growth and faster, short-term, "dirty" growth), the whole world suffers. It is imperative that climate funding be combined with a verification strategy. Conversely, the incrementality of climate funding also needs to be verified, something that is conceptually hard to do given the intrinsic link between adaptation and poverty reduction and practically hard to do with the rudimentary state of transparency and "statistical markers" of aid.

Derviş and Puritz Milsom wrestle with these issues, complicated by ethical overtones. Climate mitigation funding is considered by some as a "compensation," paid to developing countries by rich countries for their past pollution transgressions, and by others as an incentive to participate in the provision of a global public good for the mutual benefit of the world. Their proposed solution is a two-track approach. Track one would be global, with efforts to identify the cheapest way of reducing worldwide carbon emissions by sector and country and to evaluate progress made. This should be kept separate from development assistance. Track two would be sectoral, seeking limited agreement on specific proposals rather than a single undertaking. For example, moving toward an agreement on forest conservation may be more palatable in terms of the impact on economic development. This track needs to be implemented at the country level through National Adaptation Programmes of Action (NAPAs) and Nationally Appropriate Mitigation Actions (NAMAs).

Derviş and Puritz Milsom argue forcefully that climate mitigation is not aid but rather a payment for a global service and should be accounted separately from development assistance. Help for adaptation, on the other hand, is more like other development assistance and can be accounted as such.

Capacity Development

Akio Hosono, Shunichiro Honda, Mine Sato, and Mai Ono (chapter 8) describe the evolution of thinking on capacity development (CD). Although CD was highlighted in the Paris Declaration as a key crosscutting theme for development effectiveness, it has not been easy to construct a consensus on good practices on the basis of existing experience. At times CD has been conceived of as a means to facilitate new aid approaches of general budget support and sectorwide programs. This led to one focus on strengthening of public financial management systems; use of these systems became part of the Paris Declaration targets.

But this focus of capacity has now been recognized as too narrow. The Accra Agenda for Action highlights the need to broaden CD to actors beyond the national government (local governments, civil society organizations, media, parliaments, and the private sector) and to areas beyond financial management. This trend of broadening the scope of CD is also in line with the most widely cited definition, from the DAC, viewing capacity as a holistic and endogenous process of people, organizations, and society as a whole.

With this broader scope, new analytical frames have been applied to capacity. The key insights are that capacity cannot be viewed as a simple technical gap but rather as an evolutionary process of systemic change. The former requires clear specification of the gap; the latter allows more room for flexibility, learning by doing, and adaptation to a constantly changing external environment. Time and space are needed, and must be consciously created, for mutual knowledge and learning creation.

Based on selected case studies of successful CD, the authors discuss a set of success factors: the enabling environment and context (such as decentralization and autonomy of local institutions); ownership, awareness, and determination as the fundamental drivers of an endogenous CD process (like the demand for better schools in Niger); specific triggers and drivers that give impetus to capacity (like an innovative mechanism to remove bottlenecks hampering local collective action); mutual learning and trust building for cocreation of innovative solutions; scaling up good-practice CD pathways; and the role of external actors in supporting CD.

The conclusion: CD is too important to be left as something to happen spontaneously. External assistance can yield significant results, even in difficult environments, but these must be based on an appropriate analytical understanding and on well-articulated, yet flexible, pathways. Reading between the lines, there is a tension between the slow pace and flexibility needed for successful CD and the increasingly short-term, metric-focused orientation of a results focus for aid.

The Busan HLF4 can help with the formalization, institutionalization, and mainstreaming of CD. There are several global networks on CD, such as the CD Alliance and the Learning Network on CD (LenCD), as well as country-level initiatives and sector-specific initiatives (for example, education). This learning should be supported and extended through further rigorous case studies, development and refinement of CD analytical tools (including national CD strategies, assessments, guidelines, and indicators), and expansion of mutual learning opportunities through dialogue and field-based experimentation.

New Approaches

The final chapters, 9, 10, and 11, offer new approaches to delivering aid.

Scaling Up

The past decade has seen a tremendous spurt of innovation in piloting new approaches to development, exemplified by processes like the World Bank's Development Marketplace. This has been accompanied by a renewed emphasis on evaluation in an academically rigorous way through randomized trials and case studies. But the search for effective development interventions has not yet resulted in an institutionalized approach to scaling up to maximize the development impact. That, argues Johannes Linn (chapter 9), is because scaling up is typically an afterthought in development projects. He suggests that evaluating the scaling-up potential in partner countries should be a major focus of attention for aid donors.

