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Overview: Delivering Aid Differently

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Since 1960, $3.2 trillion of aid has been delivered from rich countries to poor countries, mainly through a handful of bilateral and multilateral institutions.[1] Recently, this traditional model of development assistance has been overtaken by a more complex reality of aid in response to new circumstances, new international players, and new instruments for delivery. The changed circumstances reflect the fact that developing countries are no longer a homogeneous group of "poor" countries but instead are highly differentiated in their capabilities and needs.

Meanwhile, the new international donors include more bilateral governments, even some, like China, that are still characterized as developing countries. New international donors also include international NGOs, foundations, and private corporations, all of which channel significant volumes of large and small contributions by private individuals from rich to poor countries. Most of these new players operate differently from and parallel to the traditional aid system. New instruments include budget support, debt relief, public-private partnerships, and South-South cooperation.

New players and new modalities have brought fresh energy, resources, and approaches to the delivery of aid. But they have also added to waste, overlap, and uncoordinated efforts that might be individually successful but that do not add up to the systemic transformation needed for a significant impact on development. It is time for development partners to construct an aid architecture for the twenty-first century that broadens the current system to be inclusive of both existing and potential new players and new modalities. Put another way, aid must be delivered differently.

This book highlights field-based lessons on how aid works on the ground, focusing both on problems in current aid delivery and on promising approaches to resolving these problems. It documents the growing fragmentation of aid into ever smaller projects, the planning and implementation difficulties caused by high aid volatility and unpredictability, and the complexities of trying to coordinate the myriad new and different aid donors. It also looks at country experiences with solutions: new information databases for tracking aid, joint country strategies to coordinate approaches, and lessons from the humanitarian community on how to forge a division of labor between official and private aid givers.

There is one other distinguishing feature of the country case studies in this volume. They are all written by scholars born and living in aid recipient countries who interact on a daily basis with government officials on aid issues. These scholars combine a quantitative, analytical discussion with their own personal perceptions on the impact of aid on development in their countries. Surprisingly, given the rhetoric on the importance of recipient country ownership of aid, the current literature on aid effectiveness is dominated by scholars from donor countries. We hope that, by giving voice to those who are at the receiving end, we can expose some hard truths about what works and what does not work.

Country Experiences

In the wake of the 2004 Indian Ocean tsunami, donors worldwide gave billions of dollars in aid to help places like the Indonesian province of Aceh recover from the disaster (see chapter 2, by Harry Masyrafah and Jock McKeon). A brand new coordinating agency within the Indonesian government kept track of the projects being funded by nearly 500 organizations. Its coordination efforts helped identify gaps in funding, and a multiyear trust fund improved predictability of aid flows reaching the people of Aceh.

In Pakistan a small-scale rural support program initiated by a nongovernmental agency has been replicated with financing from the government and international donors. There are now rural support programs in 94 of the country's 138 districts, reaching over 2 million poor households. The program is a notable example of how government can work with private donors to solve the problem of fragmentation by scaling up effective development projects (see chapter 6, by Abdul Malik).

Tajikistan is moving through a joint country assistance process that brings together the largest official aid donors with government officials and even a nongovernmental organization to develop a single strategic plan for development aid in the country. The process will be tied closely to the government's new poverty reduction strategy, promising an aid environment in close alignment with national needs and featuring strong country ownership of the process. Joint country efforts in a dozen other countries have engendered a roundtable mentality among donors and have led to new efforts at collaboration (see chapter 7, by Rustam Aminjanov, Matin Kholmatov, and Firuz Kataev).

Efforts like these, described in the country studies in this volume, show the potential for aid to help development when that aid is coordinated and administered in a way that benefits poor people. These efforts come at a time when the future of foreign aid is being fiercely debated. On the one hand, some observers—including Peter Singer and Jeffrey Sachs—support a huge increase in the size of foreign aid budgets, faulting a lack of donor generosity for the continued existence of severe poverty.[2] Their message: aid works, we just don't do enough of it. On the other hand, there are also scathing critiques of aid. William Easterly derides the "planners" of the world who seek grand strategies that too often end up being supply driven and unimplementable.[3] Dambisa Moyo describes what she sees as the ways that oil wealth, for example, detaches recipient governments from accountability to their citizens and in fact retards Africa's progress.[4] Easterly and Moyo believe official aid should be largely scrapped. In between these camps, aid practitioners argue that foreign aid could work if only it were done right.[5] What should we believe when there is such disagreement among experts?

In this volume we bring to this global debate the realities of how aid works on the ground in a cross section of countries: Aceh (Indonesia), Cambodia, Ethiopia, Kenya, Pakistan, and Tajikistan. In each case aid is important; in some of the countries, it is vital. We chose these countries to reflect some of the diversity of developing countries. In much of the aid literature, developing countries are treated as if they are similar. In reality, they are not. Some countries, like Indonesia and Pakistan, are large, so that aid, while important as a catalyst, is a small fraction of their gross domestic product. These countries also have relatively strong central government administrative structures, with long experience in implementing development projects. Countries like Ethiopia and Cambodia, on the other hand, are more aid dependent. They have had stable governments for some time, governments with a keen interest in managing aid. Tajikistan and Kenya, though, have had volatile political relationships with donors and complicated aid programs. These characteristics, by no means exhaustive, show how difficult it is to generalize about aid when conditions in recipient countries differ so greatly.

A defining feature of all the case studies is the emergence of new players. Bilateral governments, private NGOs, and vertical multilateral agencies that focus on a single theme—the Global Fund to Fight AIDS, Tuberculosis, and Malaria, for example—are now large providers of aid. We asked our case study authors to document how big these players are in practice and to comment on how they interact and coordinate with the large, traditional providers of development assistance.

The multiplication of donors has led to a fragmentation of aid into ever smaller activities. This can spawn innovation and experimentation in new development approaches, but it can also lead to a narrow focus on specific projects without concern for the larger issues of sustainability and scalability. At the end of the day, development is about economic, social, and political transformation. Does aid help achieve this, or is it limited to small successes (and failures)?

Another focus is the way countries deal with volatility in aid. Aid experts generally agree that development problems cannot be solved in a year or two. They take prolonged engagement to be successful. In the past, sustainability was built into development by a concentration on institutions. The green revolution, perhaps the most successful and most cited example of development assistance since the Marshall Plan, still provides benefits to millions of poor farmers in the developing world. But by itself it has not been enough to address rural poverty. The tragedy is that engagement of international donors with agriculture has been short-lived and victory proclaimed too early. Rural poverty is still with us, yet agricultural aid has declined precipitously, from 20 percent of total aid in 1980 to 4 percent today. This example of volatility is repeated in sector after sector, as development fashions change. Volatility is also present in the aggregate, at the country level, with recipients sometimes getting large volumes of assistance and sometimes facing a cutoff from donors. We asked our authors whether volatility is a serious problem for effectiveness in their countries and, if so, what is being done about it.

Last, we asked about the process of coordinating aid among so many players and so many sectors. It is easy to say that aid should be coordinated but harder to know what to do about it. Coordination does not come about cheaply. It is expensive in terms of time and political capital. Coordination raises deep issues about the nature of aid. If official aid is a political expression of solidarity between a donor country and a recipient country, then why should a donor coordinate with other donors? Is donor coordination seen by recipient countries as a means of "ganging up" on the recipient? Or as a means toward achieving more effective development outcomes?

Each of our case study countries has tried to make aid work better. Broadly speaking, they have experimented with three strategies:

—More coordination of aid, either by a domestic agency or working group or by encouraging donors to develop joint country strategies in support of national development programs.

—More transparency of aid, by providing data systems where everyone can see who is doing what where.

—More effectiveness of aid, by establishing a division of labor among donors active in key sectors, as is done in successful humanitarian relief efforts.

Three thematic chapters in this volume address these strategies specifically.

These strategies aim to patch or expand the current model of state-based aid and have had modest success in improving alignment with recipient country programs and harmonization among official donors (members of the Development Assistance Committee of the Organization for Economic Cooperation and Development). But they have not been successful in integrating emerging country bilateral donors and private donors. We conclude this overview with some thoughts on a new aid architecture model, based on recipient country-led coordination efforts and information openness. This model allows for better integration of new donors and addresses the criticisms of those who worry that coordination can stifle effectiveness and innovation in the absence of a more competitive, market-driven approach to development. Done correctly, aid coordination can yield benefits of tens of billions of dollars by preventing waste and achieving sustainable and fair development outcomes.

A Changing Aid Architecture

Aid to countries does not take place in a vacuum. There is a complex architecture of agencies and participants that helps channel resources from taxpayers or individual donors in rich countries to beneficiaries in poor countries. To give some context to the case studies, it is useful to see how this aid architecture has changed.

It is now commonly accepted that aid by itself cannot lead to development. Trade, investment, and job creation—the activities that private businesses support—are far more significant. So why focus on aid? There are two reasons. First, aid is now a multibillion-dollar business and has grown substantially over the last decade. Second, aid is engaging more and more people around the world: today, almost every country is part of the aid business, either in receiving or providing aid.

While academics debate the merits of aid, donors and individuals in rich and poor countries are becoming more and more engaged with development assistance. The numbers speak for themselves. Globally, aid is a $200 billion industry today; most of this ($120 billion) comes from the members of the Development Assistance Committee (DAC), a club of twenty-two rich countries. A large and increasing portion ($60 billion) comes from private NGOs, foundations, church groups, and corporations. A further amount ($10 billion or more) comes from other bilateral governments. The United States alone spent almost as much on aid—public and private—as it did on crude oil imports in 2007.

Growth in aid agencies has proceeded as fast as growth in aid dollars. In a recent count, 233 multilateral aid agencies were giving money to promote development.[6] At least fifty-six bilateral governments have official aid agencies, and most countries have several agencies that undertake foreign assistance programs. More and more countries are opening up new aid agencies. In the past few years, China, India, Brazil, Venezuela, Turkey, and South Korea, to name just a few, have developed large aid programs. They join a landscape that has already expanded to include thousands of international NGOs and perhaps hundreds of thousands of community-based and civil society organizations in developing countries themselves.

