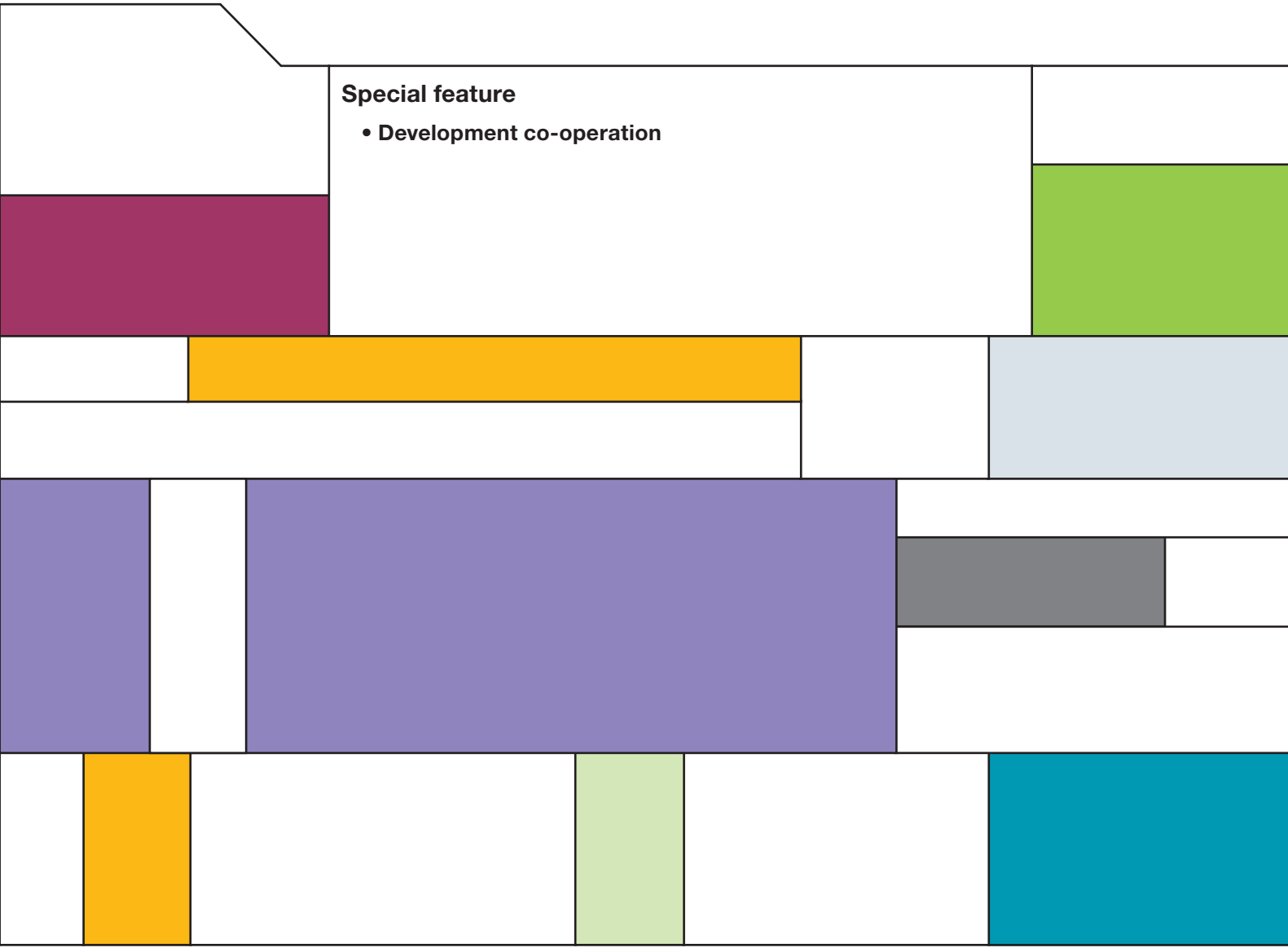
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Foreword

The *OECD Journal: General Papers* presents a collection of articles on a range of subjects, from the latest OECD research on macroeconomics and economic policies, to work in areas as varied as employment, education, environment, trade, science and technology, development and taxation. This special edition on development co-operation looks back at the contributions of the OECD's Development Assistance Committee (DAC) to development over the past 50 years.

The articles in this special edition touch upon ways in which the development community can build on achievements to face global development challenges, including:

- understanding the impact of the Paris Declaration and Accra Agenda for Action on attitudes to development co-operation and relationships between donor and partner countries
- making the most of the increasingly complex international development system
- encouraging a coherent and effective partnership in which all can prosper
- strengthening international taxation governance to help developing countries use their own resources for sustainable growth
- exploring mechanisms that generate and mobilise new resources for development
- learning from evaluations of international programmes how to effectively engage in conflict-affected and fragile situations

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A wealth of diversity: Guiding development in a complex world

by Eckhard Deutscher*

2010 was a landmark year for the Development Assistance Committee (DAC) in many ways. It marked 50 years since the DAC was founded, it was the year Eckhard Deutscher handed over the Chair to Brian Atwood, and it marked the coming of age of the Paris Declaration on Aid Effectiveness. In this article, the out-going DAC Chair reflects on the lessons of the past and concludes that despite the many changes and new challenges, development co-operation is as relevant today as ever. He sets three key priorities for the DAC and its members as they embark on the next 50 years. These are to stay true to the commitments made to increase aid volumes, continue to be guided by the principles of effective aid in an increasingly complex context, and reach out to all providers of development co-operation in the effort to create an effective global development partnership.

* Eckhard Deutscher is the former Chair of the OECD Development Assistance Committee (2008-10).

Looking back, moving forward

This journal is published as the chairmanship of the OECD Development Assistance Committee (DAC) is handed over to Eckhard Deutscher's successor, Mr Brian Atwood. As one of the last publications of Mr Deutscher's term as DAC Chair, and marking the DAC's 50th anniversary, this journal takes stock of the current state of play in development and looks at what the development community has achieved under the framework of the DAC. This article sets out some key priorities for the DAC, and the broader development community, in the coming years.

In January 2008, when Mr Deutscher came to the DAC, the world was undergoing far-reaching changes. It was becoming evident that while globalisation could offer huge potential for development, if left to itself it could also cause crises on a vast scale. Throughout the three years of his term, the degree and pace of change faced by human society manifested itself through profoundly transformative events – from the food and fuel crises to the financial and economic crisis and the emergence of the G20.[1]

Over this period, and despite the crises, development at a global level has continued to advance. The developing world as a whole remains on track to achieve the Millennium Development Goal (MDG) of halving, between 1990 and 2015, the proportion of people whose income is less than USD 1 a day. Major advances have been made in getting children into school in many of the poorest countries, most of them in sub-Saharan Africa. Remarkable progress in areas such as malaria and HIV control, or measles immunisation, have cut the number of child deaths from 12.5 million in 1990 to 8.8 million in 2008 (UN, 2010).

Emerging economies have become the primary source of growth in the world. Further down the income ladder, many countries are sustaining an encouraging growth dynamic with the potential to reduce poverty and accelerate their progress towards the MDGs. A simple aggregation of key indicators of the first seven MDGs shows that five countries of sub-Saharan Africa are the top absolute MDG performers (ODI, 2010).

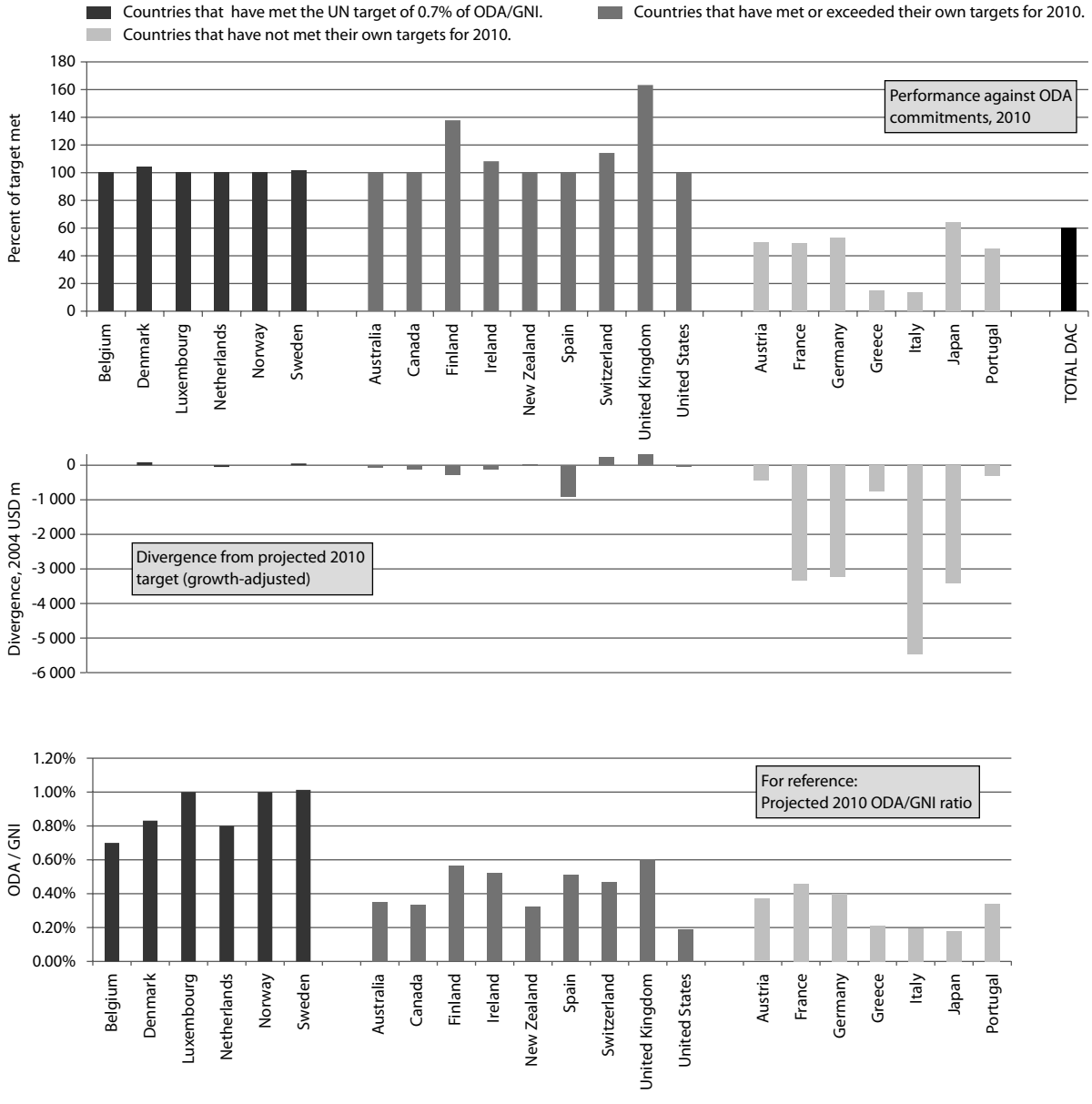
Nevertheless, despite this encouraging overall picture, recent years have also exposed vulnerabilities within and across countries, with the poor suffering disproportionately from the crises. Development has stalled in a number of countries – mired in a trap of fragility, weak capacity and governance – whose growth and development indicators have stagnated or even reversed. Fragile states are most off track for meeting the MDGs – on average 40-60% behind. And the same growth in developing countries that offers the potential to lift further hundreds of millions of people out of abject poverty risks becoming a central factor in other major development challenges, such as climate change, food and fuel prices. Globalisation has brought unprecedented development opportunities, but also an unprecedented degree of interdependence, and the knock-on effects on developing countries are becoming strikingly evident.