Linn defines scaling up as "expanding, replicating, adapting, and sustaining successful policies, programs, or projects in geographic space and over time to reach a greater number of people." Linn separates two common failures in scaling up. A type 1 error is when a successful innovation or activity is not scaled up and a type 2 error is when scaling up is done but is inappropriate or done wrong.[29] The novelty of his argument is that the large development banks (and some countries) often try to go to scale but on the basis of insufficient piloting, testing, and learning as well as on inappropriate phasing, resulting in problems with effective operation.

Like capacity development, scaling up can be formalized in analytical frameworks that identify key drivers, spaces, pathways, and intermediate indicators. But Linn notes that few agencies have undertaken systematic scaling-up reviews to assess how their internal incentives and procedures facilitate or hinder scaling up, although some recognize the need to scale up to translate experiences and lessons into broader policy and institutional change.[30] Sometimes termed the micro-macro linkages, scaling-up pathways have received little attention in the follow-up to small pilots.

Scaling up is easier when outcomes are narrowly measured and projects are simple. That is the experience with vertical funds. But what is a strength to the program can be a challenge in other areas. Vertical fund evaluations comment on the substitution of resources from other priority areas (and complications with ensuring long-term fiscal sustainability), on the limited attention to capacity

29. Even successful projects may not be appropriate for scaling up. Some projects are "gold-plated" to ensure their success, but the cost is so high that scaling up becomes infeasible or would entail too high an opportunity cost in terms of forgone development in other areas. One World Bank evaluation summarizes the problem as follows: "By and large, what is being scaled up has not been locally evaluated." Ainsworth, Vaillancourt, and Gaubatze (2005, p. 62).

30. The International Fund for Agricultural Development is the only identified agency to have conducted such a review.

development and to broader policy formulation and implementation, and on the difficulties in partnering with others once the model to be scaled up is determined.

Linn argues that the scaling-up agenda cannot move forward unless there is greater political support. If development partners would agree to introduce the objectives of scaling up explicitly into their mission statements and operational policies, as well as into evaluations, then there is a better chance that the range of development pilots now being undertaken can be leveraged into sustainable development progress.

Transparency

At Accra transparency and accountability were emphasized as essential elements for development results. The International Aid Transparency Initiative (IATI) was launched to provide improved information on what donors were doing. But Homi Kharas (chapter 10) points out that the consensus on the importance of transparency has not translated into an urgency for action. Despite the new ecosystem of aid players, transparency is restricted to a small group of traditional donors and has largely bypassed new development partners or PDA. Kharas warns that the development community is losing the war in communicating a compelling story of successful aid interventions and that lack of transparency, especially at the partner country level, is an obstacle to better development impact.

Transparency is a vital tool for mutual accountability. It is most useful when rule enforcement is difficult, as is the case between development partners. In such cases, information is not provided to implement traditional command-and-control rules (the conditionality approach) but to allow a variety of accountability structures, like parliamentary and civil society oversight, to develop norms and standards that result in improved outcomes.

Kharas emphasizes the importance of building up the demand for information. Too often transparency has been approached from the supply side, with agencies supplying information that is never used or databases being established without a clear understanding of what is required. Overreporting is costly and has led in many cases to reporting fatigue. Nevertheless, significant information gaps still exist, because the current process of providing data is not demand driven.

At the global level, too few donors provide adequate information. The IATI is a useful start, but only half of the aid provided by DAC donors is covered by IATI signatories, and only the Hewlett Foundation subscribes to the IATI among PDA and new development donors. Coverage is therefore around one-third of total ODA. A critical objective is to improve this, either through more signatories to IATI or through donors developing their own similar functionality. Aid data at the global level need to be understood as a public good. All donors would benefit in terms of better strategies if they properly understood the three Ws of transparency: Who is doing what where.

But it is at the local level where gaps are most acute and the benefits likely to be largest. There are now several aid databases at the recipient country level, but data quality is poor and access often limited. Donors have little incentive to provide information and occasionally are unable or unwilling to respond to country requests. Resource predictability, links with budgets, prioritization to minimize gaps between resources and needs, and better analysis of development impact through beneficiary assessments are among the benefits to be had from greater local transparency of aid.