When aid is discussed it is natural to assume one is talking about money in a cross-border flow from rich countries to poor countries. But that would be inaccurate. The amount of aid provided in dollars is an accounting concept, not a real cash flow. Aid donors deliver services in different ways:

some give money, others volunteer time, and still others hire consultants to provide services or donate goods in kind. These services are aggregated by assigning an accounting money-equivalent value to them. That is what is measured in the most common aid statistic, official development assistance (ODA). But the accounts are determined by each donor, not by professional accounting standards.

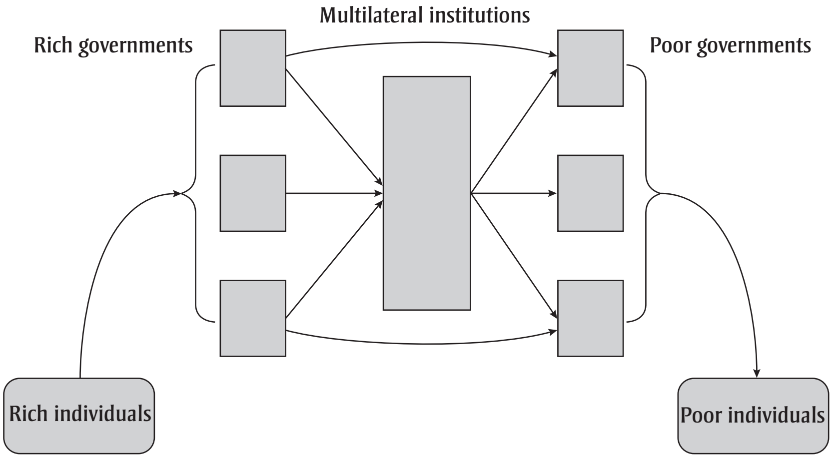
Several studies show that there can be large differences in amount, depending on the method of accounting.[7] Think of two options to provide technical assistance: in the first case the development agency uses predominantly international consultants; in the second case, mostly local expertise and networks. Even if the second case were proven to be more effective, the amount of recorded aid would be substantially lower (perhaps one-tenth as much), because the salaries of local experts are so much lower than those of international experts.

This is not just a theoretical example. In our case study of Cambodia, Chanboreth Ek and Hach Sok (chapter 3) show that technical cooperation grants, which make up a staggering 50 percent of all aid to Cambodia, pay for multiple teams of foreign advisers, who give sometimes contradictory advice to the Cambodian government. The conclusion by the authors: aid funds are often duplicative and unnecessary. Most of the money in fact went to foreigners, not to Cambodians.[8]

We argue for finding the right mix of national and international providers in implementing development projects and see this mix as depending on country and project circumstances. International expertise is needed but is not an end in itself. A parallel can be drawn to private business practices. Successful foreign direct investment projects upgrade national expertise and leverage local networks. Aid projects should do the same. Several successful examples, such as the community-driven housing reconstruction program in Aceh after the tsunami, follow this model of leveraging local expertise. However, too often development partners continue to use the traditional model, which relies disproportionately on foreign expertise and often gives preferential treatment to companies and consultants in the donor's home country.

In this volume, we make an effort to unpack aid figures to arrive at a more useful statistic of cross-border monetary flows. The OECD's Development Assistance Committee calls such flows *country programmable aid*. This statistic does not include debt forgiveness, because often debt relief has not provided additional funds for projects and programs on the ground.[9] In many cases, debt relief is made to countries that cannot

FIGURE 1-1. The Old Reality of Aid



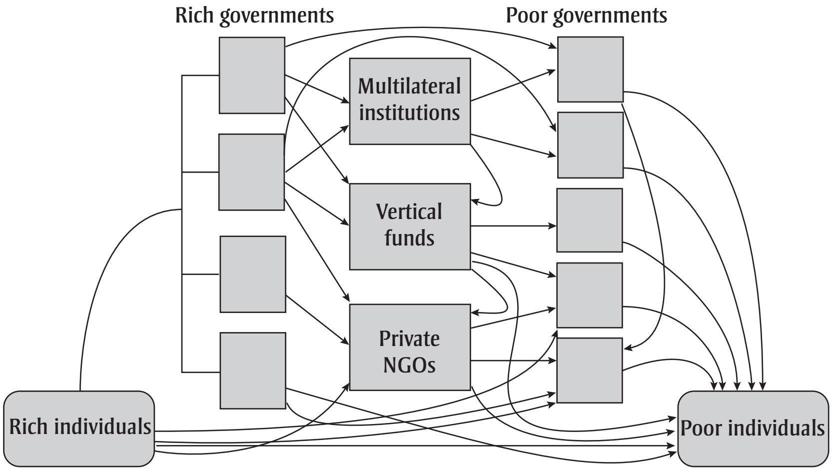
Source: Adapted from Homi Kharas, "Trends and Issues in Development Aid" (Brookings, 2007).

pay off their debt and is a transfer between the treasury of a donor country and another agency of the donor government that made a non-performing loan in the past. Country programmable aid also does not include donors' administrative costs or technical cooperation funding, because no cash actually flows to the recipient government or to poor people in developing countries. Finally, country programmable aid does not include emergency aid, which is not intended to address long-term development goals.

Globally, the percentage of ODA that comes in the form of country programmable aid is less than 60 percent.[10] Data from five of our six case studies (the statistic is not applicable to Aceh) support this statistic: Cambodia is 45 percent, Ethiopia is 56 percent, Kenya is 66 percent, Pakistan is 66 percent, and Tajikistan is about 52 percent. The implication is that a large fraction of aid money never reaches a developing country, perhaps one reason that aid skeptics find that aid has little impact.

Beyond the problems in categorizing aid, however, the more fundamental issue is that aid is coming from more places and being allocated through more channels. Figure 1-1 shows the old reality of aid flows. This diagram describes how a large majority of aid was given for much of the last half of the twentieth century. However, this figure no longer holds true. Soon, if not already, aid from non-DAC bilateral donors and private sources

FIGURE 1-2. The New Reality of Aid



Source: Adapted from Homi Kharas, "Trends and Issues in Development Aid" (Brookings, 2007).

of funding will rival in size traditional aid from rich countries. The aid picture looks more like what is depicted in figure 1-2.

A recent estimate of private giving for international development pegged private philanthropy from developed to developing countries as at least $49 billion a year and possibly as much as $60 billion.[11] Those donations fund thousands upon thousands of nongovernmental organizations, most of which are less transparent than official donors and, moreover, are poorly coordinated. Our cases offer some country-level data to support these statistics. In Cambodia, for example, NGO disbursements for project development doubled from the late 1990s to 2006. In 2006 they accounted for around 25 percent of total official aid flows in the country.

Our cases highlight the difficulties in reporting accurate information on NGO spending and other aid channels not thoroughly tracked, such as emerging donors and off-budget projects. In Ethiopia, NGOs are estimated to provide 10 percent of all health services, but both the level of resources and the impact is unclear. As Getnet Alemu writes in chapter 4, "There is a raging debate between government and NGOs about the efficiency, effectiveness, and transparency of NGO-managed services as compared to public services." Without better information, it is hard for governments and donors to identify unmet needs in the sector.

Our six aid recipient countries also show, at varying levels, substantial inflows of aid from countries that are not traditional donors (box 1-1). China is at the head of a list that includes the Gulf states, Brazil, India, and Venezuela. In Cambodia bilateral assistance from China and South Korea is now more than $100 million a year and represents more than 17 percent of total ODA in 2007 in terms of disbursements—and far more in terms of commitments for future projects. Assistance to Pakistan from China and a trio of Gulf states represents 12 percent of all aid commitments between 2002 and 2007, compared to 16 percent from eleven traditional bilateral donors. These emerging donors are also growing rapidly in the scale of their engagements. Many projects on the books are still in their start-up phase, and the shares of new donors could increase rapidly when these projects come to fruition.

Emerging donors behave differently from established donors; for example, they tend to demand few of the human rights, governance, or environmental conditions preferred by Western donors. Instead, China's chief condition for Cambodia, for example, is support for the one-China principle. Emerging donors may also impose conditions on procurement, requiring, for example, that parts and machinery and even labor for a particular project be brought from their country.

Meanwhile, both NGOs and new bilateral donors show biases toward certain sectors. Most NGOs have a strong focus on social sectors, particularly health. After the 2004 tsunami, government monitors in Aceh found that health and education received the highest allocations, while key infrastructure sectors remained underfunded until the third year of reconstruction. New bilaterals have the opposite tendencies; China especially has funded large-scale infrastructure projects, devoting little attention to social sectors.

At the same time, both of these new sets of donors—emerging country governments and private NGOs—have a reputation of responding more speedily and less bureaucratically when implementing development programs. The scale of these new players and their different approaches to aid create challenges to efforts at aid coordination. The sheer number of NGOs, each with different sectoral interests and strategic priorities, makes involving all of them in existing coordination and policy discussions a logistical nightmare. Small players, which include most NGOs, are often discouraged by the administrative costs of coordination and are loathe to subject their strategic planning to the approval of a coordinating body. Even in cases in which new donors have the resources to participate in

BOX 1-1. New Donor and NGO Activities, Six Case Studies

Aceh: Hundreds of NGOs and bilateral donors provide funds, and NGO disbursements ($1.9 billion) rival official donations ($2.3 billion) in size. Relationships with new bilaterals typically feature high direct transaction costs (notably, repeated high-level visits) and a lack of local experience. Some small new donors (Ireland, New Zealand) have contributed to the multidonor fund. Overall, however, few have participated in efforts to coordinate or pool aid.