The approach to development has also been changing. Development is very much at the core of the international agenda, but is less defined through the lens of aid. There is a stronger emphasis on investment, trade and domestic or market-based resource mobilisation in the strong-performing countries, and on security, stability and international drivers of fragility in the weak performers. And the number and different type of players getting involved in development is increasing, contributing to a highly complex picture.

Three priorities for the coming years

Against this background, this article lays down several ambitions for the DAC for the next 50 years: *(i)* staying true to commitments to scale up official development assistance (ODA) volumes; *(ii)* addressing international market or policy failures which are failing to respond to development needs; and *(iii)* promoting a broad partnership of development stakeholders around shared results.

Figure 1. **Meeting or missing their targets? Donor performance against ODA commitments, 2010**



Source: OECD DAC statistics, 2010.

Notes: Data for Portugal exclude exceptional debt relief in 2004.
For EU members, other than those reaching the 0.7% ODA/GNI target, the minimum country target of 0.51% is used.

Staying true to commitments

The volume of official development assistance or ODA is continuing to grow. In 2009, total net ODA from DAC members reached USD 120 billion, the highest figure ever. In 2010 it is estimated to have increased further. Thus, despite the fiscal pressures on government budgets, the majority of DAC members should meet the promises they made in 2005.[2]

However, this increase would have been higher still had all countries met their commitments. Africa, in particular, is likely to receive only about USD 11 billion of the USD 25 billion increase envisaged at Gleneagles, due mainly to some European donors not meeting their ambitious targets (Figure 1).[3]

Those donors who are behind on their targets should make it their utmost priority to get back on track and deliver on their promises. ODA remains essential for achieving the MDGs. Moreover, failure to keep promises raises the stakes much beyond individual ODA shortfalls, putting at risk the entire development undertaking by:

- **Undermining other donors' efforts**. The donors who are not honouring collective efforts to meet international goals risk undermining the development efforts of those donors who have scaled up ODA to honour their international commitments despite difficult fiscal situations. They will be placed under increased pressure by those who take their commitments half-heartedly.
- **Undermining the credibility of the aid effectiveness agenda**. Mutual accountability is a key principle of the aid effectiveness agenda and refers to partners holding one another responsible for the commitments that they have voluntarily made to each other. It is a concept designed to bring about trust and partnership, whilst achieving development results – key conditions for undertaking the ambitious reform processes required by all partners in the aid effectiveness agenda. Being serious about their aid commitments is the most immediate measure of donor seriousness about their commitment to development. A failure to deliver signals a lack of commitment from donors, and the broad, joint effort to improve the results of development co-operation will lose momentum.
- **Undermining the ability to tackle global challenges**. None of the fundamental development challenges today – be they food security, climate change, conflict or fragility – can be solved by countries individually. All require collective commitments, including in financial terms. Thus, honouring aid commitments is a test case for the ability to commit to the collective action required for dealing with key global challenges.

Development co-operation: Addressing development challenges beyond aid

Development co-operation is as relevant as ever. The gap between progress and MDG targets remains greatest on gender equality, and maternal and child health. While the decrease in the maternal mortality rate seems to be picking up from less than 1% annually on average between 1990 and 2005, it is still way behind the 5.5% annual decrease required to achieve the MDG target. And while the number of children who die before their fifth birthday declined from 12.5 million in 1990 to 8.8 million in 2008, 34 countries still have mortality rates above 100 per 1 000 live births, all of them in sub-Saharan Africa (UN, 2010).

Fifty years after the DAC was founded, development co-operation remains the central tool for dealing with the development challenge in its full complexity at both national and international levels. Equitable and sustainable development will not occur merely as a

welcome by-product of economic growth. Just as light-touch regulation in the run-up to the financial crisis lost sight of critical developments occurring elsewhere, failing to take a comprehensive, considered and guided approach to development carries a high risk of failure.

At the country level, the aid effectiveness agenda provides a governance framework for development co-operation in the form of a roadmap that allows donors and developing countries to work together in the most effective way possible. It creates a reform dynamic and an enabling environment in which country-led development will take off. 2010 was the year that the Paris Declaration on Aid Effectiveness came of age. In 2005 when the declaration was endorsed, the DAC donors and the more than 60 developing countries involved gave themselves until 2010 to put in place five principles for making aid more effective. Now we have reached 2010 it is clear that the Paris Declaration has improved the nature of relationships between donors and recipient countries. By generating fairer and more inclusive global development partnerships, introducing a monitoring system to track progress and establishing the foundations for greater accountability, it has created the essential foundation and condition for accelerated, better and lasting results.

While country-level action and results are central, they do not exist in a vacuum. Policies and challenges at the international level also affect the outcome of development on the ground. The Millennium Declaration is clear about this; it states that meeting the MDGs "[…] also depends on good governance at the international level…". For example, the area of international taxation will require international governance if tax is to be a source of lasting and endogenous development in poorer countries (Box 1).

A fragmented and complex international aid structure can also affect the outcome of development on the ground. Over 200 international organisations provide and implement development assistance. Along with the 23 donor countries that make up the DAC, there are numerous other countries, both developed and developing, that are an essential part of the development reality in poor countries. Along with the global funds and myriad NGOs, all these actors have enormous potential for boosting development.

Box 1. **Why taxation is fundamental to development**

Sound and effective taxation systems provide governments with the funds they need to invest in their own development. For example, revenue collection in Africa tripled between 2002 and 2008 to reach over USD 430 billion. Taxation is also central to more effective and accountable states; it reduces aid dependence and creates a predictable and transparent fiscal environment that can promote more growth.

However, to secure and build the tax bases and systems of many of the poorer nations, we need to remove several obstacles at the international level. These include the use of tax havens for tax evasion and avoidance by developing country elites and large, multi-national enterprises; and the race to the bottom as poor countries compete to offer the lowest tax rates to attract multinationals. The damage to development is twofold. At USD 124 billion, estimates of annual revenue losses from tax evasion by individuals in developing countries match the total ODA. And then there is the equally significant non-monetary cost of the damage done to the process of state building.

Tackling these international drivers of bad governance will be crucial. This is why the DAC, as part of a multi-stakeholder Task Force on Tax and Development, is helping to ensure that poor countries can benefit from a fairer and cleaner international tax environment.

It is not the complexity and diversity *per se* that are the problem – ours is a complex world, and each actor has a valuable contribution to make. However, it stops making good development sense when this complexity begins to cause a problem for developing countries, for example where numerous programmes operate in the same sector but with conflicting or overlapping aims. International governance needs to play a co-ordinating role and provide the "soft infrastructure": not to constrain activity, but to facilitate the proper functioning of a complex system of interactions. In dealing further with the issue of multilateral development finance, the system needs to be taken as what it is: a dynamic construct that is constantly evolving. Rather than changing and regulating the current architecture, the ambition should be to define a few key parameters that allow it to function according to market solutions, and thereby shape its future evolution in response to changing needs and realities. The climate change agenda offers us an opportunity to get this right.

Promoting a broad partnership of development stakeholders: From shared goals to shared results

Development is a matter of global partnership – this is clearly expressed in Millennium Development Goal 8. The MDGs are universally shared goals – they hold for all development stakeholders, and apply far beyond the development community. Shared goals can be pursued and achieved by different means and approaches: there is no single blueprint. What is key is to ensure that resources are provided around results-based approaches in recipient countries, as outlined in the Paris Declaration and Accra Agenda for Action.

For all policy areas dealing with development finance,[4] keeping a focus on results and impact at country level is essential, because this is what defines the reality of development on the ground. There will be no single, uniting framework to govern these diverse flows or their contribution to development. However, the DAC and other development partners can create an environment where development resources go furthest toward meeting these shared goals and where individual performance can be compared with others'. Using comparable performance information as a key building block of international development governance would create a powerful incentive for improving results. The competition this creates is healthy and helpful and enhances impact by allowing us to learn from each other.

This points to two priorities for the DAC and for all other development actors:

1. **Measure aid flows and their performance in delivering or contributing to results**. While this requires a major international effort, better transparency and comparability of performance would provide central elements for development co-operation to be governed by effectiveness and real competition. Beyond this, the eventual challenge is to harmonise the measuring of results at the level of partner countries, such as through a core set of indicators to which all sides subscribe.

