Discussion Note

1st Annual Plenary of the
OECD Global Forum on Development

The Evolving Landscape of Development Finance: Managing Complexity
Paris, 3 April 2007

Introducing the OECD Global Forum on Development

The international development finance system has become highly complex. New actors, both public and private, have emerged as important sources of finance. Traditional donors have begun using new financing instruments to deliver their aid. And the goals of development assistance – already numerous – have broadened to include global public goods.

This complexity, it seems, is here to stay, and policy makers are now looking for guidance on how to come to grips with it and render development finance more effective in promoting development. In response, the OECD Global Forum on Development is devoting its first cycle of activities (2006 - 2009) to development finance. The Forum is helping OECD and non-member governments, as well as a variety of private sector and civil society actors, to explore four major themes:

a. Understanding the present development finance system: which actors, flows, instruments and channels characterise the system? How do they interrelate? How do we evaluate them? What are the main proposals for moving towards reform?

b. Putting ownership into practice: what do developing countries need and demand from the development finance system? What are the features of a true recipient country-led system? How can their capacity to use and access development finance, their commitments to desired outcomes, and their representation in international dialogue and decision-making be improved?

c. Matching instruments to needs: how can instruments be combined and designed to respond to diverse development finance scenarios? What is the role of private actors and public/private partnerships? How is the role of ODA evolving? How can instruments catalyse domestic resource mobilisation?

d. Changing the international development finance architecture. What are the options for institutional reform? What incentives support reform, what bottlenecks slow it down?

As can be seen in the Calendar (see Annex), these themes are being taken up progressively in a series of events ranging from informal experts' workshops to international conferences. Each year, prior to the DAC High-Level Meeting, an Annual Plenary will provide an opportunity to take stock of results and give guidance to future activities.

The 1st Annual Plenary: objectives

Since its launch in July 2006, Global Forum discussions have focused on "Understanding the present development finance system" (point (a) above). In four major events, participants have addressed the flows and channels of development finance, the integration of global programmes into country strategies, the effectiveness of the multilateral system, and the emergence of new actors in development assistance. Summaries of these events are available at www.oecd.org/development/globalforum.

At the 1st Annual Plenary of the Global Forum, we are providing an informal setting for participants:

- to reflect on the outcomes of these events;
- to share views on how related work might be taken forward at operational levels;
- to identify areas in which further analytical work or international dialogue is required.

Discussions will give direction to future activities of the Global Forum and will help guide the Forum's interaction with other major processes, including the preparations for the 3rd High-Level Forum on Aid Effectiveness (Accra, Ghana, 2008) and the UN Follow-up Conference on Financing for Development (Doha, Qatar, 2008).

Format: informal and inclusive discussions

The Plenary will begin with an introductory presentation summarising the outcomes of the year's activities and outlining the major issues to be addressed in the ensuing panel discussions. The guiding questions for each panel are outlined below.

In order to encourage an informal and inclusive exchange of ideas, allocated speaking roles will be held short. Moderators will give a short (3-5 min.) introduction to the panel's guiding questions, and, during their first intervention, panellists will be invited to share their views and expertise in no more than 5-7 min. each.

By inviting eminent experts to act as moderators, rather than traditional chairs, we hope to foster a stimulating debate and focused discussion. The moderators may, for example, guide the debate by asking an individual participant, or group of participants, to share their expertise on a given question. They may use "hands-on" methods to stimulate debate, for example by calling a "vote" on particular questions. Of course, the general rules of chairing apply: ensure that the discussion remains on track and summarising the panel's major conclusions at the end of the session.

The four panels: background and guiding questions

Session I: Foundations and global programmes: bringing innovation or adding complexity to development finance?

Although official donors remain the major providers of cross-border development assistance, significant new public and private actors have recently emerged on the scene, including new global programmes and foundations, some with unprecedented levels of funding. After a history of engagement in their home countries, foundations have begun financing projects in developing countries and international development initiatives.

Little is known, however, about the volume and allocation of financial flows directed by OECD-based foundations to countries beyond their borders, and several governmental representatives have expressed an interest in further dialogue and information-sharing with

foundations. In particular, they are concerned about the potential proliferation of actors at the country or sectoral level, which may undermine developing-country ownership, especially when the activities of new players are not "on budget".

This interest in dialogue is matched by many of the foundations with activities in developing countries. In order to explore the opportunities for partnership between official donors and foundations, the Government of Portugal, the OECD and the European Foundation Centre organised an International Conference on 22-23 March 2007.[1]

At this conference, participants agreed that there was ample room to improve mutual information sharing, as this could identify areas in which foundations and official donors could complement each other's development-related activities. Current initiatives seeking to map the activities of foundations could be expanded. Beyond information sharing, the conference also called for a deeper dialogue on themes around which a common agenda could be built among coalitions of interested parties. Suggested themes ranged from structural inequality, to governance and accountability and infectious diseases.