Cambodia: There are 340 registered international NGOs and hundreds more local ones in the country. In recent years they have contributed 7–10 percent of ODA (core funds only). Aid from new bilateral donors, notably China and South Korea, has steadily increased to a high of more than 17 percent of total ODA in 2007. The sheer number of donors has created high transaction costs for the Cambodian government, though China has begun to participate in coordination forums.

Ethiopia: Dozens of NGOs are involved in the health sector, providing approximately 10 percent of all services. Their effectiveness has not been adequately measured. Vertical funds, primarily the Global Fund and the President's Emergency Plan for AIDS Relief (PEPFAR), provide over half of total health funding, but sometimes their accounting systems are completely separate from any government balance sheet. New bilateral donors have played little role in the health sector.

Kenya: China is the most significant new donor, now accounting for more than 8 percent of ODA. Its aid flows have been highly volatile, and it concentrates its aid in infrastructure, academic training, and humanitarian relief projects. Foreign NGOs account for only a small percentage (2–4 percent) of total aid.

Pakistan: A group of four new bilateral donors (China, Saudi Arabia, Kuwait, and Oman) accounts for over 12 percent of ODA. They also contributed hundreds of millions of dollars to earthquake relief after 2005. Government figures show 137 NGOs currently administering 1,481 recovery-related projects in the Kashmir region alone. New donors often exclude themselves from coordination discussions.

Tajikistan: New bilateral donors represent nearly 10 percent of ODA, and their contributions are rising rapidly, fueled by hundreds of millions of dollars in loan commitments from China. These new official donors have not participated in aid coordination forums, preferring to negotiate directly with top-level government officials. Private aid represents a modest $5–6 million a year, 50 percent of that from the Aga Khan Foundation. Most NGOs implement their projects directly and do not use large amounts of core funding for Tajik operations.

coordination forums, many refuse. In Pakistan, Tajikistan, and Kenya, the experience has been that China and other emerging bilaterals prefer to engage directly with the recipient government, building on the principle of mutual respect. Recipient governments often prefer this arrangement as well. It allows them funding that is not subject to the conditions demanded by traditional donors.

Existing aid monitoring mechanisms tend to handle new donors poorly. Many databases to track aid incorporate data only on ODA funding or offer spotty coverage of NGO and vertical fund projects, which means that they leave out on average 40 percent of aid flows. The result is that emerging donor-funded projects are tracked in disconnected systems, are likely to fall into disarray when funding is interrupted, or are simply opaque.

An attempt to determine, as was done in our Ethiopia case study, a full picture of aid in the health sector proves to be nearly impossible. Huge amounts of spending for global health initiatives, such as the President's Emergency Plan for AIDS Relief, are simply not registered in ministry of finance and economic development databases. Meanwhile, in Aceh, which saw thousands of projects administered by NGOs as part of tsunami relief efforts, the credibility of data entered in the government's database system became suspect. The amount of work required to track projects at the level of detail required by the database (it featured a monthly reporting requirement) proved too much for many small agencies. Even worse, the data that were entered were not consolidated and analyzed, resulting in misleading information. That problem was sorted out over time, but in the initial stages of reconstruction it was a serious obstacle to effective aid delivery (box 1-2).

The Fragmentation of Aid

As the number of donors has increased, the number of new aid projects has skyrocketed, but their average size has shrunk drastically. Combined, these two phenomena have caused the fragmentation of aid. Aid Data reports that there were 101,628 aid projects registered in 2007, up from 23,726 in 1997. At the same time, the mean size of each activity steadily fell, to \$1.89 million in 2007 from \$6.02 million in 1997 (figure 1-3). The median size of a new activity is now only \$67,555, which means that the increase in total ODA has come about by adding many small new projects rather than by scaling up what works. If NGOs and new players were fully captured in the data, the actual fragmentation of aid would be substantially

BOX 1-2. Information Management Platforms, Six Case Studies

Aceh: The government (through the BRR) implemented a database system based on the development assistance database platform, which allows for tracking both inputs and outputs. The system suffered from duplicated entries and data inconsistencies. The World Bank, on the other hand, successfully tracked financial transactions using a labor-intensive manual process, relying on a methodology that minimizes double counting and has systematic follow-up with key players.

Cambodia: The government, relying on a team of Cambodian experts, developed its own web-based tracking system for official development assistance disbursements in 2005. The system relies on donors to input their aid disbursements and is viewable by the public. It lacks information on aid outcomes and the ability to produce gap analysis reports.

Ethiopia: The Ethiopian Ministry of Finance and Economic Development is in the process of rolling out a new aid management platform–based system, using the same data standards as the OECD/DAC database. It is currently open only to government ministries but should cover other donors as well by 2010. Donors will be required to regularly update data on disbursements.

Kenya: Has no established country-level digital aid tracking system.

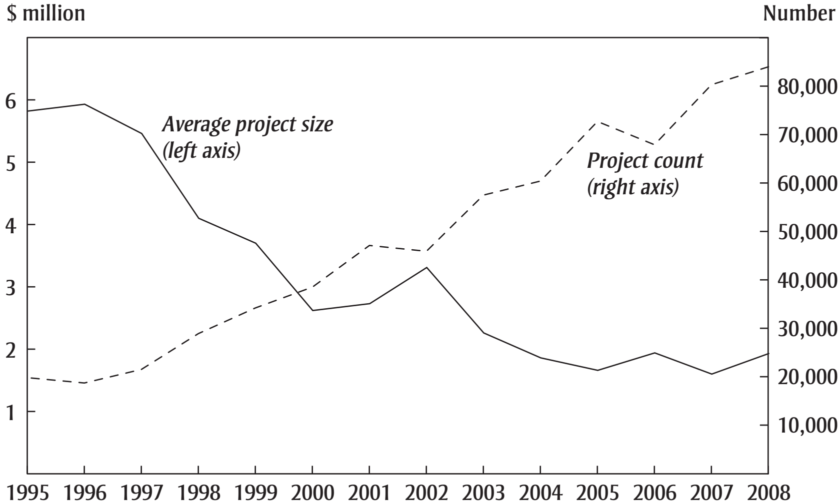
Pakistan: In the aftermath of the 2005 earthquake, the UNDP helped the Ministry of Economic Affairs launch dadpak.org, a database system. It allows for donor entry of disbursement data but has so far failed to achieve wide usage. Many of its data points are at odds with corresponding data in the OECD database.

Tajikistan: With the help of the Asian Development Bank, the country has developed an MS Access–based database, but reporting to the system is inconsistent. It focuses mainly on large projects and loans, implemented through government agencies. Officials and ministers normally use external databases instead.

larger. In the case of Aceh, where data on new players' activity exists, total fragmentation of all aid was twice as large when all NGO funding was included in the calculations (see chapter 2).

Small projects are not bad, per se. They are a source of experimentation and innovation. They can be exactly what are needed in isolated communities, where small amounts of money can make a significant difference in lives. But fragmentation of ODA runs the risk of heavy

FIGURE 1-3. Global Aid Projects, Number and Size, 1995–2008



Source: AidData, excluding donors that have not reported project-level data for 2008.

administrative costs. Each project must be prepared, negotiated between governments, supervised, and reported on. In 2007, for example, official donors sent out probably more than 30,000 missions to manage their aid projects.

The new reality of aid demands a new way of doing business from traditional donors, especially multilaterals. As our case studies show, fungibility is at work even in countries where aid is fragmented and highly earmarked. In Kenya and Ethiopia, where a large share of health sector investments are financed by donors off budget, the government has readjusted its own spending and focuses now predominantly on recurrent spending. Traditional OECD/DAC donors can help make the overall system work better in several ways. As a first step they should make sure that off-budget funding is recorded on recipient countries' budgets. Second, development partners could help reduce fragmentation by designing larger programs with a focus on scaling up what works, instead of increasing the number of "innovative" projects. Finally, they could deploy their analytic capabilities and analyze (or help recipient governments analyze) the expanding portfolio of all development projects and programs, not just their own. This would help identify scalable projects and also assist host governments stay on top of the overall development program.

Cambodia, with its highly disjointed aid environment, provides many examples of how fragmentation poses serious costs to donors and recipients alike. More than 400 donor missions travel to Cambodia each year, and government officials report spending 50 percent of their time meeting and reporting to donors. Many projects develop their own project implementation units and steering committees entirely outside existing Cambodian bureaucracies. These structures incur substantial administrative costs. One study of capacity-building projects in Cambodia finds that the costs of technical advisers and staff members amounted to 45 percent of the government's annual wage bill.

Fragmentation has other costs. It can weaken domestic institutions by poaching key government staff to manage individual donor projects. It can cause a system that bypasses government structures and procedures, as small projects are less likely to be included in recipient country budgets.[12] It can lead to a lack of government ownership.[13]

In our case study countries, fragmentation has been considerable. The most evident cost is the time spent by government officials on receiving high-level delegations from donors. In Tajikistan, one of the smaller recipients, there are more than 200 missions a year, with senior government officials spending half their time (on average, two meetings a day) with donors. Midlevel officials spend about 25 percent of their time with donors. In Kenya the situation with multiple coordination meetings became so bad that government and donors, in 2007, agreed on some principles of partnership that included a "quiet time" between May 1 and June 30 each year.[14] Ethiopia and Aceh also report government officials spending half to one-third of their time dealing with donors. Likewise, donors in Cambodia report spending 20–30 percent of their time on coordination mechanisms.

Other costs of fragmentation are seen in the use of separate project implementation units (PIUs) in recipient countries, in which donors set up parallel administrative structures to ensure that their projects are smoothly implemented. Of course, as donors have more resources, they can (and do) try to attract the best civil servants to work on their projects, sometimes by paying salary supplements. This is a particular problem in Cambodia and Tajikistan, where in theory PIUs are merged within a sector, but in practice donors are still creating separate units. In Pakistan, Abdul Malik (chapter 6) reports that government authorities view the proliferation of small projects as a symptom of donor-driven priorities rather than a response to real development needs.