2. **Engage with each other**. New partnerships among different types of donors have already led to some remarkable results in key areas of DAC work. One is the 2010 Bogota Statement on South-South Co-operation and Capacity Development, which applies the aid effectiveness principles to South-South co-operation. Another is the 2010 Dili Declaration, a statement by the g7+[5] which sets out priorities for improving development in situations of fragility. These reflect what can be achieved through DAC support to other development players and are very promising examples of engagement that generates impact through ownership. However, progress has been slow in engaging these players as true peers in the DAC's work. This must remain a priority, as it will help promote mutual learning and dialogue, and will increase the opportunities for all sides to have more impact with their collective efforts.

Towards the next 50 years: A new mandate for the DAC

Development cannot be seen just as a matter of development co-operation, neither in developing countries, nor in DAC member countries. Development depends on tackling broader issues which affect us all (like climate change and conflict) and policy coherence for development.[6] The DAC is evolving in response, and over the next two years, work on policy coherence for development issues will amount to close to 20% of its work programme. The DAC will further push forward its work on key global public goods issues, such as conflict and fragility, and climate change and environmental sustainability. An increasing emphasis on development across the whole of the OECD greatly enhances the scope for the DAC to undertake this work, and its potential impact. The DAC is also broadening and deepening its work with other parts of the OECD on key development agendas, such as the potential and implications of green growth for development, the role of aid in infrastructure investment, a comprehensive approach to food security and a major new initiative on the development dimension of international tax issues.

The strategic reorientation of the DAC over past years has ushered in a new mandate that reflects a conscious decision to focus on development, not aid (Box 2). Its work is about outcomes, not inputs. The new DAC chair will head a much evolved committee in a radically changed global landscape. The DAC needs to keep pushing its reform process to its conclusion to ensure that it continues to achieve its ambition and potential.

Box 2. **The new mandate of the Development Assistance Committee**

The overarching objective of the DAC is to promote development co-operation and other policies so as to contribute to sustainable development, including pro-poor economic growth, poverty reduction, improvement of living standards in developing countries, and to a future in which no country will depend on aid. In order to achieve this overarching objective, the Committee shall:

- monitor, assess, report and promote the provision of resources that support sustainable development by collecting and analysing data and information on ODA and other official and private flows
- review development co-operation policies and practices, particularly in relation to national and internationally agreed objectives and targets, and promote mutual learning
- provide analysis, guidance and good practice to assist its members and the expanded donor community to enhance the quality and effectiveness of development assistance, particularly regarding pro-poor economic growth and poverty reduction
- analyse and help shape the rapidly evolving global development architecture to optimise development results
- promote perspectives on global public goods and policy coherence for development in co-ordination with other policy communities in OECD
- engage or invite non-member countries – in particular those with major development co-operation programmes – international organisations, private sector organisations and civil society representatives so as to assure the relevance and inclusiveness of DAC's work

Notes

1. The Group of Twenty (G20) is a group of finance ministers and central bank governors from 20 economies: 19 countries plus the European Union. Collectively, the G20 economies comprise 85% of global gross national product, 80% of world trade (including EU intra-trade) and two-thirds of the world population.

2. In 1970 the United Nations set a target for developed countries to increase their official development assistance (ODA) to 0.7% of their gross national income (GNI) (*www.un.org/documents/ga/res/25/ares25.htm*). In 2005 the European Union set a minimum individual target for its member states of 0.51% ODA/GNI (0.17% for new member states) to be achieved by 2010, with 0.7% to be achieved by 2015 (Source: *http://europa.eu/legislation_summaries/development/general_development_framework/r12533_en.htm*, accessed 21 September 2010).

3. In 2005, donors committed to increase their aid at the Gleneagles G8 and UN Millennium +5 summits. The pledges made at or around these summits – many of which were in the form of ODA/GNI targets – implied lifting aid from USD 80 billion in 2004 to USD 130 billion in 2010, at constant 2004 prices.

4. Finance included in the Monterrey Consensus on Financing for Development: *www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf.*

5. g7+ refers to a group of countries affected by conflict and fragility, comprising: Burundi, the Central African Republic, Chad, the Democratic Republic of Congo, Liberia, Nepal, the Solomon Islands, Sierra Leone, Southern Sudan and Timor-Leste.

6. There is a need for greater coherence in policies across sectors that affect developing countries. Policies in areas like agriculture, trade, investment, migration and others have a profound impact on developing countries, yet they often work at cross purposes.

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The Paris Declaration: Five reasons why it is working

by Brenda Killen*

In 2005, almost all DAC donor countries and over 60 developing countries endorsed the Paris Declaration, a comprehensive attempt to change the way donor and developing countries do business together. The declaration was based on five principles: alignment, ownership, harmonisation, managing for results and mutual accountability. This article looks at each of these principles in turn and explores how they are being applied for the better by donors and partner countries alike. It takes examples from across the globe – from the Pacific to Asia, sub-Saharan Africa and Latin America – to show that the Paris Declaration has significantly changed attitudes to development co-operation and relationships between donor and partner country. This has been achieved through generating fairer and more inclusive global development partnerships, introducing a monitoring system to track progress in achieving commitments and establishing the foundations for greater accountability.

* Brenda Killen is Head of the Aid Quality and Architecture Division at the OECD Development Co-operation Directorate.

When the Paris Declaration on Aid Effectiveness was adopted in 2005, ministers from donor and developing countries agreed to undertake some landmark reforms in the way they work together. In that year, the *Development Co-operation Report* listed three good reasons why the Paris Declaration would make a difference. Now that we have passed the 2010 "due date" of the Paris Declaration commitments, this article takes a look at what has been achieved and highlights not three, but *five* important ways in which it has already made a difference.

What did the Paris Declaration aim to achieve?

The years leading up to the Paris Declaration were marked by attempts by the world's donor organisations and countries to ensure that the aid they were giving was having the greatest impact possible in developing nations. This was based on the recognition that achieving the full set of Millennium Development Goals (MDGs) in a sustainable way would require not only an increase in financial resources for development, but also a new approach to development and major improvements in the quality of aid. The broad consensus that emerged on what needed to be done to produce better results was unprecedented. In 2005, almost all DAC donors and over 60 developing countries endorsed the Paris Declaration, a comprehensive attempt to change the way donor and developing countries do business together based on five principles:

1. **Alignment**: Donors base their overall support on partner countries' national development strategies, institutions and procedures
2. **Ownership**: Partner countries exercise effective leadership over their development policies and strategies and co-ordinate development actions.
3. **Harmonisation**: Donors' actions are more harmonised, transparent and collectively effective.
4. **Managing for results**: Donors and partners manage resources and improve decision-making to ensure measureable results.
5. **Mutual accountability**: Donors and partners are accountable for development results.

Box 1. **Monitoring progress against the Paris Declaration**

The Paris Declaration was designed as an agreement against which progress can be tracked. When adopting commitments for both developing countries and donors, it was agreed that progress towards these commitments would be monitored against a set of 12 indicators and targets to be achieved by 2010. This was the first time in the history of international development co-operation that donors and recipients had agreed to measure their success – or failure – at making aid more effective.

This built-in monitoring system, managed by the DAC Working Party on Aid Effectiveness, means that the Paris Declaration provides a tool for evidence-based dialogue to improve aid practices and empowers developing countries to push through aid management reforms. The Working Party on Aid Effectiveness (WP-EFF for short) is an international partnership of policy makers and aid practitioners from donor and developing countries hosted by the OECD's Development Assistance Committee. It is the principal forum though which policy makers and aid practitioners deal with aid effectiveness issues. The Working Party has organised three High Level Fora on Aid Effectiveness, in Rome (2003), Paris (2005) and Accra (2008). These have raised awareness about aid effectiveness and built consensus on the actions needed to maximise aid to achieve lasting development.

Box 1. **Monitoring progress against the Paris Declaration** *(continued)*

The WP-EFF also organises the Paris Declaration Monitoring Surveys. Results are published at the international level – but, crucially, they are also discussed in-country with donors, government, civil society and others. This is an extremely powerful way of holding everyone to account. And they have clearly targeted an important need – participation in the survey (which is voluntary, and has significant implications for developing countries in terms of personnel time required) has risen steadily:

- 2006 survey: 34 partner countries and 55 donors participated. Provided the baseline for measuring future progress.
- 2008 survey: 55 partner countries participated. The survey provided evidence for the Third High Level Forum on Aid Effectiveness held in Accra (2008). In addition, the 2008 survey provided a baseline for countries that did not take part in the first round.
- 2011 survey: The third and last round of monitoring will tell us whether the targets agreed in 2005 have been met. Over 80 countries have confirmed their participation.

The results of the 2006 and 2008 surveys and details of the 2011 survey are available at *www.oecd.org/dac/pdsurvey*. For further description of the range of issues covered by the Working Party on Aid Effectiveness, visit *www.oecd.org/dac/effectiveness*.

Signatory countries committed themselves to achieving targets on aid delivery by 2010 (Box 1). In 2008, the Third High Level Forum on Aid Effectiveness held in Accra led to the Accra Agenda for Action (AAA), which focuses on the main technical, institutional, and political challenges to implementing the Paris principles.

This article goes through each of the Paris Declaration principles in turn and explores how they are being applied for the better by donors and partner countries alike. It takes examples from across the globe – from the Pacific to Asia, sub-Saharan Africa and Latin America – to show that the Paris Declaration has changed attitudes to development co-operation and relationships between donor and partner country for the better.

Alignment

Decades of development experience have shown that when donors pursue their own projects and programmes and bypass the administrative systems, policies and priorities of the partner country in which they are involved, the sustainability of their efforts is undermined, as well as the ability of the countries receiving aid to manage their own future. To rectify this, the alignment principle of the Paris Declaration and AAA makes countries' own priorities central. This means that donors must align their support to countries' development strategies and must also allocate their aid through countries' own financial systems – in this way parliaments, civil society organisations, the media and the electorate can know what is being planned and what may be spent, and can exercise their roles in the checks and balances that make governance work for development.