Global programmes, often structured as public-private partnerships, are one area in which foundations and governments have already been collaborating. Some global programmes provide "horizontal" support for country systems or sectors. Most, however, provide "vertical" or "issue-specific" support, seeking to focus on narrowly-defined, critical problems. In the health sector, a major locus of global programmes' activities (along with education and environment), this may mean focusing on a specific disease.

The key driver behind the phenomenon of "vertical" programmes is the desire for specific, identifiable and attributable development outcomes, perhaps as a means of generating public recognition and support. The emergence of these creative, fast-moving and new initiatives may also reflect a certain level of dissatisfaction with the results achieved through more traditional modes of development co-operation.

From a developing country's public management perspective, the emergence of "vertical" programmes poses three major challenges. First, there is a concern that the proliferation of global programmes is overburdening recipient-country administrations and resulting in high transaction costs. Second, the activities of vertical programmes must be integrated into national development plans or PRSPs – this may be difficult when funds are directed at very narrowly-defined goals and risk undermining the national plan's priorities. Third, support from vertical programmes is based on the assumption that systemic capacities are available and adequate for programme delivery – in reality, many governments face capacity constraints, including financial and human resource gaps. There is thus a paradox of new resources being available for targeted programmes, but not for the long-term and sustainable system development.

This paradox was widely recognised at a Policy Workshop organised by the World Bank, OECD and WHO on 4-5 December 2006, within the framework of the Global Forum on Development. At the Workshop, a set of draft good practices for global programmes was generated, and will be discussed further in 2007, particularly with partner countries.[2] Given that the health sector is particularly concerned, global health partnerships will also be addressed in more general dialogue on aid effectiveness in the health sector.

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[1] Developing Partnerships for a Developed World: Foundations and Governments Learning to Work Together. Hosted by the Gulbenkian Foundation. Please visit www.partnerships2007.org for further information.

[2] The Report and Note on Proposed Follow-Up to the December Workshop are available at www.oecd.org/development/globalforum.

The aim of further dialogue on both foundations and global programmes is to help build a consensus on and develop the tools for managing the increasing complexity of a multi-actor and multi-angle development finance architecture. Progress in these areas will be of particular value in the preparations for the High Level Forum on Aid Effectiveness, to be held in Accra in September 2008.

In this Panel, we seek to broaden the dialogue on the above issues, discussing both longer-term perspectives and possible policy action. The following questions may be used as guide to start off a discussion.

- Bearing in mind the broad consensus around the Millennium Development Goals, what are their respective comparative/competitive advantages of official donors, foundations and global pogrammes in achieving these goals?
- How can we maximise the effectiveness of these three donor groups at global and country levels? Can the Paris Declaration be further developed to achieve this?
- What is the optimal balance between issue-specific ("vertical") programmes and systemic ("horizontal") support? How might the mandates of global programmes be adapted to address systemic and coordination issues?
- Can the tendency of donors to create new global programmes be subject to more discipline? How can official donors best catalyse higher engagement by foundations in developing countries?
- Given that the development activities of foundations are often off-budget, is there scope for foundations to engage in more country-level information sharing and coordination? What efforts are being made by global programmes in becoming better integrated in country strategies and what can be done further?

Session II: Emerging economies and development assistance

Following impressive domestic development in many non-OECD economies, they have become increasingly able and willing to take on responsibilities in promoting development elsewhere. While many have had co-operation activities for a long time, the scope and impact of the contributions of these 'emerging donors' have risen significantly. Their contribution to development in other countries stems not only from the lessons which can be drawn from their own development and transformation, and which may be shared with others. Importantly, it also comes from their growing volumes of financial assistance.

In this context, there is much scope to learn about the opportunities and implications of emerging economies in development assistance. Specifically, given the high potential of emerging donors to contribute to development, DAC donors are now seeking to explore how all donors might work together to have the best combined impact towards shared global objectives, notably the Millennium Development Goals, the promotion of transparency, labour and environmental standards and debt sustainability. They are also looking for the best ways to foster developing-country ownership, which is now accepted as a key condition for development and an essential principle for development co-operation.