Official aid donors recognize this and have pledged to reduce their use of separate PIUs, but progress on this front has been slow. A survey to monitor the Paris Declaration targets for aid effectiveness finds 2,473 active PIUs that operate in parallel to government systems. As the sample covers countries receiving a bit over half of ODA, it could be that the total number of parallel PIUs in developing countries is around 5,000.[15]

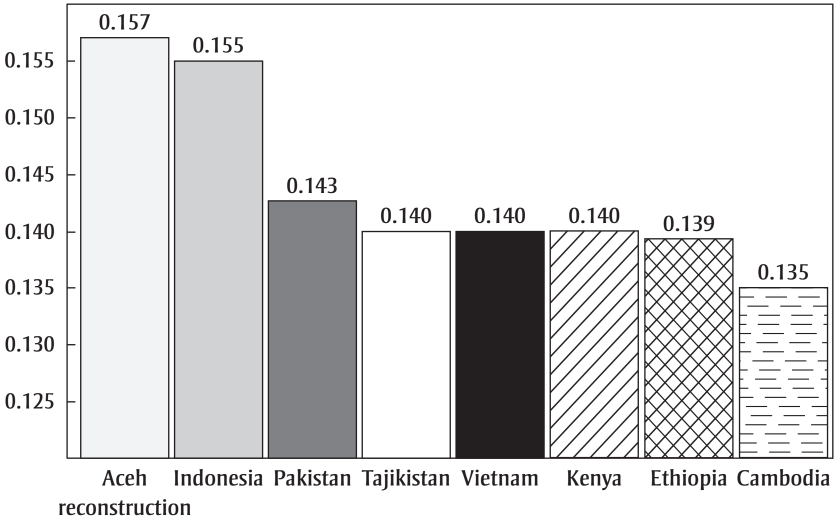
However, there are also a number of positive trends. The studies report that over the last few years there have been concerted efforts to reduce the number of donor missions by coordinating them. That is resulting in some improvement. For example, the number of missions to Cambodia fell from 568 in 2005 to 358 in 2007. In Ethiopia coordinated missions rose from 27 percent to 29 percent of all missions. While these improvements are welcome, the pace is slow, and costs remain high.

One measure of fragmentation (or actually its inverse, the concentration of aid) is provided by a commonly used economic indicator, the Herfindahl-Hirschman index (HHI). This is a simple formula that, in the application below, sums the squares of each donor's share in total aid to a recipient country. If a country receives aid from just one donor, it has an HHI of 1.[16] The more donors there are, and the smaller the share of each individual donor, the closer the HHI gets to zero. Donor concentration, as measured by each country's HHI, varies by as much as a factor of two between the least fragmented country in our sample (Indonesia) and the most fragmented (Cambodia) (figure 1-4).

The case studies also show that donor concentration has fallen over time, quite considerably in some cases. And the data do not capture the full extent of fragmentation. Each country is treated as if it were a single donor, whereas in reality there are several agencies involved. Furthermore, the data include only ODA, not NGO donations or local efforts. These other factors have significant effects on the level of fragmentation, considering that aid from NGOs in 2008 is estimated to be up to 30 percent of total aid. The fragmentation of various reconstruction efforts in Aceh has increased substantially with the number of players, even though NGOs by themselves had a similar level of fragmentation as official donors (see chapter 2, figure 2-7). However, if we include the government's own contribution through its Agency for Rehabilitation and Reconstruction (BRR), fragmentation decreases.

On the ground, the costs of donor fragmentation are plain to see. In Ethiopia nearly 70 percent of public health spending comes from aid, donated by ten multilateral sources, twenty-two bilateral donors, and

FIGURE 1-4. Aid Fragmentation as Measured by the Herfindahl-Hirschman Index, Eight Recipients, 2008



Source: OECD/DAC database; authors' calculations.

more than fifty international NGOs. Most of these expenditures are not recorded in the budgets of the Ministry of Health or the Ministry of Finance and Economic Development. Drafting a budget to provide needed health services for the country can easily become an exercise in guesswork, made all but impossible by the fact that nearly three-quarters of foreign health aid is earmarked for treating just three diseases: HIV/AIDS, malaria, and tuberculosis. The anomaly in the system is that aid agencies in Ethiopia focus on public health and prevention, which is the prototypical example of what governments should spend their money on, forcing the Ethiopian government to spend most of its health budget on subsidizing hospitals and curative health. This is a clear example of distortions caused by donors funding only particular sectors and raises large questions about the sustainability of donor programs.

The High Volatility of Aid

Net ODA disbursements, as seen from the perspective of a recipient country, are highly volatile, and this diminishes their value. From the early days of development assistance, the resolution of the common aid effort in 1961 recognized that "assistance provided on an assured and continuing basis would make the greatest contribution to sound economic growth in the less-developed countries."[17] Unfortunately, that understanding has not been put into practice. Although aid shocks—defined as aid that declines by more than 15 percent of GDP in a two-year period—are rare, they are eventful. For poor countries, aid shocks have been as large and as frequent, in terms of loss of national income, as the major global economic shocks faced by rich countries over the last century, namely the Great Depression, the two World Wars, and the Spanish Civil War (and perhaps the current global recession). The risk of an aid cutoff in aid-dependent economies may have significant consequences for how aid is used.

It is useful to focus on episodes of aid crises because there is strong empirical evidence that crises are what matter most in reducing growth.[18] Aid crises have significant disruptive effects on exchange rates, public investment, and inflation. Sound macroeconomic policy, universally acknowledged as the foundation of growth and development, is impossible with high aid volatility, especially if such volatility tends to compound the normal business cycle. At a macroeconomic level, the volatility of country programmable aid is seven times as big as the volatility of GDP and three and a half times as big as the volatility of exports.

Volatility is higher in the poor and fragile countries and in those where political or security concerns play into donor funding decisions. Thus Pakistan, despite its relatively robust homegrown coordination mechanisms, has seen highly volatile aid flows in recent years, driven largely by swings in U.S. grant aid. Short-term orientation in aid planning is also a direct cause and consequence of high aid volatility. According to the development assistance database for Pakistan statistics, about 34 percent of overall disbursements from ongoing development projects in 2008 were from projects with a duration of three years or less.[19] Less than a third of all projects (30 percent) extended over a period of more than five years.

Major donors are wary of trusting weak governments with large amounts of money, and new donors have not yet stepped in to cushion swings in aid from traditional donors in a coordinated way. But the resulting instability in aid flows carries its own costs and reduces the benefits of aid even when recipient governments improve their performance.

The case of Kenya highlights the costs of volatility. Over the past decade, the government has not incorporated committed aid into the national budget, since the funds too often fail to materialize. Francis Mwega (chapter 5) quotes a Kenyan finance minister regarding promised foreign aid: "Although some program grants and loans may materialize during the course of the year, if and when such additional resources materialize, I will use them for reducing our outstanding domestic debt." His point: program aid in Kenya is too unreliable to be treated as a source of financing for expenditures but should be thought of as a windfall. If it arrives, it is saved (debt is reduced). If it does not arrive, expenditures can be retained at their budgeted level.

At the project level, the Kenyan case study highlights four examples of projects, three of which were negatively affected by uncertain access to capital. Aid committed but later cancelled has left multiple projects stalled halfway through implementation for lack of funds or has denied existing projects the money needed to continue to operate. In one case, the first stage of a multistage project intended to increase the supply of water to Nairobi was completed in 1994. The follow-up stages are still waiting for funding. In another case, a $150 million irrigation project has been idle for the past decade because of a lack of funds to repair flood protection banks near the project site. This case highlights the need for aid to be predictable and for funding to be flexible to address contingencies that may arise during project implementation.

The Costs of Coordination

Coordination, even if done well, is expensive. It often leads to more time spent talking about how to deliver aid and less spent actually delivering it. In an environment in which all aid programs are competing for scarce resources, the cost in time and money of regular meetings and reports subtracts from the amount of time and money available for direct aid.

To many, coordination carries enough costs that its benefits are not worth pursuing. Certainly, our case histories contain plenty of examples of attempts at coordination that have gone awry. In the preparation of Cambodia's joint country assistance strategy, the donors involved spent more than twice as much on average than if they had simply drawn up country strategies on their own. Coordinated aid strategies typically take longer to prepare and delay the flow of aid to those who need it. But there are glimmers of hope. Johannes Linn (chapter 8) refers to "the reported qualitative benefits [that] include increased trust among donors and the improved alignment with the government's goals, shared analyses and data, and greater selectivity and more effective cooperation in specific programs and projects." Linn argues for a more forceful push at the international level to complement efforts on the ground and to provide the right incentives for donor staff to cooperate with each other.

Coordination can also be a factor in alienating small donors or newcomers. No small donor wants to be taken for granted. Given their small size, the amount of money provided by a small donor can never be enough to make the recipient government pay much attention to their activities. As official aid is largely an expression of solidarity and collaboration between a donor and recipient government, the nature of engagement between the two parties is paramount. The aid relationship must be about more than money. This is particularly true of private aid, wherein a majority of giving is associated with personal commitment, now facilitated by the explosion of social networking sites.

This relationship aspect of aid means that attempts to pool funds and strip individual donors of control can lead to a refusal by small donors to participate. For instance, the Pakistan Poverty Alleviation Fund (PPAF) had difficulty finding new donors to help scale up its efforts. Although it is based on a project launched by a nongovernmental player (the Aga Khan Rural Support Program) and expanded by the Pakistani government, the PPAF is seen as a World Bank project by many donors (the Bank provides 62 percent of PPAF's total funding). As a result, many have directed their funding in other directions.

The multidonor fund (MDF) for Aceh and Nias was more successful in mobilizing several smaller donors, many of which joined an MDF for the first time. For the smaller donors, such as Ireland and New Zealand, the MDF offered a "seat at the policy table" and more access to senior policymakers than what they would have had if they had channeled their resources bilaterally. The EU was the largest financial stakeholder of the MDF, but the MDF was less appealing to some of the other large donors, especially the United States and Japan.