Ghana provides a good example of how country leadership can lead to change (Box 2). Ghana effectively achieved this goal by using a legitimate network, in this case the Working Party on Aid Effectiveness, to broker change by providing both technical inputs and political leverage. As a result, the government of Ghana, backed by the results from the survey on monitoring the Paris Declaration, took an important step in facing up to its development partners and asserting its right to have foreign financing directed through its country systems. The use of country systems is now a core element of Ghana's aid policy (2010). Ghana

has shown how important it is for recipient countries to take the lead in this process in order to ensure alignment with their country-specific needs.

Another aspect of alignment is predictability in financial arrangements. Many partner countries do not have a full overview of the likely aid transfers over the short to medium term (*i.e.* one to three years ahead). This impedes their ability to plan. Donors have so far been reluctant to share this information in case it is perceived as a firm commitment. Partner countries have nonetheless underlined the importance of having even approximate scenarios of likely funding levels to aid their own budget planning and preparation processes.

The Paris Declaration and the AAA have provided a framework around which donors are making progress: increasing numbers of donors are putting in place a system that can allow them to increase predictability (planning budgetary resources for ODA for at least three years). A second step is for donors to communicate these specific multi-year allocations to their partners. There are examples of processes at country level that aim at providing more timely planning information on a regular basis – this is good news. The DAC has also recently taken a concrete step to share, on a test case basis, the information collected through the DAC survey on donors' forward spending plans (OECD, 2009d). Sharing this type of information more systematically could be a cost-effective way of supporting the AAA commitments on transparency and predictability, as it provides a starting point for a broader dialogue on "rolling" indications at country level.

Box 2. **Managing foreign financing: Ghana's experience**

In Ghana, aid accounts for close to 20% of the government's total annual resources. Managing foreign financing effectively is a key challenge for the Ghanaian government; in 2008 the Survey on Monitoring the Paris Declaration identified the need for greater use of country systems (OECD, 2008). It found that although Ghana had improved its public financial management systems, this had not been matched by an increase in their use by donors.

This finding encouraged the government of Ghana to face up to its development partners and assert its right to have foreign financing directed through its country systems. To back up their implementation of this important commitment, the Ghanaian government asked the WP-EFF – as an international body with representation from both the donor and partner country communities – to provide both technical and political backing to this endeavour. The WP-EFF provided support under its Focus Country approach.

The WP-EFF's Global Partnership on Country Systems facilitated dialogue between the government of Ghana, civil society organisations, and donor countries. All parties agreed on practical steps to ensure the increased use of Ghana's country systems so that the government could better plan its resources, receive more accurate information on its predicted aid flows, and better account for the use of all of its resources to parliament. The government of Ghana has taken the lead in ensuring that donors co-ordinate their support to Ghana's Audit Service to facilitate increased use of Ghanaian (and not donors') auditing systems. This will ensure that audits will be tailored to Ghana's citizens, and not only to donors. Ghana is also providing training to development partners in its national budget practices and procedures, so that they will be better able to assess their strength and use them where possible. Furthermore, development partners and the government have identified ways of improving the quality and reliability of donors' projections in the budget. This includes joint financial forecasting as well as the integration of donor data and information into the budget process.

For further information see OECD (undated), *Country Systems Initiatives: A Concept Note For Ghana*, OECD, Paris, available at *www.oecd.org/dataoecd/22/34/45390654.pdf.*

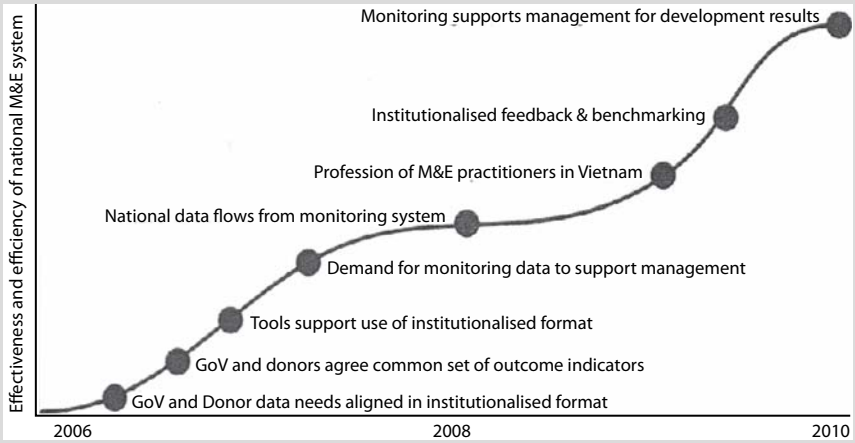
Ownership

Experience has shown that when partner countries are not placed in the drivers' seat and allowed to determine their own development path and policies, the effectiveness of aid and ultimately development results will not be sustainable. Vietnam has some lessons to share on this approach (Box 3).

Box 3. **How Vietnam asked donors to align to government priorities**

Since 2004, the government of Vietnam and major donors* have worked in partnership to develop and test a monitoring format to improve aid effectiveness by providing monitoring data that supports management for development results. The partnership directly addresses the transaction costs identified by the project management units, which had been required to present progress reports in different formats to a variety of donors and government agencies. With support from AusAID, the Ministry of Planning and Investment has led this initiative with five other ministries and seven provinces. The result is an aligned format, software and capacity building programme for monitoring development results against outcomes that have been determined jointly by government and donors. The following figure charts the evolution of the monitoring format that resulted from this partnership.

The National Monitoring System roadmap



Note: "M&E" stands for "monitoring and evaluation".

Source: ADB (Asian Development Bank) (2009), *From Concept to Action: Asian Experiences on Managing for Development Results*, Asia-Pacific Community of Practice on Managing for Development Results ADB, Manila, p. 28.

*The World Bank, JBIC, ADB, KfW of Germany and AfD of France, together accounting for about 80% of Vietnam's ODA.

Harmonisation

Partner countries differ greatly in their potential for development and in the challenges they face, but at least in one respect, many share a common problem: too little aid from too many donors. This is often referred to as fragmentation of aid (OECD, 2009a). When aid comes from many sources and is spread over too many co-operation programmes, it creates high transactions costs for both donors and recipients. Fragmented, sometimes competing donor practices, especially where there are many small donors and no large donors acting as leads or "anchors"

for others, erode the administrative capacity of recipient partner governments (Knack and Rahman, 2007). The costs of poorly harmonised aid are well known and well documented. For example, an assessment of district health workers in Morogoro, Tanzania in 2004 found they spent 25 days every three months writing reports for donors rather than delivering health care (WHO, 2007). The 2008 Monitoring Survey of the Paris Declaration found that in Vietnam alone, there were 752 visits by donors in 2007 – more than three missions per working day. Of these missions, less than one in five was co-ordinated with another donor (OECD, 2008).

In the midst of a global economic crisis which is having an impact on aid flows, it is crucial, now more than ever, to ensure that each dollar of development assistance has the greatest development impact. Country-led division of labour has emerged as one important strategy to achieve the Paris Declaration principle of harmonisation and to avoid this fragmentation. Division of labour refers to streamlining and co-ordinating donors' assistance, for example by reducing the number of active donors in each sector, area or topic, or reducing the number of sectors, areas or topics focused on by any one donor in a partner country (OECD, 2009c). *Country-led* division of labour means that "The division of labour process should be led by the partner country in dialogue with donors, and in a transparent manner that enables parliaments to fulfil their mandate and enables the participation of civil society and the private sector" (OECD, 2005).

The European Union has been leading this agenda through the EU Code of Conduct on Complementarity and Division of Labour (EU CoC DoL, May 2007). For example, substantial progress is being made to enhance co-ordination among donors at country level through arrangements such as delegated co-operation (where one donor spends on behalf of another) and co-financing (where several donors provide funding jointly). As of September 2010, there were 73 delegation agreements (from the Commission to a Member State) under preparation or signed for a total of EUR 333.3 million. In parallel, 24 transfer agreements (from a Member State to the Commission) for a total of EUR 111.6 million were in the pipeline or signed. EU Member States have been monitoring progress on division of labour in some 30 partner countries through the EU Fast Track Initiative on Division of Labour (see Box **7** for a Mozambique example).

In addition to the initiatives led by the EU, there are other encouraging examples of harmonisation in development assistance (Boxes 4 and 5).

Box 4. **Progress towards alignment and harmonisation in Latin America**

Paris Declaration principles are being adhered to increasingly in Latin America, as these examples illustrate.

In **Colombia** in 2007, some donors jointly created a Program to Promote Peaceful Coexistence. They created a basket fund administered by UNDP and managed by a committee with representatives of donors and Colombian institutions. The fund finances various activities, from promoting rights of victims of armed violence to rebuilding the social fabric. To assure harmonisation, all donors working in this sector, even those who are not providing funds to this basket, participate in the decision process. This would have been unimaginable before the Paris Declaration. This process is also helping some Colombian official institutions to work together. Some victims' organisations, who are reluctant to work with the government, have agreed to participate with official institutions in activities financed by this fund.

Further information is available on the website of the Program to Promote Peaceful Coexistence (in Spanish), *www.programapromociondelaconvivencia.org*.

Box 4. **Progress towards alignment and harmonisation in Latin America** *(continued)*

El Salvador endorsed the Paris Declaration in 2009. In June 2010, after a broad process of negotiation, the Commitments for a National Agenda for Aid Effectiveness were approved and endorsed by the Salvadorian government, donors and civil society organisations. This document establishes the main obligations for all the stakeholders in implementing the Paris Declaration and AAA principles. This is a clear signal of behaviour change by the government, representing its intention to increase aid effectiveness and to include civil society in the process.

Source: Compromisos para una Agenda Nacional de Eficacia de la Ayuda (Commitments for a National Agenda for Aid Effectiveness), Statement made in San Salvador, 18 June 2010, available at *http://isd.org.sv/inicio/documents/Compromisos_para_una_Agenda_Nacional_de_Eficacia_de_la_Ayuda.pdf.*

Seeking more effective co-operation management, **Guatemala** has been inspired by the Paris Declaration principles to establish the International Co-operation Management System. This system allows the government to exercise effective authority over development co-operation flows in and out of the country and to co-ordinate its actions on the basis of its own development policy and strategy. Following its Paris Declaration commitments, Guatemala held a High Level Meeting in 2008 that resulted in the Antigua Declarations I and II. These highlighted the importance of the principle of aligning processes, working together with donors and partners through harmonisation, and the definition of development priorities framed by public policy, programmes and projects of national interest.