Whilst the MDGs (and the principle of ownership) are part of a universally-agreed, results-oriented global framework for development, it has become clear that there exists a diversity of policy approaches among DAC and emerging donors to their achievement. This diversity becomes particularly important when one distinguishes between different recipient-country contexts, and specifically between resource-rich and resource-poor countries. Although the former should have attractive development prospects, their resource wealth has in many cases not yet translated into broad-based development gains, and into the emergence of capable and accountable states. Given the significant engagement of emerging donors in resource-rich countries, they, like other donors, need to consider how their assistance can

help these countries become stable, reliable and accountable partners in the international system.

A further area in which there is room for dialogue is the Paris Declaration on Aid Effectiveness, which lays down a practical, action-oriented roadmap to improve the effectiveness of development interventions. DAC donors have begun making progress in aligning their co-operation with national development strategies and systems, although there is still much to do. As yet, there is little information on the application by emerging economies of the principles of harmonisation and alignment. It is also unclear how developing countries are assessing the longer term sustainability of new financial obligations they are taking on through loans from emerging donors, even if there is new space in the wake of bilateral and multilateral debt relief.

There is clearly substantial scope for improving the coherence of development finance and improving the overall resource efficiency of scarce resources. First and foremost, there is a need for improved information flows and coordination at country level. This also applies at global level, where further information can help address collective action challenges, such as absorptive capacity, avoidance of 'donor orphans' and financial sustainability.

In this context, Session II will address the following questions.

- How do emerging economies relate to the MDGs when designing development co-operation policies, and how do they factor in the ownership principle?
- How can the challenges of sustainable capacity building and accountability in developing countries, particularly in resource-rich countries, be tackled by collective approaches?
- What is the perspective of recipient countries on emerging donors? How does assistance from these donors relate to their national development strategies and their debt management strategies?
- What lessons can emerging donors share about their experiences in development assistance?
- What are the options, and possible constraints, for better sharing of information, mutual learning and improved coordination, both at country and global levels? How can emerging economies work together with other donors on collective action challenges to safeguard the effectiveness and sustainability of their interventions?

Session III: Multilateral performance, coordination and governance

Policy makers are committed to delivering more and better aid in pursuit of an increasing number of development-related goals. These commitments have led to new pressures on the multilateral system. At the country-level, in line with the Paris Declaration, multilateral agencies are striving *to coordinate better* their activities, as a proliferation of actors and financing instruments has led to high and hard-to-manage transaction costs. Within agencies, efforts are being made *to improve performance assessment and evaluation*, in order to ensure a greater focus on results. Their performance is also being placed under increasing scrutiny by bilateral funders.

At a recent Global Forum Workshop in Berlin, jointly organised by the OECD and the German Ministry for Economic Co-operation and Development,[3] participants discussed these dual challenges of greater coordination at country-level and improved performance

[3] Informal Experts' Workshop on "Performance and Coherence in Multilateral Development Finance" (Berlin, 29-30 January 2007), hosted by InWEnt (Capacity Building International Ltd.). A Report of this Workshop is available on www.oecd.org/development/globalforum.

assessment, monitoring and evaluation. They broadly agreed on two related recommendations.

(a) Firstly, developing countries need support in dealing with the growing complexity of multilateral development finance. It has become clear that, whilst an abundance of financers and instruments has given recipient countries more choice in financing their development, many lack the governance structures and administrative capacity to exercise this choice effectively. Improving coordination processes at the country level would help reduce the transaction costs for both recipient countries and donors. A number of initiatives and proposals have recently been circulated:

- the "Delivering as One" initiative of the High-level Panel on United Nations System-wide Coherence, now launched in eight pilot countries;
- the European Commission's Code of Conduct, and the proposal of the German Development Institute, for an improved division of labour in EU development co-operation;
- the OECD Development Centre proposal of a system of delegated co-operation based on National and Sectoral Coordination Councils, drawing on the experience of the Education for All Fast-Track Initiative.

In addition to better coordination, further work is required on identifying administrative capacity gaps faced by developing countries in mobilising, tracking and harnessing diverse financial flows for development. Increasing ownership, however, is not only a question of administrative capacity, but also of local governance structures. More participatory processes are required to foster "democratic ownership", involving parliaments and other civil-society organisations, including local non-governmental organisations.

In this Session, questions on coordination will include:

- Ahead of the High-Level Forum on Aid Effectiveness (Accra, 2008), how can the above proposals be turned into action-oriented programmes for better coordination at country level? Can they be broadened to include other actors?
- With questions of leadership, capacity and democratic ownership to be addressed during the second year of the Global Forum, what are the major obstacles faced by governments in taking leadership of their national development finance system? How can capacity gaps be filled? And what is the role of civil society in promoting a more climate of democratic ownership?

(b) Secondly, more collective action is needed in monitoring, assessing and evaluating the performance of multilateral agencies. There are four areas in which progress can be made.