The Paris Declaration on Aid Effectiveness was an attempt to counter the fragmentation of donor interventions. The Paris Declaration was based on the premise that aid can only be a complement to a government's own efforts, because even in the poorest countries aid flows hardly ever exceed a government's own spending. The declaration encourages donors to use

BOX 1-3. Alignment and Responsiveness to Recipient Needs, Six Case Studies

Aceh: Assessment of estimated costs of rebuilding to pre-tsunami level at $6.2 billion (including inflation). The total amount of resources for the reconstruction process exceeded $ 7 billion. Allocation gaps in environment, energy, food control, and irrigation sectors have limited recovery to pre-tsunami capacities.

Cambodia: Some donor alignment and coordination of resources has occurred around a national development strategy paper. Several donors are creating joint assistance strategies. Although a large portion of aid is delivered as technical cooperation, there is limited donor movement to align technical cooperation with sectoral priorities.

Ethiopia: Reasonable alignment with health needs. However, donors provide 80 percent of public health expenditures, while the government and private sector provide 58 percent and 39 percent, respectively, of curative care.

Kenya: Volatility and unpredictability lead to large portions of program disbursements being off-budget. Stop/go projects are problematic. Donors provide funding for governance and education but ignore other key government priorities.

Pakistan: Surge of non-DAC donors and grants undermines the alignment of aid flows with national priorities. High fragmentation generates sizable costs as the government must facilitate coordination. High volatility places a burden on government planning.

Tajikistan: Most government-donor alignment occurs around the UN's Millennium Development Goals (55 percent of ODA is oriented toward the MDG). Donors emphasize the requirement that field workers have in-country experience, leading to a small group of workers migrating from one project to another, without regard for sectoral experience. Overlapping and stop/go projects are also evident.

country systems and align with country priorities, but implementation of this principle has been slow: traditional donors still rely on their own systems, emerging bilaterals often tie their aid to specific projects, and private aid donors raise funds for specific purposes, usually social projects. The result has been an increasing imbalance in sectoral aid allocations (box 1-3).[20]

In the absence of a new and better coordination mechanism, which includes emerging country donors and private NGOs, the existing aid system will face two fundamental challenges. First, the system will revert to a pre–Paris Declaration equilibrium, in which traditional players are reasonably coordinated but the overall system remains fragmented, resulting in sectoral and geographic misallocations of aid. Second, there will be a risk of reverting back to "monument building" and emphasizing concrete outputs over overall development results. While it is easiest to report tangible outputs in education, health, and infrastructure, most developing countries' main challenge is improvement in service delivery. Support for institutional reform—new treasury, monitoring, and evaluation systems, for example—is much more difficult to communicate to funders and taxpayers in rich countries. They are long-term programs and demand strong and trusted relationships with local stakeholders, both inside and outside government.

The Kenya case study shows what happens when aid is not coordinated and donors act according to their own preferences. When donors moved away from program funding toward project funding because of mistrust of the Kenyan government and growing donor concerns over governance, the only way for the minister to balance the budget was through cuts in maintenance spending. His examples are telling: "The result has been that infrastructure has deteriorated while new, similar infrastructure is being installed. This is not good economics. Development in the true sense of the word comes from the operation of existing facilities. . . . Potholes on main highways discourage new investors much more than new roads in other areas attract them" (quoted in chapter 5, by Francis Mwega).

In the new aid architecture the inherent challenge of coordinating aid has not changed, but the magnitudes have. In the past, a developing country government could convene the top ten donors and cover more than 90 percent of the aid flows. Today, the top ten donors typically cover less than 60 percent of total aid, and this proportion is likely to decline further as new aid players expand their activities. The issue is to create a forum in which there is a balanced representation of stakeholders to build voice and participation but not so many as to reduce effectiveness and decisionmaking.

This new aid architecture will thus need new coordination mechanisms, because in most developing countries donor-led forums no longer reflect today's aid realities of multiple stakeholders. It is unlikely that an expansion

TABLE 1-1. Donor Instruments, by Recipient Country Type

Instrument and capacity	*Fragile or postconflict state: very weak*	*Low-income country: weak*	*Lower-middle-income country: medium to strong*
Donor coordination	Donor-led	Joint country/donor-led	Country-led
Integration of new donors	Limited integration	Integration when country is coordinator	Integration
Fiduciary, safeguards, procurement systems	Donors (multilateral development banks to harmonize)	Donors (multilateral development banks to harmonize)	Country systems
Project management units	Yes	Varies	No
National development planning	Poverty reduction strategies and reconstruction plans	Poverty reduction strategies	National plans
Funding mechanisms	Projects and coordinated reconstruction programs	Projects, programmatic funding, limited budget support	Projects, programs, budget support
Country ownership	Weak	Medium	Strong

of the current aid coordination system will be sufficient to respond to the challenges of the emerging new aid architecture. But strong aid coordination does not mean uniformity. The key is information about aid flows and development impact, so that governments and donors can adapt development strategies to take into account what others are doing. Formal donor meetings are just a subset of such coordination and are likely to play a much less important role in the future.

The six case study countries fall into three categories based on their level of development (table 1-1). The implications for volatility, fragmentation, and coordination are summarized in table 1-2. In the poor countries with moderate to strong government performance (Ethiopia and Cambodia), fragmentation is the main problem, especially with NGOs and vertical funds. In poor and fragile countries (Kenya and Tajikistan), volatility has emerged as a major issue. In the low middle-income and relatively better off poor countries (Indonesia and Pakistan), in which government administrative capacity is strong, coordination has moved from the old system of donor-led consultative groups to new systems of country-led coordination focused on knowledge, new financial products, and scaling up. An

TABLE 1-2. Volatility, Fragmentation, and Aid Coordination, by Recipient Country Type

Type of country	*Country*	*Volatility*	*Fragmentation*	*Implications for aid coordination*
Fragile/postconflict	Tajikistan, Kenya	Major challenge as donors are responding to political and economic performance; NGOs funding even more procyclical; new bilaterals have not yet compensated volatility of traditional donors and NGOs	Significant levels of fragmentation; traditional donors are highly fragmented; little evidence of division of labor among donors	Traditional aid forums are still capturing majority of aid flows but need to prepare the ground for expanded coordination system
Low-income	Cambodia, Ethiopia	Resource flows became relatively stable; new aid donors increase volume of aid	An increasing challenge; these countries are the prime focus of NGOs	Traditional OECD/DAC–led forums don't reflect changing nature of aid architecture; need to include nontraditional donors in coordination framework
Lower-middle-income	Indonesia (Aceh), Pakistan	Not a major issue; aid is declining sharply in relative terms	A major issue, but improving; aid is declining compared to domestic resources and NGOs are focusing on poorer countries	Traditional OECD/DAC–led forums are phasing out or are dominated by national governments; development cooperation much more focused on knowledge and new financial products

important element is the transition to using recipient country systems and integrating with the budget.

A fragmented aid environment not only makes coordination a greater logistical challenge, it also skews the incentives of donors and recipients in ways that are unhealthy for effective aid. Even when country needs are well known, a fragmented aid environment leads donors to believe that someone else is addressing a certain critical need. The case of Tajikistan holds one example of such a failure of coordination. Through May 2008 a half dozen international donors financed legal aid and farmer assistance centers in the country, with a great deal of overlap in the geographic areas covered by each network and with each having a different approach. Because the donors failed to communicate among themselves, four of the six terminated their programs in 2009. In many cases, this suddenly left provinces with no active programs whatsoever. The critical development issues of legal aid to farmers remained, but without coordination, donors left a major gap in services.

A fragmented aid environment makes it difficult for donors to use aid to encourage transparency, good governance, or anything else that would be in a recipient country's long-term interests. Governments with a wider array of donors can choose aid packages that carry fewer conditions or that are predominantly grant based as opposed to loan based. The Pakistan experience has shown that recipient governments often accept grants that carry high transaction costs and are poorly aligned with needs simply because they are seen as free money.

There are examples in which new aid coordination mechanisms have worked well, even in very difficult settings. In Aceh after the tsunami, the BRR had a strong grip on coordinating all the actors and funding flows without forcing them to use a single channel for funds. Flexibility was provided for projects under regular implementation (on budget), for accelerated programs introduced outside the regular planning process but still recorded in the budget (on budget, off Treasury), as well as for projects that were implemented directly by partners (off budget). The key was reliable information, allowing for an assessment of the overall reconstruction program, and a coordinating mechanism to adjust the program if needed. The BRR concluded that the overall reconstruction program was tilted toward the social sectors and areas close to the city of Banda Aceh, so it increased funding for infrastructure sectors and projects outside Banda Aceh, particularly the west coast and the Nias islands. The BRR was able to use nonearmarked funds of the government's own budget and to allocate funding from the MDF to achieve this balance.

Patching the Existing System

Chapters 8 through 10 address three approaches already being used to make the existing aid system more coordinated.

—Joint country assistance strategies that provide a framework for recipients and donors to plan collectively in order to align recipient needs and donor priorities.
—Information management systems to track aid flows and identify funding gaps.
—Clarity on leadership and division of labor, as practiced by the humanitarian aid community.

Joint Country Assistance Strategies

The major aim of these cooperatively developed strategies is to forge consensus among donors and recipients on how aid is to be allocated and spent. So far, reports Johannes Linn in chapter 8, joint strategies have been developed more or less independently in at least twelve countries. They have varied in their ambition, inclusiveness, and logistics. Ultimately, the general experience is that these efforts have succeeded in increasing trust and cooperation among donors and between donors and recipient governments. In the aftermath of such processes, countries have given anecdotal evidence of continued collaboration and coordination and decreased administrative costs for recipient governments. Most countries report high levels of satisfaction with joint country processes, even though they are relatively costly in time and money.