Kharas emphasizes the opportunity provided by new IT tools and systems. Open-source data exchanges can allow local databases to be seamlessly linked to global databases and can permit aggregation of unique agency databases, without the need for a single, comprehensive database, which is viewed as impractical. Geo-referencing can overlay aid resources with survey data showing development needs. Mobile telephony can provide real-time beneficiary feedback in a way that yields extraordinary development impact improvements in some controlled experiments and gives a voice to those demanding better information.

Many of these tools are already being piloted by official and private donors alike, but there is no systematic process for constructing an information spine to support development. Kharas suggests that the benefits of such an effort would be considerable, citing estimates of the gains from transparency that are upward of $10 billion annually, compared to one-off costs of only tens of millions of dollars.

South-South Knowledge Exchange

South-South cooperation (SSC) was introduced as a global topic involving debate among developed and developing countries during the Accra HLF. Hyunjoo Rhee (chapter 11) defines it as developing countries working together to foster sustainable development and growth. She also relates it to triangular cooperation: OECD-DAC donors or multilateral institutions providing development assistance to Southern governments with the aim of assisting other developing countries.

Rhee shows that significant benefits can be gained from SSC, often related to broader programs of regional integration and to knowledge sharing and advice based on practical experiences with implementing projects or resolving development issues. The regional dimension is critical to maximizing the development impact because it permits nonaid instruments to be used. Rhee gives the example of the Greater Mekong subregion, where transport corridors have been built to connect countries in Southeast Asia. The impact has been raised by knowledge sharing on the soft infrastructure of customs procedures, trade facilitation, visa processing, cross-border trucking agreements, and the like, subjects that are inherently South-South in nature simply because of the geography of the region.

Rhee emphasizes appropriate knowledge exchanges through SSC. Recipient needs may be better understood by other Southern countries that have experienced similar situations. Language and cultural familiarity make knowledge transfers more effective. Costs are lower, so "value for money" is perceived as higher. But against this, SSC results in greater donor fragmentation and is often a top-down process driven by political considerations rather than development needs. There is limited monitoring and evaluation, although informal feedback appears positive.

The most significant constraint is the lack of information about the potential for SSC. Recipients are not aware of experiences that others have been through, and development partners may not have extensive cooperation agreements with all countries. There is no process for matching supply and demand. Rhee proposes formalizing SSC at the Busan HLF4, starting with universally agreed definitions. She proposes using regional organizations to match supply and demand.

There already exist a number of global platforms for South-South exchange, including the World Bank Institute, the UNDP, and sector funds.[31] Rhee argues that we should build on these and on her proposed new regional platforms, linking them into a global network for South-South cooperation, with four pillars: an information and networking pillar, a technical pillar for matching supply and demand, a financial pillar to match resources and needs, and an advisory pillar to help formulate better SSC projects and evaluate the experiences.

Next Steps for Busan: An Actionable Agenda

Aid effectiveness may be considered a narrow topic, but there are few issues in the world today where there is a near consensus on goals (sustainable growth plus the MDGs, broadly defined, plus global public goods) shared between multinational corporations, civil society, and rich and poor country governments. The consensus on goals among diverse players in the new aid ecosystem is the greatest strength of the global aid architecture.

The chapters in this volume focus on game changers that could significantly improve aid and development effectiveness. Each chapter considers case studies in order to make practical recommendations for improving aid effectiveness. Taken together, the recommendations would make a material difference in the lives of millions of people. Table 1-3 illustrates the main elements of the proposed Paris++ agenda for Busan. It suggests the shape of an effective division of labor between aid actors, shown in the columns, along with how these actors could be organized in networks to coordinate their activities. The table also suggests, in each row, how each actor might take a differentiated response to key issues. Taken together with suggestions for better ways to implement new approaches in terms of transparency and scale, the result should be a significant improvement in aid effectiveness.

31. The Alliance for Financial Inclusion, for example, funded by the Bill and Melinda Gates Foundation and GTZ, operates a program to share South experiences with microfinance.