Source: SEGEPLAN(2010), Cooperación Internacional, SEGEPLAN website: *www.segeplan.gob.gt*, accessed 18 October 2010.

Box 5. **Harmonisation in the Pacific: The Cairns Compact**

The Cairns Compact on Strengthening Development Coordination in the Pacific is an initiative which was agreed by Pacific leaders at the 2009 Pacific Islands Forum.* The compact sets out actions to improve the co-ordination and use of development resources in the Pacific, in line with international best practice as expressed in the Paris Declaration. The Cairns Compact establishes new review and reporting processes involving forum countries, development partners and the Forum Secretariat, and sets out principles to guide these processes. Key features of the compact include:

- peer reviews of forum island countries' national development plans
- country reporting on national development plans
- development partner reporting on co-ordination and aid effectiveness
- reporting on progress towards the MDGs
- a high level dialogue with the private sector
- a road map to strengthen public financial management systems
- improving forum island countries' development data

These activities will help to promote best practice in development in the region, and to better direct all available resources – from national budgets and from partners – towards agreed national priorities.

For more information visit *www.ausaid.gov.au/country/pacific/cairnscompact.cfm*.

*The forum members are Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

Managing for results

Managing for results (now known as managing for development results – MfDR) calls for an emphasis on impacts in all aspects of the development process. As such, it embodies generally accepted tenets of good government: clear objectives, evidence-based decision making, transparency and continuous improvement. This approach has major implications for national leaders, public sector officials, donors and citizens. In the current context, MfDR also addresses a range of policy issues, including international goals and standards, country ownership, harmonisation and alignment of donor efforts, accountability for development results, and the participation of civil society (OECD, 2009b). Thanks to the Paris Declaration, demand for MfDR is increasing among developing countries and there are many good examples of country-led MfDR approaches.

For example, the Asian Community of Practice on MfDR has recently compiled experiences in Asia and the Pacific (Box 6) which include lessons from Afghanistan, Bangladesh, China, Indonesia, Malaysia, Nepal, Philippines, Singapore, Sri Lanka, Thailand and Vietnam. Many of these directly refer to the influence of the Paris Declaration on their new reforms.

Box 6. **From concept to action: managing for development results in Asia**

The government of **Sri Lanka**, as a signatory to the Paris Declaration, is committed to institutionalising managing for development results (MfDR) across the government. A results focus is being built into the national development plan, sectoral plans, ministries and projects. The Ministry of Plan Implementation has introduced MfDR with performance indicators to track the development results of the line ministries and their programmes. Logical framework analysis and results frameworks are being increasingly used in planning and monitoring and evaluation arrangements within government.

In the **Philippines**, a renewed focus on managing for results brought about by the Paris Declaration is creating a strong government focus on demanding results. Public accountability for ODA has raised public awareness, broadened participation, and reduced inefficiencies and spending on the "wrong" things. For example:

- While some bilateral ODA grants remain tied, lack transparency or require their own systems and procedures to be followed, this situation is expected to improve given the mounting pressure on the donor community for country ownership, alignment and harmonisation.
- It is now easier to draw support from the donor community as the country's development and investment plans are no longer mere wish lists, but a clear articulation of what government sets out to achieve over the medium term. ODA has become less donor or supplier-driven and more aligned to the country's priorities.
- With government procurement and financial management systems now attuned to international standards and practices, the major ODA sources have begun to adopt these systems rather than imposing theirs (although donors have likewise begun to harmonise and simplify their procedures, one of the key commitments embodied in the Paris Declaration).

Source: Asia-Pacific Community of Practice on Managing for Development Results (2009), Moving from Concept to Action: Asian Experiences on Managing for Development Results, Asian Development Bank, Manila, available at *www.adb.org/documents/produced-under-ta/39322/39322-01-REG-DPTA/39322-01-REG-DPTA.pdf.*

Mutual accountability

In the past, aid relations were characterised by a "principal-agent" model of accountability, with donors (principals) seeking to improve the policies and spending behaviour of recipient governments (agents) by attaching conditions at either the project, programme or policy levels to the delivery of aid. This form of accountability, reflecting a power imbalance in the aid relationship, involved a fairly unilateral approach to monitoring the "contractual obligations" of recipient countries as a precondition for the delivery of aid. Mutual accountability is a compact that aims to create a more balanced partnership between donors and recipient governments by binding members together through shared values and commitments in a voluntary process (Steer and Wathne, 2009). There are many examples of how this is being applied in practice, with Mozambique being one of the most well-known (Box 7).

Box 7. **Mutual accountability in Mozambique**

The Mozambican mutual accountability framework is structured mainly around a memorandum of understanding (MOU) between the government of Mozambique and 13 bilateral donors, the European Commission and World Bank (together known as Programme Aid Partners or PAPs). A donor "performance assessment framework", spelled out in the MOU, allows government to assess donor performance. This annual multi-donor framework scores donors against their progress towards the Paris Declaration and is used to produce a ranking of donor performance. In the past, this assessment was carried out by independent consultants funded by donors. Under the new MOU, government will lead the assessment, building on the independent consultant's report.

Donors also scrutinise government performance through an assessment framework which is based on the country's monitoring and evaluation framework for its poverty reduction plan and includes monitoring of progress on development results. Aid performance monitoring efforts are further enhanced by two other initiatives:

1. OZAMOD (the Official Development Assistance to Mozambique Database) – which provides vital information on donor financing
2. The Development Observatory (DO) – a forum for monitoring the objectives, targets and action that have been specifically assigned to the public and private sector within the context of the Mozambican Poverty Reduction Strategy Paper. The DO represents civil society's views on government policy and actions. It is composed of representatives of the government, the donor community and Mozambican civil society.

Mozambique is one of a few countries that has developed an institutional framework for participatory poverty monitoring at the national, provincial and local levels. However, efforts to support better transparency and domestic accountability need to be further strengthened.

Extract from the 2009 Mozambique performance assessment of mutual accountability

Rank / Size	Very good	Medium high	Medium	Medium low	Weak	Total
Very large	CE UK		Germany World Bank			4
Large	Sweden Netherlands	Canada	Denmark Norway	African Development Bank	Portugal	7
Medium	Spain	Ireland	Finland France			4
Small	Switzerland Austria	Italy	Belgium			4
Total	7	3	7	1	1	19

Source: PAP (Programme Aid Partnership) (2010), *PAP Structure*, PAP, Mozambique, available at *www.pap.org.mz/pap_structure.htm*.

Where next for aid effectiveness?

The Paris Declaration has changed the development landscape for the better – and the AAA has brought more development actors into the international effort to make development work. The OECD/DAC-hosted discussions of aid effectiveness now bring together representatives from donors (bilateral and multilateral), middle-income countries, low-income countries, civil society organisations, parliaments and local governments – a very inclusive international discussion of development policy. All these actors are beginning to share a common awareness of the need to improve development effectiveness. For example:

- Providers of South-South Co-operation are discussing how to maximise the impact of their development efforts (in the WP-EFF supported Bogota statement).
- The g7+ group of countries affected by conflict and fragility are taking ownership of their development priorities and have agreed the Dili Declaration for Effective Engagement in Fragile States (Dili Declaration, 2010).
- International civil society organisations are considering how to ensure their effectiveness as development actors following AAA recommendations. They have developed the Istanbul Development Effectiveness Principles to guide them (Open Forum for CSO Development Effectiveness, 2010).

At Busan, Korea, from 29 November to 1 December 2011, governments, agencies, organisations and individuals will come together to discuss what we have learned from the Paris Declaration and what more is needed to make aid – and development – effective. The 2011 Paris Declaration Monitoring Survey and the Paris Declaration Evaluation will provide up-to-date information on how aid is being provided, and how this is affecting development. The progress that will be reported, and the agreements that will be reached on aid quality and effective development, will all be built on the commitments reached in 2005 in Paris – commitments that have proven they *have* made a difference and which will resonate well beyond the 2010 due date of the Paris Declaration.

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Making the most of the international aid system

by Emily Bosch*

This article outlines how the global development set-up looks today. The picture is of a complex "ecosystem", with many different types of organisations delivering assistance in a variety of different forms. This complexity presents both opportunities and threats to the developing countries on the receiving end. Without some oversight and guidance, the system could become burdensome and inefficient. The article describes how the DAC is in a unique position to keep track of the trends and to help to bring harmony to the system. It describes these issues in relation to the more than 200 "multilateral donors" – such as the United Nations, the World Bank and the global funds – which today receive or serve as a channel for 40% of all aid. The challenge is to ensure this is being delivered effectively and that efforts are as co-ordinated as possible, both with each other and with the priorities of the developing countries in which they work. As an example, the latest global plans to tackle climate change are a test case for the development community: the article explores how this can be done without increasing the complexity further.

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Fifty years after the OECD's Development Assistance Committee (DAC) was formed with nine member countries, the global development picture has changed utterly. For example, today the DAC members number 24, and they provide or channel their aid through over 200 multilateral organisations like the World Bank and the United Nations (Box 1), compared with 15 in 1940 (OECD, 2009). Along with the multilateral and bilateral DAC donors, the range of organisations involved in development also includes 24 emerging donor countries and providers of South-South co-operation; a panoply of NGOs and private non-profit players like the Bill and Melinda Gates Foundation; contractors; think-tanks; and local communities. In addition to official development assistance,[1] developing countries also receive private investments, official loans on market (non-concessional) terms, remittances and private charitable flows. The question asked in this article is how we can best understand and influence this complex development "ecosystem" so as to get the most out of our development dollar. Here we focus on multilateral organisations.