Linn makes a number of recommendations for improving joint strategy planning. Among them:

—Governments should lead the process and integrate joint strategies with their own national development and poverty reduction strategies. Where governments do not have the will, the resources, or the capability to lead, donors should build those capacities or at least keep the government engaged. Guidance and support from the DAC and other international forums can tilt incentives so as to make for broader, more effective participation of donors in these joint strategies.

—Joint strategies need to move toward a full strategy through a process that builds enduring norms of trust, information sharing, and partnership. Premature attempts to develop a common strategy can lead to "wordsmithing" and cynicism rather than a change in actual donor behavior.

—Participants should consult with nonparticipant stakeholders. Linn notes that there are no reported cases in which non-DAC officials or private donors participated in a joint strategy.

Joint strategies work best when there is a sound analytical base, usually provided by sector. Shared studies and technical working groups can allow donors and government to develop a joint understanding of the needs in various sectors and the experiences and opportunities for scaling up. When properly managed, our case studies suggest that such sectoral approaches work well at the country level but that they require donors to have field-based expertise and, in some cases, delegated authority to make decisions and commit the donor to common strategies.

Information Management Systems

Information systems, particularly those that track resources and measure their results, have the potential to play a key role in supporting aid effectiveness by increasing transparency, accountability, and effectiveness in the use of funds. But these systems are in disrepair. Timeliness, quality, coverage, double counting, inclusion of off-budget items, and geographic mapping capabilities are all lacking. Case study authors had considerable difficulty in obtaining data even in their own countries, and in some instances, donors reported different figures from recipient governments than the official records they sent to the international database collected by the DAC (known as the creditor reporting system). Comprehensive data on new bilateral donors and private NGOs are particularly difficult to obtain.

At the country level, new information technology provides many opportunities for a more transparent and effective development program. However, IT-led solutions have often failed because of overdesign and underinvestment in analytical capabilities. Aceh provides a good example of this overdesign. The detail on physical completion rates of projects, needed to permit tracking of outcomes, proved overwhelming for those doing the data entry. But the consequence of inadequate reporting was that even easy-to-obtain financial information was not captured. The best became the enemy of the good.

The other case study countries report that most recipient governments have established digital information platforms (box 1-2). Unfortunately, the majority of the systems have yet to deliver regular, reliable, and comprehensive information easily accessed by the public at large. They are especially weak when it comes to measuring aid outputs, which is critical in drawing conclusions about the relative effectiveness of competing projects. The experience of our country case study authors is also that data available in the field are quite different from data provided by the same organization to the global DAC system. That means that cross-country comparisons based on the DAC centralized database may be compromised by poor data quality, while better data at the country level cannot be used to benchmark against other cases.

Cut Dian Agustina and Ahmad Zaki Fahmi (chapter 9) review five of the information management platforms used for tracking development aid. The systems vary in the level of detail in their inputs and outputs, in the ease with which information can be entered, in the possibilities for interacting with global databases, and in such practical considerations as speed and cost. They also do not address the problem of a lack of incentives on the part of donors to provide timely, quality data. The authors' recommendations for future development of information management tools include:

—Maintaining strict quality standards for data entered into the system.

—Simplifying the management of information. Do not require more information to be entered than is necessary to do the work.

—Providing tools for data aggregation and analysis. The value of a countrywide aid database rests in its use for strategic purposes, not for specific project evaluation. This means it should be easy to produce reports and charts showing comprehensive sectoral and geographic funding.

Leadership and Urgency: Learning from Humanitarian Relief

Since the tragedy in Rwanda in 1994, the humanitarian aid community has intensively reviewed its ability to coordinate effectively and act responsibly. Rebecca Winthrop (chapter 10) draws out innovations in emergency response across five dimensions: principles, people, processes, programming, and perspectives. These innovations, although not yet perfected in practice, provide fresh ideas for how development assistance could better adapt to the new realities of aid.

A set of shared principles has been developed by the humanitarian community, providing guidance on political neutrality and impartiality, accountability to beneficiaries as well as donors, and minimum standards for service delivery. Some of these principles evolved directly out of international humanitarian law, while others such as the minimum standards for service delivery were developed through substantial consultation and collaboration. These minimum standards (set forth by, for example, the Sphere Project and the Inter-Agency Network for Education in Emergencies) have been translated into close to thirty languages, have been adopted by hundreds of organizations, and are currently in use in eighty countries around the world.

The effect of the standards has been to increase the efficiency and effectiveness of emergency relief. In the words of one NGO worker cited by Winthrop, thanks to the standards, "there is less 'kerfuffle' around what is acceptable and what isn't—this really decreases transaction costs and increases efficiency." For the development community, the lesson is clear. When there are multiple stakeholders with different approaches to development, efforts to gain agreement on a single best practice are likely to prove futile. But there is more common ground to be found in the development of principles and minimum standards, especially when these are created through a process of broad consultation with ultimate beneficiaries.

After struggling with the confusion of multiple actors, overlapping mandates, and gaps in emergency response, the humanitarian community developed a new approach to deciding who does what and when. The cluster approach has introduced for virtually each sector a lead agency of a diverse group of organizations (for example, the UN). The key innovation is that lead agencies have responsibility for the effectiveness of the emergency response in the whole sector, not just for their own actions. If a gap emerges where others are not active, the lead agency is expected to have the capability to fill that gap itself—a provider of last resort.

While the cluster approach is relatively new and the implementation of the provider-of-last-resort function is still being tested, the approach has helped immensely in clarifying roles and in reducing long-standing bickering over mandates. No such codified division of labor exists among development agencies, and as our case studies show, the result is a waste of time, resources, and effort as agencies battle each other for "leadership" in a country (which can translate into more resources for the individual bureaucrat managing that country operation). Without a provider of last resort in development aid, gaps can remain unfilled for extended periods of time or can suddenly emerge when one or more agencies decides to exit a sector.

Some crises get significant media attention and funding, while others are less visible. The same is true in development, where "donor darlings" and "donor orphans" are widely recognized within the aid community. But the humanitarian community has attempted to rectify such inequalities by building up a central, revolving fund (Central Emergency Response Fund) to permit rapid allocations to be made where there is a large need. In the development community, there are multidonor funds, as our Aceh case study shows, but no centralized agency that can smooth aid to specific countries. High aid volatility leads to poor development outcomes and also erodes the trust of those receiving aid in the reliability of international assistance. It is one reason that many of the new bilateral donors emphasize the principle of mutual respect and trust building as the basis for their aid.

Countries that suffer from humanitarian crises react by developing strong central leadership structures to direct international assistance. As the need for emergency aid abates, aspects of these centralized mechanisms to coordinating relief persist, and resources are then applied to general ODA. While Pakistan and Indonesia have the advantage of historically strong bureaucracies, the institutional arrangements that were spawned in response to the Pakistani earthquake and Indonesian tsunami increased their capacity to responsibly manage aid flows. Local governments have the tools to enhance their coordination facilities; it is unfortunate that such advances are most notable in the wake of disasters.

The humanitarian community still grapples with many problems around aid delivery, but these lessons show that the new complexity of the development aid system is not a cause for despair. Others have faced the same complexities and developed creative solutions and ultimately better systems. Perhaps the key lesson is one of accountability to beneficiaries. Our case studies suggest that leadership, trust, speed, scale, urgency, and transparency are in short supply in the development aid business and that, absent these, considerable resources are expended in unproductive ways.

A New Aid Delivery Model: Differentiated, Diverse, Dynamic

A patch of the system—expanding the old aid model to include aid from large new bilateral donors or pursuing local ownership through joint

TABLE 1-3. Delivering Aid Differently

Aspect	*Old aid model*	*New aid model*
Overall approach	International coordination and burden sharing; collaboration between headquarters dominates	In-country coordination and recipient government-led collaboration, differentiated by situational demands
Sources and channels	Focus on official development aid	Diverse multiplayer, multichannel aid
Programming	Annual	Multiyear, dynamic
Delivery	Project-based, fragmented	Programmatic, scalable
Capacity building	Capacity substitution, technical assistance	Capacity development, local networks
Information systems	Global	Global and local

country strategies—can improve efficiency in some cases. This is especially true in sectors like infrastructure, where large official loans from relatively few donors are still the dominant funding channel.

However, it is unlikely that an expansion of the current aid coordination system will be sufficient. The number of players is too large and the diversity of their approaches too great to return to the central planning approach of the past. A new aid model is needed that incorporates new donors and integrates with national development strategies (table 1-3).

Our case studies offer three basic principles—derived from careful evaluation of actual coordination successes and failures—that could form the outlines of a new model for aid delivery. The first principle is that aid should be differentiated by country circumstance. This sounds obvious, but in practice there is still a tendency for official donors to categorize countries into boxes: fragile states, low-income states, and small island economies are just some of the categories in the development lexicon. While these categories can be useful, our case studies show that even in a small sample of six countries at least three categories differentiate the development strategy. Extended across the universe of 152 countries eligible for ODA according to the DAC, our small sample suggests that there are likely to be many more categories of country circumstance that should be reflected in the delivery of aid. The implication: aid should be largely coordinated in the field, by local governments wherever possible, to reflect country-specific situations.

The second principle is to build on the diversity of aid providers. Different providers have different comparative advantages, but to identify and focus on these, each provider must know what the other is doing. Too often, this is not the case. The number and share of aid from non-DAC donors is likely to continue to grow, and mechanisms must be found to allow these different and parallel communities to be well informed. Field-based coordination meetings have not proven to be highly successful except in cases in which a focused sectoral approach is taken. Many donors do not have a significant field presence or do not have delegated management in the field, so decisions have to be constantly referred back to headquarters. As a result, there is significant coordination fatigue. Strategic coordination that recognizes and manages diversity can be achieved through international dialogue and coordination in combination with field-based mechanisms.