Table 1-3. *Paris ++ Agenda for Busan*

		New players			
Issue	*DAC donors*	*New development partners*	*Private aid*	*Corporations*	*Organizing networks*
Core development activities	Meet Paris Declaration targets	Provide low-cost infrastructure	Support social development	Improve investment climate	Country-based, country-led
New challenges					
Fragile states	Focus on capacity and legitimacy	Focus on capacity and legitimacy	Protection of vulnerable populations	Implement OECD/UN guidelines	Country-based, donor-assisted
Capacity development	Holistic approach	Organize South-South knowledge exchange	Build local civil society capabilities	Skills training supply chains	Global, regional, and national platforms
Climate change	Separate mitigation from aid; support NAPA and NAMA	Separate mitigation from aid; support NAPA and NAMA	Advocacy; community resilience	Suppport Green Growth Institute; new funds and technologies	Global and sectoral organization; national plans
New approaches					
Transparency	Provide up-to-date complete data linked to budgets	Meet minimum agreed data standards	Publish aid volumes and evaluation lessons	Endorse transparency standards	Establish standards and databases, globally and nationally
Results at scale	Include scaling up in mission statements	Provide hybrid financing partnered to investments	Mobilize Southern civil society	Support base of pyramid and inclusive business modes	MDGs (UN-led), growth (G20-led), climate change (UNFCCC-led)

But in implementing this agenda, the chapters in this volume also contain notes of caution. Aid can only be a catalyst, not a driver of development. Aid can work, and has achieved notable successes in even the most disadvantageous country settings. But it is not a panacea. In particular, there are six warnings that recur:

—Do not expect fast results. In many places, the impact of aid is felt in the long-term and results are not achieved in a linear fashion. Patience, along with sequenced interventions, is needed. Long-term interventions must be the norm. More resources cannot always accelerate the pace of change; indeed, sometimes too much external funding can inadvertently damage weak domestic institutions.

—Successful pilot projects are not enough of a game changer. Aid must change development processes, whether through capacity building, transparency, or scaling up.

—Country ownership cannot be equated with government ownership. Broader concepts of "whole of society" are needed, as well as judgments on responsible governments, and these inevitably involve political calculations. Aid cannot be treated as an apolitical activity.

—Harmonization has its limits: the diversity of challenges and development partners and approaches should be celebrated, not excoriated.

—Verification of development results, especially in climate change, will inevitably return. This should not be interpreted as new conditionality but as part of a broader process of dialogue toward shared development objectives.

—Aid, as a concept, is becoming blurred, and hybrid financing systems are being developed. The aid architecture must link with other resources for development.

Ten Actionable Game-Changer Proposals for Seoul

The Busan HLF4 can be a significant milestone in aid effectiveness. As a dialogue forum, it can bring together a number of new players on an equal footing to debate development issues. That would already represent a break from the past. But it would be disappointing if the Busan HLF4 concluded without actions. The chapters in this volume put forward concrete proposals to help focus international negotiations and to promote internal thinking within development agencies. The proposals need to be debated and tested, consensus needs to be built, and implementation issues considered. They must be costed and subjected to value-for-money analysis. The proposals are as follows:

1. Establish a three-tiered approach to aid effectiveness principles with minimum standards (including on ownership/alignment, capacity development, information sharing, and an ODA-GNI target) to be developed by new development partners.

2. Add Northern and Southern civil society representation to the OECD/DAC ministerial from groups committed to establishing and implementing PDA norms and responsibilities.

3. Add private sector representation to the OECD/DAC ministerial from business groups that are partnering with donors and governments to drive inclusive

and sustainable growth. Select pilot countries and sectors to implement and evaluate such collaborative platforms.

4. Promote aid coordination led by aid recipient governments.

5. Provide broad-based, long-term support to fragile states, focusing on the formation of a legitimate state. Regional approaches could be promising.

6. Further mainstream the capacity development perspective in policies of partner countries, donor organizations, and other new development actors and promote it through flexible, long-term, and sequenced approaches that specify capacity "for what."

7. Link aid and climate change financing in a "resources for development" framework. Develop a two-track approach to climate change financing: a global approach to minimize the cost of carbon reduction by selection of least-cost country and sector interventions; and a narrow approach to sector-specific agreements, starting with forest conservation and country-based adaptation and mitigation plans.

8. Encourage aid agencies to introduce scaling up into mission statements, operational guidelines, internal incentives, and evaluations.

9. Develop regional approaches to South-South cooperation that can then be linked into a global network for South-South cooperation, with two pillars: a technical pillar to match supply and demand and a financial pillar to match resources with needs.

10. Commit all aid providers to promote transparency, development evaluation, and beneficiary feedback at the recipient country level by systematic use of new IT tools and open, web-based provision of information.