The DAC has a unique vantage point for looking at trends in the international aid architecture. As a non-donor, the OECD Directorate that supplies technical expertise to the DAC, the Development Co-operation Directorate (DCD), can act as a credible, neutral and honest broker. It regularly receives, compiles and analyses standardised data on the aid – or official development assistance (ODA) – submitted by the DAC's 24 members, one of which – a representative of all the European institutions – is itself a multilateral. The DAC also has three multilateral observers: the International Monetary Fund, the World Bank and the United Nations. In addition, 23 multilateral agencies report their development assistance to the DAC, while DAC member countries contribute to over 200 multilateral agencies and report these in their DAC statistics. This information gives the DAC the distinct ability to track and monitor aid flows, and it is increasingly doing this for donors who are not members, but who have an important role to play in development. Since 2008 the DAC has published two in-depth reports on some of the emerging trends in multilateral aid: *2008 DAC Report on Multilateral Aid* and *2010 DAC Report on Multilateral Aid*. This article summarises the most salient findings.

Box 1. **What is multilateral aid?**

Aid is called "multilateral" when a donor country gives some of its aid to an international organisation, such as the World Bank, which pools donations from several countries' governments and then distributes them to recipient countries as it sees fit. On the other hand, bilateral aid is when one country gives aid directly to another. Multilateral agencies can largely be grouped into four categories:

1. the multilateral development banks (MDBs) – including the World Bank Group and its International Development Association (IDA) – and the regional development banks (*e.g.* the African Development Bank (AfDB)
2. agencies, funds and programmes of the United Nations (UN)
3. European Institutions, which manages funds on behalf of the EU (European Union) and contributes non-core funding to other multilateral organisations
4. the global funds, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, which are agencies set up to tackle a specific development challenge

The pros and cons of multilateral aid

Why do countries spend some of their aid via the multilaterals instead of passing it directly to developing countries? There are a number of reasons (OECD, 2008 and 2010):

- to take advantage of the ability of multilaterals to provide economies of scale – this is especially important for the smaller donors
- to access expertise
- to maintain political neutrality
- to be able to tackle problems which affect the entire globe, such as financial stability, environmental sustainability or a reduction in communicable diseases
- to reduce their own administrative burdens and those of partner countries
- to take advantage of the speed and flexibility of the response by major multilaterals, as recently witnessed during the financial and economic crisis
- to ensure that more aid money is spent by developing countries on their own priorities: multilaterals deliver a higher proportion of funding in the form of country-programmable aid than bilateral donors (resources that donors can programme and over which developing countries potentially have a say)

On the other hand, there are some perceived and actual disadvantages of providing multilateral aid. These include concerns that multilateral agencies are complex, have procedures which can be cumbersome or time-consuming, lack transparency and accountability, involve higher costs and salaries and are too remote from the people at the grassroots. In addition, as the aid given to a multilateral is pooled before being allocated to partner countries, this makes individual donors less visible and gives them less control over specific aid destinations.

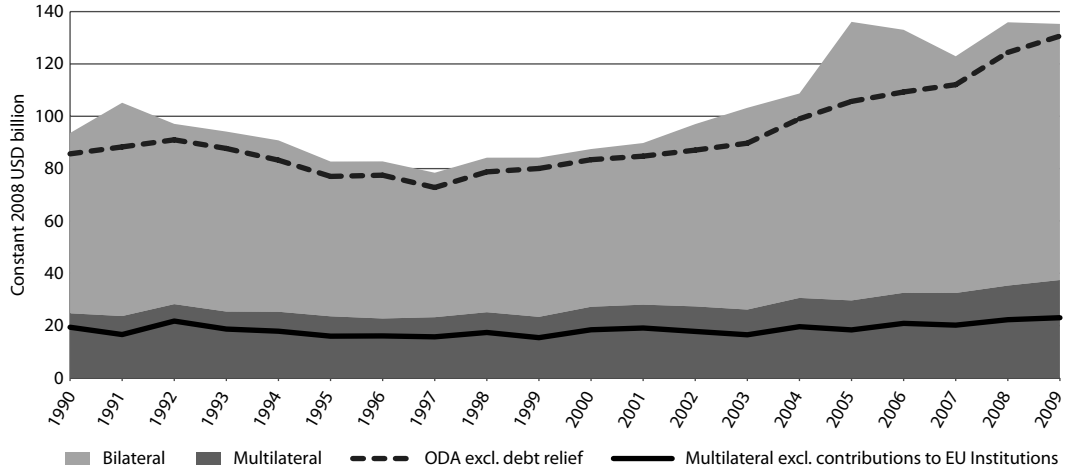
What trends are emerging in multilateral aid?

In all, DAC member multilateral contributions increased from USD 25 billion in 1990 to USD 37 billion in 2009 (Figure 1), while overall gross ODA rose from USD 86 billion to USD 131 billion (excluding debt relief). In 2009, 40% of all aid was allocated to and through the multilateral system.

Greater concentration of multilateral aid

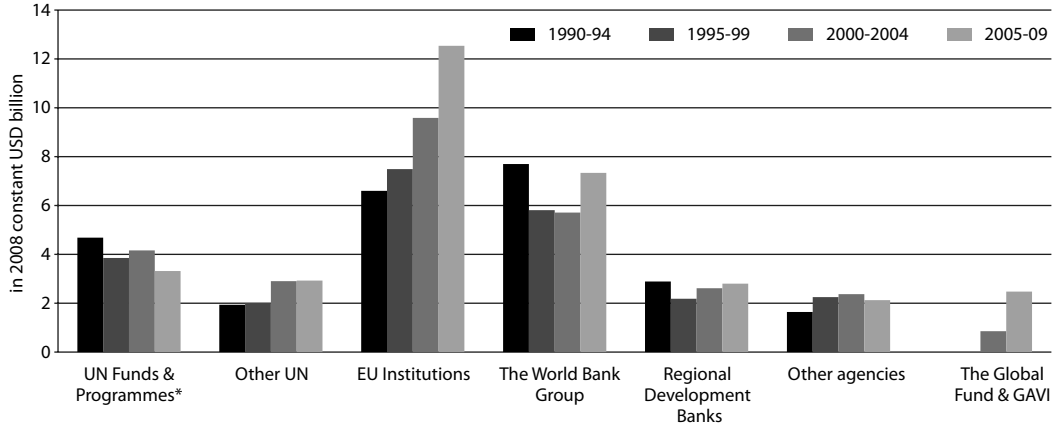
Currently, about four-fifths of multilateral aid is allocated to just six multilateral entities or "clusters": EU institutions; the International Development Association (IDA) of the World Bank Group; UN Funds and Programmes; the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund); and the African and Asian Development Banks. This means that the remaining one-fifth of multilateral ODA is shared by about 200 other agencies. There has also been a long-term decline in aid going to the UN funds and programmes in favour of the EU institutions and the Global Fund and the Global Alliance for Vaccines and Immunisation (GAVI) (Figure 2).[2]

Figure 1. **Gross ODA provided by DAC member countries, 1990-2009**



Source: OECD DAC aggregate statistics, 2010.

Figure 2. **Concentration of aid provided by DAC countries in the biggest multilaterals (five-year average)**



Notes:

*Contributions to six UN funds and programmes – UNDP, UNICEF, UNRWA, WFP, UNHCR and UNFPA – are separately identifiable in DAC members' reporting.

"Other agencies" include the Global Environment Facility, Montreal Protocol, the International Monetary Fund and the remaining multilaterals.

Source: OECD DAC aggregate statistics, 2010.

A desire for more earmarked funding

Donors can choose whether to give un-earmarked funds to multilaterals (this funding goes towards funding agencies' core mandates) or to provide earmarked funds as non-core or multi-bi funding (where the donor specifies the sector, region or country it should be spent on). The fall in core funding to UN agencies may reflect donors' attempts to target more specific objectives within the agencies' mandates. Multi-donor trust funds, such as the One UN pilot funds and the World Bank's Afghanistan Reconstruction Trust Fund, are pooled funding mechanisms earmarked for specific purposes, and are an example of non-core or multi-bi ODA. More recently, agencies with a specific purpose, like the Global Fund and GAVI, are also beginning to receive a growing share of the aid pot (Figure 2 and Box 2).

What do the trends mean for development effectiveness?

Parliaments and taxpayers are increasingly insisting that only aid that has rapid and visible benefits for poor countries should be provided. From the point of view of donors, providing non-core funds to multilateral organisations or creating new specific-purpose agencies or funding mechanisms such as the Global Fund and GAVI (Box 2) allows them to target specific sectors, regions or countries of interest by pooling funds, while at the same time being able to show what their individual aid is being spent on. This may be important to mobilise and to maintain public support and resources for development.

However, receiving a large proportion of non-core funds can shift the overall balance of activities for a multilateral organisation. This sort of aid requires additional monitoring and reporting, and so can be more costly to manage. If core funding is decreased as a result of this trend, it makes the overall funding for multilaterals less predictable. Countries receiving the funds may also have less say in how non-core funds are spent. In addition, there is a risk that further demands for donor-defined results will bypass the aid effectiveness principles of partner country ownership and mutual accountability. Because of this, some global funds and programmes have started to concentrate more on effective aid principles (Box 2).

On the other hand, non-core funds increase the overall envelope of resources available to multilateral organisations, allowing them to engage in a wider range of activities via existing institutional structures. And non-core contributions to multilateral organisations are a better option than the alternative, which could include individual donor countries setting up their own parallel initiatives, leading to duplicated or overlapping work and inefficiencies.

The climate change financing test case

To try to simplify the increasing complexity of the multinational development architecture, there needs to be even clearer donor commitment to promoting effective collective action, to further rationalising the aid landscape by "thinking twice" before creating new institutions, and to taking tough decisions on funding/replenishing or even deciding not to fund an organisation on the basis of sound evidence and evaluations (Box 3).