In our case study of Cambodia there is clear concern on the part of some donors that the practices of development partners like China might undercut efforts to promote good governance. China's official development assistance has few conditionalities. The Cambodian authorities, however, are mostly happy with the presence of a large, additional source of development finance, reflecting a crucial point: that diversity is an asset. Even without China, the leverage of traditional donors was an illusion. Money cannot buy leverage; it can only sway the balance of domestic political forces. On specific issues, there are no documented examples of Chinese aid trying to influence the Cambodian authorities toward directions detrimental to the interests of poverty reduction in Cambodia.

The third principle is to focus on the dynamics of development. In our sample countries, individual project success does not always add up to systematic change. Fragmentation and volatility cause problems over time. Scaling up of what works has not happened systematically. There is limited long-term engagement or accountability of donors for results in a given area. A focus on dynamics can mean changing the institutional setup, with more aggressive monitoring, evaluation, and assessment of development results. It is necessary to push the agenda toward scalable or programmatic approaches commensurate with country needs. Our country cases show the importance of identifying needs, of interventions and gaps at geographic and sectoral levels, and of monitoring progress in these areas in a systematic way.

Two functional approaches are needed to support the implementation of these principles. First, despite the considerable amount of aid provided in technical assistance, there is a shortage of true capacity development in recipient countries. The old Chinese proverb, "Give a man a fish and you feed him for a day; teach a man to fish and you feed him for a lifetime," is as relevant to development today as it was 2,000 years ago. Recipient countries do not have networks of like-minded organizations in other aid-recipient countries with which to compare notes, discuss implementation difficulties, and share solutions. South-South learning is an important omission in the delivery of aid.

Second, aid information systems are in the Dark Ages. In undertaking our country cases, the authors were invariably faced with contradictory data: those being used at the local level were different from what donors officially report to the DAC. Aid for most new players is simply unavailable in any systematic form, either locally or globally.

Looking at just the case of tsunami relief in Aceh, we can see how these principles were at work in practice. While billions of dollars in aid came from hundreds of private and official sources across the world, the main coordination body was a local one, the Indonesian government's Agency for Reconstruction and Rehabilitation. The BRR provided leadership as the sole implementing authority of projects on behalf of the government of Indonesia and a facilitator of others' projects. By introducing novel governance and transparency arrangements, the BRR built up trust with the donor community, reflected in its role as a partner in the allocation of the largest international source of post-tsunami reconstruction—the multidonor fund of more than $700 million, donated by fifteen partners. The fund became a critical source of flexible funding for sectors that other partners were not sufficiently covering. Reporting requirements and other mechanisms were put in place to allow for the collection of information on more than 12,000 ongoing projects being implemented by government agencies, donors, and NGOs.

The BRR's sense of urgency came from a legislated sunset clause in its establishment. It had to finish its job within four years.[21] It developed broad needs assessments against which the scope and scale of projects were measured. If gaps emerged, the BRR had the funds and authority to move to fill those gaps. These elements allowed reconstruction in Aceh to proceed with fewer of the inefficiencies that have typified development efforts, even though the fundamental environment was no less fragmented and challenging.

The Aceh example shows how aid delivery must be differentiated to deal with the situation on the ground. Several new features—the BRR agency, the multidonor fund, new governance arrangements, and new relations with local authorities—were developed in response to the specifics of the Aceh situation. A diverse group of donors was encouraged and managed by articulating norms and standards and by identifying gaps by subregion and sector. And development became a point of focus through introducing the sunset clause, through broadening the scope from reconstruction to development, and through using an annual monitoring and reporting system.

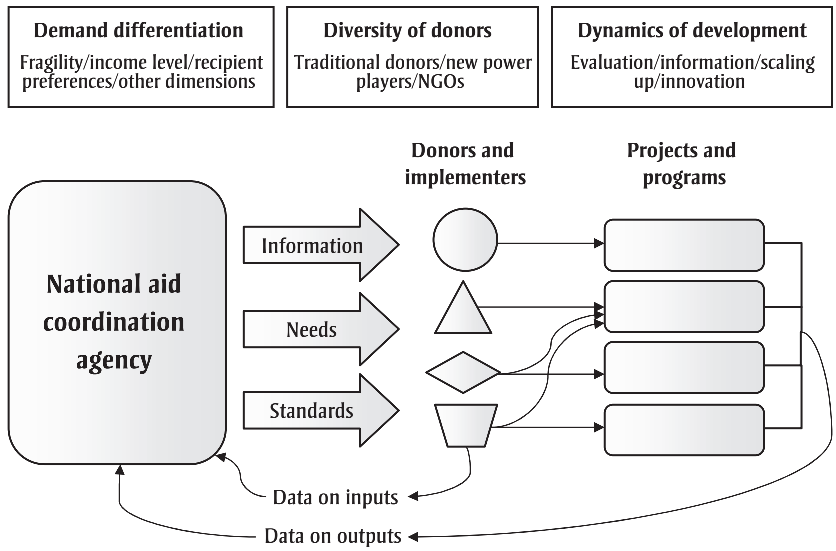
The net result in Aceh was an environment in which multiple donors gave large sums of aid and brought new ideas and new strategies to bear without threatening the coherence of the overall, locally directed, aid effort. With some small improvements in implementation and modification to country conditions, this should be the goal of coordination systems worldwide. The case study of Pakistan shows that the BRR case is not unique to Indonesia; agencies like the Earthquake Reconstruction and Rehabilitation Authority and the Pakistan Poverty Alleviation Program were also effective. Instead of having dozens of donors plan their own detailed strategies for spurring development in a particular country, the focus should be on ensuring quality information about the inputs of, and on measuring the outcomes of, those projects at the sectoral level.

Ethiopia is another example of the importance of a differentiated strategy. It is trying to nurture health care developments on a local level. Traditional donors find it difficult to mesh with this structure, since the normal coordination approach serves to reinforce national ministries. Diverse new players, such as the Global Fund, have been asked to modify their strategies to adapt, and indeed, the Global Fund has provided resources to strengthen Ethiopia's health systems, not just fund drugs. The diversity of donors has been complemented by an effort to reach scale in improving Ethiopia's health care, an effort that has been successful for certain parts of the sector but less so for others. Scale in one area can divert resources from another area, an important point to bear in mind when one is evaluating donor aid programs.

Country Level: A Single Source for Quality Information

At the level of recipient countries, a single-window approach to aid regulation is desirable. Currently, aid efforts suffer not only from fragmentation among donors but also from fragmentation within recipient governments. As discussed above, some projects are planned with the health ministry, some with the energy ministry or the finance ministry, some with no ministry at all. Successful development requires breaking down the sectoral silos and taking a multisectoral, geographic focus—something that humanitarian aid has long understood and employed in the Aceh and Pakistan reconstruction programs. With a single agency responsible for collecting and disseminat-

FIGURE 1-5. Country-Level Aid Coordination



Source: Authors.

ing data about all aid projects, a great deal of the confusion and inefficiency that typifies the current system will be ameliorated.

Figure 1-5 shows the simple organizational structure that is needed in each recipient country, with processes categorized under three overarching concepts: demand differentiation, which reflects the transmission of the dissimilar needs of different sectors, regions, and organizations; diversity, manifested in the heterogeneous sets of donors and implementers; and dynamics, which capture the evolving trends of project planning and execution, such as scaling up and mutual accountability.

Each country's aid coordination agency would provide three basic services to donors and implementing agencies. First, it would provide a source of reliable information on ongoing and planned projects in the country, covering all existing projects, government and foreign-financed, public and private. This provides data on the so-called three Ws—who does what where—as well as sharing lessons from project and program implementation. Second, it would compile and analyze data from other organs of government to form a single list of needs and to alert donors to gaps in aid coverage. Third, it would debate, adopt, and enforce basic minimum standards for a country's donors and implementing agencies. These standards would include measures to ensure transparency and prevent corruption, protect against discrimination, and discourage waste. The standards would also include ways to mainstream gender and environmental issues.

A multi-tiered certification process offers the best mechanism for ensuring that all parties adhere to the basic standards put in place by the national coordination agency. As was the case in humanitarian relief efforts in Aceh and Pakistan, for any project to go forward, it should be mandated that basic data on its funding and goals be provided. All donors that fund projects in a country and all organizations—public, private, or mixed—would meet the requirements for the most basic level of certification. The resulting project database then would become the baseline for the monitoring system. To gain a higher level of certification (and perhaps access to certain benefits like full tax-exempt status or the ability to compete for government contracts), agencies would be held to a higher reporting standard. They would need to provide complete data on project spending, salaries, and outcomes. These data would be subject to audit by the coordination agency.

One important lesson of relief aid coordination efforts is that, if proper monitoring is in place, a large percentage of aid can be autonomously planned and executed without causing significant problems. Small, private donors do not have to surrender any of their independence as long as they abide by certain principles. If a basic level of universal information is available, flexible funding streams can fill gaps in coverage and can scale up effective projects. Deeper information streams are useful, but it is not necessary to mandate that every project measure outcomes. Most projects are simply too small to make this a cost-effective proposition. A critical mass of data on outcomes at the sectoral level is necessary, but that can be achieved through mechanisms other than project reporting.

When possible, this process should be carried out by existing, locally respected institutions. Several of the countries studied in this volume have taken steps toward creating agencies that will fill this role, and those efforts should be respected and strengthened. For example, in Tajikistan the State Committee on Investments currently houses a database for tracking aid flows (Aid Coordination and Project Management Systems). The office that manages this database should be given additional staff to better disseminate the data it collects and should be made part of a stronger incentives scheme to encourage donor participation. In Cambodia the Cambodian

Rehabilitation and Development Board (CRDB) was chosen in 2002 to be the focal point for relationships with donors and to represent the country at aid-effectiveness forums. The information-gathering, standards-enforcing functions described here would fit smoothly into the CRDB's mission. Using existing, capable government bodies would promote local ownership of the process and encourage other arms of government to use the data and analysis provided by the coordination agency.