Appendix Table 1-1. *Role of Aid in Korea's Development*

Period	*Purpose and needs*	*Form and modalities*	*Sector and composition*[a]	*Reliance on aid*	*Major donors*[b]
1942–52 Korean War	Short-run relief	Grants (100%), relief goods	Education, land reform, consumer goods	Only foreign savings[c]	U.S.
1953–61 Rhee	Defense, stability, rehabilitation	Grants (98.5%), commodities, technical cooperation	Agriculture, nonproject aid, military aid, consumer and intermediary goods	Heavily dependent on aid[d]	U.S., UN
1962–75 Park	Transition, long-term growth	Concessional loans (70%), technical cooperation, volunteers[e]	Social-overhead capital, import-substituting and export-oriented large industries, project aid, intermediary and capital goods	Diminution of the absolute and relative importance of aid[f]	U.S., Japan
1976–96 Chun, Roh T. W.	Balance between stability and growth	Nonconcessional financing	Sector loans	Removal from the IDA lending list	Japan, Germany, international financial institutions
1997–2000 Kim Y. S.	Financial crisis	IMF bailout packages	Structural adjustment program	Graduation from ODA	IMF, IBRD

Source: OECD statistics; Chung (2007); KDI (1991); Mason and others (1980).

a. Food, beverages, and manufactured items are classified as consumer goods; crude materials, fuels, and chemicals are intermediate goods or raw materials; and machinery and transport equipment are classified as capital goods. The majority (77 percent) of project aid was allocated to public overhead capital reconstruction and modern industrial sectors such as manufacturing, mining, transportation, and communication. Nonproject aid consists of surplus agricultural commodities provided under Public Law 480 and development loans that were used to purchase agricultural commodities.

b. From 1953 to 1961, 83 percent of all assistance and 99 percent of bilateral aid came from the United States. During the period 1962–75, the share of U.S. assistance was reduced to 61 percent, while Japan became the second-largest donor, accounting for 29 percent of total aid. During 1976–90 Japan provided 63 percent of total aid. Significant increases in aid were also recorded by Germany over this period.

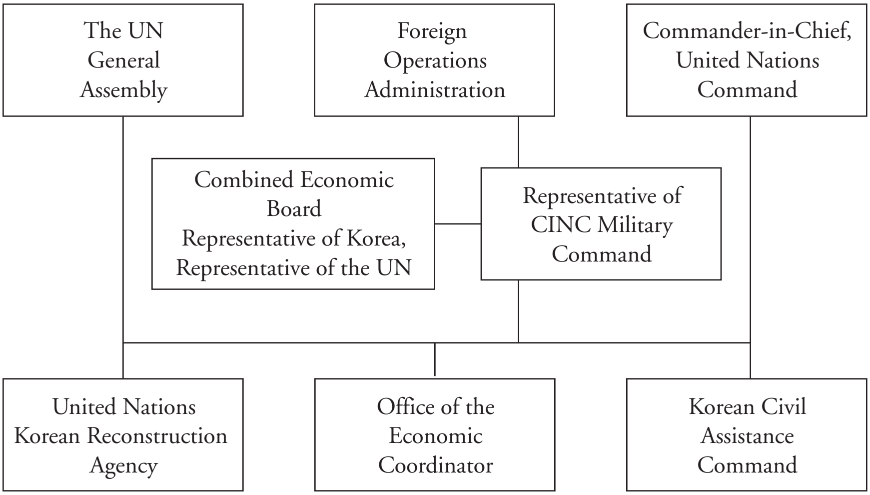
c. The average annual per capita aid for 1945–53 was $5.50 (10 percent of per capita income). Total aid over this period was $853 million, averaging $105 million a year.

d. Korea relied heavily on aid for day-to-day needs, defense, and reconstruction. Aid as a share of GDP averaged 14 percent, making up almost 100 percent of foreign savings and 72 percent of imports. More than half of tax revenue (54.1 percent) in 1957 came from a counterpart fund derived from the sales of foreign aid supply.

e. The Peace Corps started to serve in Korea in 1966 to promote social reform, empowerment, and local capacity building.

f. Overall assistance declined over this period, after peaking in 1957 at $383 million. By 1962 it had fallen to $232.3 million. Average annual economic aid during 1962–67 was $155 million, or $3.60 per capita. In the 1970s the Korean government maintained cordial relationships with the IFIs but did not count on them for substantial financing, even during the of 1973 oil crisis. Given growth rates of 10 percent, the long delays generally experienced in approving and implementing foreign assistance projects were seen as more of a drag than a help to Korea's development.

Appendix Figure 1-1. *Flow Chart, Office of the Economic Coordinator*



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