The world now has a unique and crucial opportunity to get this right in its response to climate change. The December 2009 Copenhagen Accord promised developing countries scaled up, predictable and adequate funding to meet the challenges of climate change. Developed countries committed to providing new and additional funding – approaching USD 30 billion for the period 2010-12 – to be balanced between climate change adaptation and mitigation activities (UNFCCC, 2009). They also committed to a goal of mobilising

Box 2. **Bringing global funds and programmes under the aid effectiveness umbrella**

The Accra Agenda for Action recognises that global funds and programmes make an important contribution to development. It pointed out that the programmes they fund are most effective in conjunction with complementary efforts to improve the policy environment and to strengthen the institutions in the sectors in which they operate. It therefore called for global funds "to support country ownership, to align and harmonise their assistance proactively, and to make good use of mutual accountability frameworks, while continuing their emphasis on achieving results" (OECD, 2008).

These institutions face some challenges in delivering effective aid. These include the tensions of combining a results-based approach with predictability and ownership and the fact that the reporting and the assessment of results might be more dictated by the donors than by the developing countries themselves. For example, access to this funding can be unpredictable from one year to the next if actors have to compete for limited funds. Second, if one has to demonstrate results, how does one ensure that a multi-year project is not "switched off" just when it is most needed?

Efforts to deal with these challenges have led to the establishment of the Global Programs Learning Group. This brings together the Global Fund, GAVI Alliance, Education for All-Fast Track Initiative, the Global Environment Facility, the Consultative Group for International Agriculture Research (CGIAR), Cities Alliance, the President's Emergency Plan for AIDS Relief (PEPFAR), with input from the Health Metrics Network (HMN) and the Bill and Melinda Gates Foundation. The Learning Group, with support from the OECD Secretariat, provides a forum for:

- learning and sharing of best practices through regular teleconferencing, meetings and bilateral discussions
- co-ordinating support from its members to feed into the Working Party on Aid Effectiveness
- accountability to commit to and implement actions

Some of these global funds and programmes now directly fund national strategies, are increasingly joining pooled arrangements, developing co-financing arrangements, and trying to better align to partner country systems and institutions.

At a September 2010 workshop on global programmes and aid effectiveness held in Cape Town,[3] development partners concluded that global funds and programmes should apply aid effectiveness principles, more rigorously, especially for increasing alignment with country systems, as well as improving predictability, sustainability and flexibility in their interventions. It was agreed that partner countries should be more involved in the governance and implementation of global programmes. Finally, participants emphasised that before another global fund or programme is designed, there should be expressed demand from partner countries and evidence that using or fixing already existing programmes is not enough. Donors were called on to ensure consistency across the international organisations in both funding and processes (including G8 and G20) when it comes to launching initiatives or policy statements, as well as to make use of the evaluations of global programmes.

Source: The Global Fund (undated), *The Learning Group of Global Programs: Actions for Aid Effectiveness*, The Global Fund, Geneva, available at *www.theglobalfund.org/documents/aideffectiveness/2008_Global_Programs_Learning_Group_Actions_for_Aid_Effectiveness.pdf* and *Aid Effectiveness in a Changing Landscape – The Case of Global Funds and Programs*, Cape Town, 9-10 September 2010.

USD 100 billion a year by 2020 to meet the needs of developing countries in dealing with climate change. To give a sense of the scale of the challenge involved, the World Bank estimates current total resources dedicated to climate change mitigation and adaptation to be USD 9-10 billion per year (USD 8-9 billion for mitigation and USD 1 billion for adaptation).

The questions that now have to be answered are: *(i)* where is this very large amount of new funding going to come from; *(ii)* what is the most effective way of delivering it; and *(iii)* how are we going to make sure the funding targets are being met? The *2010 DAC Report on Multilateral Aid* (OECD, 2010) explores these questions in detail; what follows is a summary.

Sourcing new funding and delivering it effectively

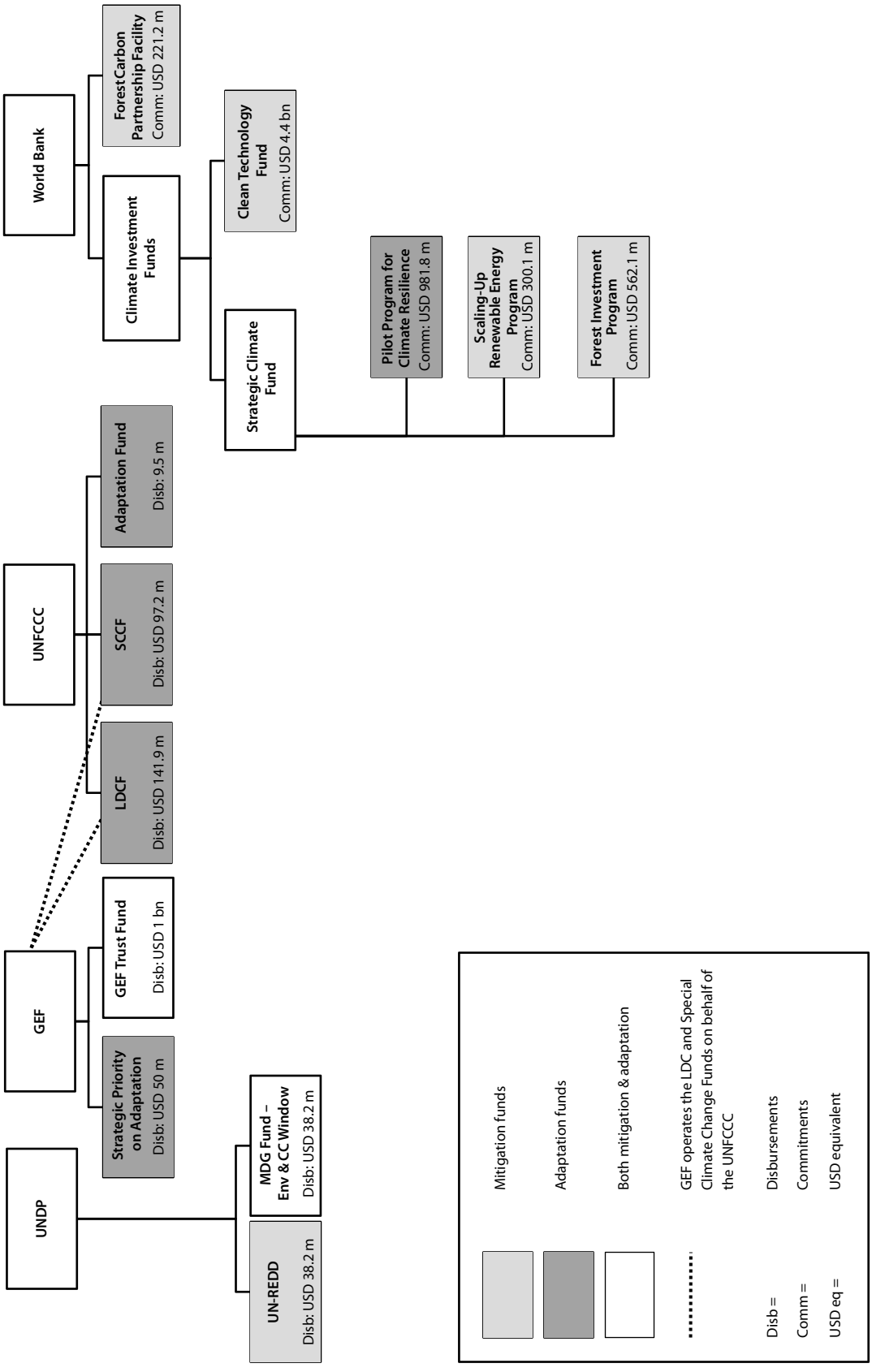
A UN High Level Advisory Group on Climate Change Financing has been established to examine the potential sources of revenue for meeting the funding commitments. The most likely proposal is that the resources will be delivered via multiple channels, such as the funds established under the climate change convention and the Kyoto Protocol – including the Copenhagen Green Climate Fund – as well as other multilateral, bilateral, and regional channels (Figure 3). To help guide these decisions, the DAC report has looked at the experience of the health sector, which took a similar approach: several large new global funds were set up to provide substantially increased funding to meet the health challenges of developing countries. However, the result has been multiple funding mechanisms, each with its own administrative and reporting requirements, requiring a high workload for partner countries' administrations (Box 2).

Instead, genuine country ownership of relevant plans and strategies, regardless of the form chosen, is likely to be essential to the successful funding and implementation of these plans. A sustainable and efficient approach would therefore be to provide flexible external resources to support interventions that are integrated into a country's own climate or national development strategy and budgeting processes. In this way, national stakeholders can effectively lead and steer efforts to mitigate and to address the negative effects of climate change. And instead of creating new funding mechanisms, donors should determine whether existing institutions can achieve the targets using a networked approach, with each institution fulfilling a specific institutional responsibility.

Ensuring the new funding commitments are met

The global community will need to find robust mechanisms for measuring, reporting and verifying the commitments made at Copenhagen. The only systematic way for donors to report their aid that is devoted to adaptation or mitigation is currently through the DAC's Creditor Reporting System, to which all DAC members report. By using "markers",[4] donors can flag up ODA which will involve climate change mitigation and adaptation activities. There are two markers available for this: the "Rio marker" for climate change mitigation and a recently approved new marker for adaptation. The markers do not show what share of expenditures can be specifically and uniquely attributed to climate concerns. Nor are there agreed baselines against which additionality of climate change financing can be measured. While some non-DAC members use these markers, including the World Bank, we would like to encourage all DAC and non-DAC members to apply and improve their reporting using the markers for climate change mitigation and adaptation as rapidly as possible.

Figure 3. **Chart of existing multilateral climate change funds**



Source: OECD DCD design based on *www.climatefundsupdate.org*, 2010.

Box 3. **Measuring the impact of multilateral aid**

DAC members would like to have more evidence that multilateral aid is effective – that it has an impact on the poor and that it is good value for money. This is especially so in a climate of post-crisis budget constraints and sceptical public perceptions about the value of aid. DAC members see an increasing need to justify their multilateral contributions, especially as they have less direct say in their activities than in their own operations. This demand for more evidence of results is despite multilateral agencies' major investments in evaluation, assessment, disclosure and communication systems. How well multilateral organisations report results back to donors, and how DAC members share this information with their citizens, may well influence the future funding of these organisations.