In some countries, problems with governance make it impossible for donors or private agencies to trust a government body. In these instances, a hybrid public-private agency could bridge that gap. A governing board that includes representatives from major donors, local philanthropic organizations, and the government could assure all parties that the information and certifications being issued by the agency are credible. A private certification model is already used in Pakistan, where the Pakistan Center for Philanthropy audits nonprofits for good governance and financial accountability and awards them a certification intended to make them more attractive targets for philanthropic contributions.[22]

In either case, however, the independence of the coordination agency as an apolitical technocratic body should be preserved. Limiting its role to the collection and analysis of information on aid projects is intended to prevent it from getting mired in the battles over resources and ideology that take place in legislatures and cabinet ministries. Like the Government Accountability Office established by the U.S. Congress, each aid coordination agency must remain above the political fray. This approach to aid coordination borrows heavily from the concept of regulation through information pioneered by Giandomenico Majone in the context of European integration.[23] Majone explains that providing information can be an effective policy in and of itself, and in many cases can be a more desirable path to follow than traditional, command-and-control regulation, especially when rule enforcement is difficult. In the traditional model, information is a tool used to devise a suitable mandatory rule. Under regulation by information, rules serve mainly to ensure the delivery of accurate, reliable information. The information is then used in a decentralized way by individual agency accountability structures to promote goals like efficient use of resources and alignment with priority development needs.

In the case of economic development and poverty reduction, the goals of a coordination strategy are to achieve scalability of projects, predictability of aid flows, efficient division of labor, and low transaction costs. Although the national aid coordination agency would play only a small direct role in securing these benefits, many of the other necessary elements of an aid coordination architecture would arise naturally in the presence of open information. If donors are given information on what projects are achieving notable outcomes, they will be able to pool their resources to scale up those projects to reach more people. Projects that duplicate each other would be identified and adapted to reflect a more logical division of labor, either by splitting up different stages of the work or by operating in different geographic areas. A geographic division of labor would open the possibility for competition between aid agencies—a potentially powerful driver of efficiency—or for tournament-based or cash-on-delivery grant programs, offering funding to the first organizations to meet certain benchmarks as measured by the aid coordination agency.[24]

Global Level: Information Standards, Professional Networks

At the global level, efforts must be made to allow information—both statistics on aid effectiveness and anecdotal best practices for coordination—to flow more easily across borders. On the data side, the international community can help by endorsing a single set of accounting standards for aid. The International Aid Transparency Initiative, launched at the Accra High Level Forum in 2008, is the logical channel for this to take place.[25] Major official and private donors should commit to transitioning to an international standard for aid data and should provide assistance and information management tools to encourage recipient governments to adopt these standards as well. Aid is simply too big a business today to be run with such poor metrics.

On the best practices side, a network to link those who are in charge of aid coordination in developing countries around the world would be desirable. One reason that aid coordination bureaucracies have developed in such haphazard fashion is that, unlike agencies for regulating securities markets or safeguarding the environment, no analogous agencies exist in the developed world. This is understandable, since developed countries do not have the same volume of foreign funding seeking to operate in traditionally governmental spheres. However, it means that there are few examples of functioning national aid coordination bodies to emulate.

Countries seeking to establish and regulate securities markets did not face this issue. The Securities and Exchange Commission in the United States, the Financial Services Authority in the United Kingdom, and a host of other bodies serve as models to countries establishing securities markets for the first time. The International Organization of Securities Commissions gives regulators in the developing world a professional network that allows them to connect with their counterparts in both developed and developing countries.[26] Structuring a similar organization for aid coordination, like an International Organization for National Development Aid Agencies, or an evolved OECD/DAC, would be helpful. Instead of relying on technical advisers to dispense policy prescriptions (which may be contradicted by the next set of advisers to walk in the door), developing countries would be able to share knowledge of what works and what does not with their peers. Developed countries would also play a useful role, since many have tools for tracking government funding such as, in the United States, Recovery.gov (to track projects funded by the American Recovery and Reinvestment Act of 2009). Hearing others' experiences with such approaches, or even having access to the tools themselves, could strengthen new coordination agencies. The very existence of a professionalized network, suggests Anne-Marie Slaughter, can help to socialize aid coordinators to global norms of honesty and independence.[27]

Conclusion: No Small Plans

Our case studies show that developmental aid, because it is fragmented into small projects, is uncoordinated and unreliable. These characteristics lead to waste and inefficiency. But problems of poverty remain deep rooted, and many individuals, countries, and agencies are eager and willing to contribute to the task of global development. Bringing these new players into the existing aid architecture is a critical new task. Efforts to expand the traditional model of centrally planned aid do not seem to be working, although some successes are evident. A new model is needed, with changes that are commensurate with the size of the problem.

We are faced with an aid architecture that is appropriate for the world of the last century. Some of the measures discussed in this book can patch this architecture, allowing for increased collaboration and increased openness within the current system. However, it is time to think of what a new architecture, built for the current reality, would look like. It seems clear it must be more responsive to the needs of both new donors and recipient countries.

We advocate for two institutional changes. First, we call for a geographically focused development authority within each poor country with an emphasis on providing the information needed to run an efficient aid program. In addition, aid agency behavior needs to change. Individual aid and government agencies have no inherent incentive to coordinate or share information. Their primary focus is to show tangible results for their specific investments in order to communicate back to their stakeholders and mobilize new funding. This has resulted in a system in which the whole is smaller than the sums of the parts.

Second, we argue for an international body of national development aid agencies to deliberate, share best practices, and provide an informal mechanism for holding aid agencies accountable to the ultimate beneficiaries—the poor of this world.

Those who seek to improve aid coordination recognize flaws in the aid system but also see the promises of aid. Foreign assistance cannot replace private investment or recipient government programs in achieving desired development outcomes. However, efficient, well-coordinated aid is critical to meeting the urgent needs of the world's poor and speeding them along the path toward prosperity. Coordination allows for aid to better meet needs on the ground, to avoid waste, and to achieve fair outcomes. A new consensus can be built around the ideals of information openness and decentralization of coordination efforts. In place of disconnected sets of large bilateral donors, multilateral organizations, and private agencies, locally controlled agencies would encourage competition among donors with high-quality information on needs, aid inputs, and aid outcomes. Networks of aid coordinators and aid agencies would share information, aided by common standards for data management. At the end of the day, the money intended for the poor would reach them efficiently and fairly.

We must work now to build this model, asking for concrete action from donors and recipient governments alike. Our case studies show that the recommendations we are making are field tested. Aid can work, but not if it continues to be uncoordinated, unmeasured, and uncompetitive.

Notes

1. Total aid is the sum of net annual disbursements from Development Assistance Committee donors to developing countries between 1960 and 2008 in constant 2007 US$.

2. Peter Singer, *The Life You Can Save: Acting Now to End World Poverty* (New York: Random House, 2009), presents aid as a moral imperative for prosperous countries and individuals. Jeffrey Sachs is one of the chief advocates of the Millennium Villages, which are targeted aid programs that spend about $120 per villager to eliminate poverty.

3. William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (New York: Penguin, 2006).

4. Dambisa Moyo, *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa* (New York: Penguin, 2009).

5. Most aid agencies subscribed to this view in the Paris Declaration on Aid Effectiveness.

6. International Development Association, Resource Mobilization, *Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows* (2008).

7. Hudson Institute, *Index of Global Philanthropy* (Washington: 2008).

8. For a more in-depth critique of ODA's use as a critical statistic, see Jean-Michel Severino and Olivier Ray, "The End of ODA: Death and Rebirth of a Global Public Policy" (Washington: Center for Global Development, 2009).

9. Doerte Doemeland and Homi Kharas, "Debt Relief and Sustainable Financing to Meet the MDGs," in *Debt Relief and Beyond*, edited by Carlos A. Primo Braga and Doerte Doemeland (World Bank, 2009).

10. Homi Kharas, "Trends and Issues in Development Aid," Working Paper 1, Wolfensohn Center for Development (Brookings, 2007).

11. Hudson Institute, *Index of Global Philanthropy* (Washington: 2009).

12. Less than half of all country programmable aid actually passes through recipient country budgets.

13. Stephen Knack and Aminur Rahman, "Donor Fragmentation and Bureaucratic Quality in Aid Recipients," *Journal of Development Economics* 83, no. 1 (2007): 176–97.

14. However, this commitment was never implemented due to the pressures resulting from Kenya's post-election crisis in the first half of 2008.

15. OECD, *2008 Survey on Monitoring the Paris Declaration* (2009).

16. In this example, the share of donor 1 in total aid is equal to 1. The square of that share is also equal to 1, so the HHI equals 1. If a country has two donors lending equal amounts, each donor's share would be 0.5, and the HHI would be 0.5 (equal to the sum of the square of each donor's share).

17. OECD, *DAC in Dates: The History of the OECD's Development Assistance Committee* (2006).

18. World Bank, *Economic Growth in the 1990s: Learning from a Decade of Reform* (2005).

19. See dadpak.org.

20. At the aggregate level ODA allocations to social sectors have substantially increased, while infrastructure and production have been declining (from 59 to 38 percent in 2001–04). See also International Development Association, *Aid Architecture*.

21. The BRR's sunset clause of four years was later extended.

22. Details of the PCP certification process are available at http://pcp.org.pk/certification.html.

23. Giandomenico Majone, "The New European Agencies: Regulation by Information," *Journal of European Public Policy* 4, no. 2 (1997): 262–75.

24. For further discussion of how tournaments and competitive structures can contribute to aid efforts, see Clifford F. Zinnes, *Tournament Approaches to Policy Reform* (Brookings, 2009).

25. See http://aidtransparency.net.

26. Such transgovernmental networks are at the heart of the argument presented by Anne-Marie Slaughter, *A New World Order* (Princeton, 2004).

27. Ibid., pp. 195–215.