Firstly, given widespread recognition that the internal evaluation units of multilateral banks are a crucial pillar of performance assessment, greater co-operation between these units would be welcome, for example through the Common Performance Assessment System (COMPAS), which seeks to establish common benchmarks as a better basis for results reporting.

Secondly, performance assessment mechanisms could be better harmonised by building on the activities of the Multilateral Organisations Performance Assessment Network (MOPAN), and by learning on bilateral approaches such as the UK's Multilateral Effectiveness Framework (MEFF), Canada's Multilateral Evaluation Relevance and Assessment System (MERA), Denmark's Performance Management Framework (PMF) and the Netherlands' Multilateral Monitoring System (MMS).

Thirdly, more work is required on including recipient-country views in performance assessment and in anchoring evaluations more firmly in country-based mechanisms.

Finally, better data is needed on the development impact of multilateral activities. Current mechanisms have been criticised for being too strongly process-oriented or perceptions-based, but moving from input or output-based indicators to outcome-oriented assessments will require not only better statistical systems, but also a degree of "courage".

In this Session, questions on performance assessment will include:

- Ahead of replenishment discussions for the International Development Association (IDA) and other funds, such as the Asian Development Fund (ADF), how can performance assessments help guide donor allocation decisions?
- How can donors help improve information on results? What are the constraints in moving to more results-based performance assessment of multilateral organisations?
- How can recipient country engagement in performance assessment be strengthened?

Session IV: Implications for decision makers

Session IV is designed to bring together the outcomes of the previous three panels, and to draw implications for the variety of participating decision makers.

An overarching question will be whether decision makers can work together to render the overall development finance system more coherent and balanced, bearing in mind that the system's complexity may be here to stay. There is growing recognition that, in the absence of an "architect" who might conduct a rational "redesign" of the system, decision makers will need to be very pragmatic in identifying opportunities for greater system-wide effectiveness. These issues are particularly pertinent in view of several key replenishments in 2007, including IDA 15, the African Development Fund, the Asian Development Fund and the Global Fund for Aids, Tuberculosis and Malaria.

This discussion may include the following questions:

- What are the comparative/competitive advantages of the system's major actors, including official donors (bilaterals, regionals and multilaterals) and private actors (non-governmental organisations, foundations and private commercial actors)?
- Given what we know about duplications and gaps in the system, how might a better allocation of roles among actors be brought about? What incentives are there for greater specialisation among agencies?
- Ahead of the Global Forum's second year on "Putting Ownership into Practice", how might developing countries be more adequately included in global decision-making structures on development finance?
- Is the role of multilaterals being weakened in the development finance architecture?
- Given the increasing importance of non-ODA sources of development finance, what is the scope for greater involvement of the private sector in developing innovative approaches?

Further Information

For more information about the Plenary or about this Discussion Note:

- www.oecd.org/development/globalforum
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ANNEX

Calendar of Events
OECD Global Forum on Development
(updated 16 March 2007)

Year I (06/07): Understanding the present development finance system

3-4 July 2006	*Development Finance Architecture: What Flows, Channels and Pools?* Informal Experts' Workshop, Paris
5 October 2006	*Aligning global programmes* Technical Workshop, Paris
4 December 2006	*Global Health Partnerships* Pre-Workshop, Paris
5 December 2006	*Global programmes and the Paris Agenda* Policy Workshop, Paris
29-30 January 2007	*Performance and Coherence in Multilateral Development Finance* Informal Experts' Workshop, Berlin
22-23 March 2007	*Developing Partnerships for a Developed World: Foundations and Governments Learning to Work Together* International Conference, Lisbon
3 April 2007	*The Evolving Landscape of Development Finance: Towards Reform* 1st Annual Plenary of the Global Forum on Development, Paris

Year II (07/08): Putting Ownership into Practice

September 2007	*Ownership in Practice: Matching Capacities and Commitments* Informal Experts' Workshop, Paris
September 2007	*Multilateral Performance* Technical Workshop, Paris
December 2007	*Foundations (topic tbc.)* Policy Workshop, Paris
Jan / Feb 2008	*Beyond Aid: Coordinating Diversity in Development Finance* Informal Experts' Workshop (venue tbc.)

April 2008 2nd Annual Plenary of the Global Forum on Development, Paris

Year III (08/09): Matching instruments to needs

September 2008	*Matching Instruments to needs* Informal Experts' Workshop (venue tbc.)
December 2008	Policy Workshop, Paris
Jan / Feb 2009	Informal Experts' Workshop (venue tbc.)

3rd Annual Plenary (April, 2009)
Reshaping International Development Finance: What have we Learnt?