To respond to the need for more systematic information on the effectiveness of some of the major multilateral organisations, 16 DAC member countries are part of the Multilateral Organisation Performance Assessment Network (MOPAN). This informal network began work in 2003, and conducts annual assessments of a select group of multilateral organisations in several developing countries. It collects data through a survey and a review of documents published by the multilateral organisations themselves, complemented by seeking the views of direct partners at country level.

A complementary approach aims to assess the development effectiveness of institutions selected by MOPAN on the basis of a meta-analysis of evaluations completed by the institutions. Moreover, a recent collaborative effort between the UN Evaluation Group and the DAC Evaluation Network has assessed a number of UN agencies to ensure that their evaluation systems are delivering credible and reliable information on the impacts of their work.

One challenge in assessing and comparing the impact of multilateral organisations is that DAC donors allocate strikingly different portions of their multilateral portfolios to the same major multilateral organisations, and vary widely in the way they manage and organise multilateral assistance internally. Political preferences and a donor country's regional interests clearly play a role in the number of organisations to which DAC donors contribute and, in turn, how multilateral aid is allocated. Analysing how countries allocate multilateral aid requires a more in-depth understanding of the international aid system, and how DAC and non-DAC donors contribute to this system. But any analysis must acknowledge the fact that although this is partly about evidence, it is mostly about perceptions of accountability, influence and control by national bodies and interest groups. The 2011 DAC report on multilateral aid and work leading up to the Fourth High-Level Forum on Aid Effectiveness will move us closer towards understanding how multilateral aid is allocated and how results on the ground inform these allocations.

Conclusions

To make the most of the complex international development architecture there are some key actions that can be taken by the development community:

- Support the DAC's important role in helping ensure coherent and effective development, tracking trends in international aid and acting as a credible, neutral and honest broker. The DAC is striving to improve its systems for this and invites all relevant and interested actors to increase their information exchange activities.
- Find robust mechanisms for measuring, reporting and verifying the financial commitments made at the Copenhagen climate conference. This could include all donors, whether multilateral or bilateral, using the markers for climate change mitigation and adaptation as widely as possible in their aid reporting.
- Find ways that global funds and programmes can increasingly apply the aid effectiveness principles.
- Avoid creating new funding mechanisms in responding to new challenges like climate change. Instead, the global development community should: *(i)* give aid that can be integrated into partner countries' own national development strategies and budgeting processes; and *(ii)* determine whether existing institutions can achieve the targets using a networked approach.

Notes

1. Official development assistance (ODA) is a statistic compiled by the DAC to measure aid. It includes both financial assistance and technical co-operation. To qualify as ODA, assistance must be given to countries on the DAC list of ODA recipients (see *www.oecd.org/dataoecd/32/40/43540882.pdf*) and to multilateral agencies. To qualify as ODA it needs to contain three elements: (1) be given by the official sector; (2) have economic development and welfare as the main objectives; and (3) be given at concessional financial terms (for example, loans must have a grant element of at least 25%).

2. The more recent rise in World Bank funding includes some large contributions to cover debt relief to the highly-indebted poor countries (HIPCs). The rise in EU aid is steady and sustained, reflecting growth in the EC budget, and successively higher replenishments of the European Development Fund (EDF).

3. *Aid Effectiveness in a Changing Landscape – The Case of Global Funds and Programs*, Cape Town, 9-10 September 2010. See *www.inwent.org/ef/veranstaltungen/aid-effectiveness/176018/index.php* for further details.

4. DAC members use "markers" in their ODA reporting statistics to identify cross-cutting activities such as economic well-being, social development, environment sustainability and regeneration, democratic accountability and the protection of human rights.

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New partnerships in development co-operation

by Felix Zimmermann and Kimberly Smith*

Alongside the member countries of the OECD's Development Assistance Committee (DAC), many other countries provide assistance to developing nations. These can be grouped into three categories: emerging donors, providers of South-South co-operation and Arab donors. Together, they accounted for USD 11.8 billion of global development co-operation in 2009, which is roughly 8% of total aid flows. Their own development achievements and different approaches to development co-operation make them an important force in the global effort to achieve the Millennium Development Goals. The DAC is seizing on its new opportunities for international partnerships for development. In opening its doors, it embraces diverse approaches and experiences in development co-operation. It also welcomes global dialogue on how to make international development co-operation as effective as possible.

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Details of revisions available at: *www.oecd.org/publishing/corrigenda*.

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Which countries alongside the DAC provide development co-operation?

Alongside the member countries of the OECD Development Assistance Committee (DAC), many other countries have been important providers of development co-operation for decades. However, the past 10 years have seen their numbers rise fast, and in some cases their levels of development co-operation now surpass those of individual DAC members. Thanks to their own rapid development, they have highly relevant expertise to share. The emergence of the G20 and redistribution of voting power towards emerging economies in the International Monetary Fund and World Bank are further signs of their growing importance for international co-operation. This article looks at the types of countries involved in providing development assistance and explores how the DAC is responding to its new opportunities for partnership.

Three different groups of development co-operation providers can be identified from beyond the DAC membership:

1. **Emerging donors** are countries with relatively new, or recently revived, aid programmes. Their laws, strategies and institutions for development co-operation are, for the most part, similar to those of most DAC members. This group consists mainly of new member states of the European Union (EU), but could also include Israel, Russia and Turkey.
2. **Providers of South-South co-operation** (SSC) are developing countries that provide expertise and financial support to other developing countries. Underlining their solidarity with each other, they remain hesitant to use terms like "donor" and "aid" to describe the support they provide. Only a few have specifically dedicated laws and institutions to manage outgoing development assistance. Many remain recipients of official development assistance (ODA) themselves. Middle-income countries and emerging economies are the most active SSC providers, including Brazil, China, India, South Africa, Chile, Colombia, Egypt, Mexico and Thailand.
3. **Arab donors** like Kuwait, Saudi Arabia and the United Arab Emirates have been engaged in development co-operation for decades. Unlike SSC providers, they appear comfortable with the donor label. However, unlike the emerging donors, their structures for development assistance are quite different from most DAC donors. Their administrative structures for aid are light, both at headquarters and at field level, and their focus is on project delivery.

How much development assistance do they provide?

The DAC estimates that total gross development assistance from these providers of co-operation was USD 11.8 billion in 2009 (Table 1, Figures 1 and 2). Assuming that these flows were consistent with the definition of official development assistance,[1] they would represent approximately 8% of global gross ODA in 2009.[2]

Table 1 shows official figures for the 20 countries – mostly emerging donors and Arab donors – that report their aid volumes to the DAC on an annual basis. Among Arab donors, the figures for Saudi Arabia are particularly striking. Its USD 3.2 billion in 2009 exceeded the individual gross ODA volumes of 12 of the 23 DAC member countries. The table also provides estimates for selected other countries – mainly SSC providers – that do not report their aid flows to the DAC.

Table 1. **Development co-operation from countries that are not DAC members, 2009**

	Current USD million, gross disbursements	Source
Emerging donors		
Of which: EU members		
Cyprus[a]	45.4	OECD DAC Statistics, 2010.
Czech Republic[b]	214.7	
Estonia	18.4	
Hungary[b]	116.9	
Latvia	21.0	
Lithuania	36.2	
Malta	13.7	
Poland[b]	378.9	
Romania	152.5	
Slovak Republic[b]	75.4	
Slovenia[b]	71.3	
Of which: Non-EU		
Iceland[b]	34.4	OECD DAC Statistics, 2010.
Israel[b, c]	123.9	
Liechtenstein	26.3	
Russia	785.0	Russia Ministry of Finance, 2010.
Turkey[a, b]	707.2	OECD DAC Statistics, 2010.
Providers of South-South co-operation		
Brazil	1 200.0	*The Economist*, 15 July 2010.
China	1 947.7	Fiscal Yearbook, Ministry of Finance, China, 2010.
Chinese Taipei	411.4	OECD DAC Statistics, 2010.
India	488.0	Annual Reports, Ministry of Foreign Affairs, India, 2010-11.
South Africa	108.7	Estimates of Public Expenditures 2010, Foreign Affairs, National Treasury of South Africa.
Thailand	40.2	OECD DAC Statistics, 2010.
Arab donors		
Kuwait[d]	527.7	OECD DAC Statistics, 2010.
Saudi Arabia	3 245.8	
United Arab Emirates	1 038.2	
Total	11 828.9	

Notes: a. The following note is included at the request of Turkey: "The information in this document with reference to 'Cyprus' relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the 'Cyprus issue'".

b. OECD member.

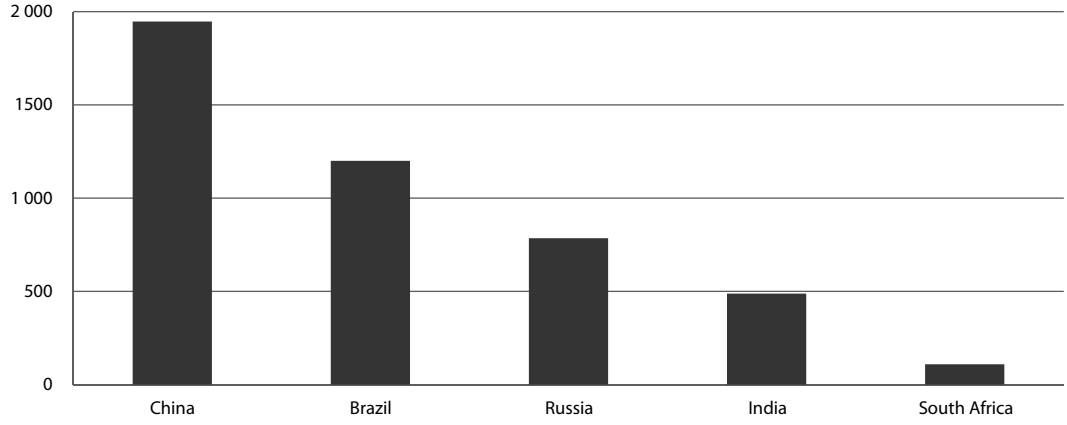
c. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

d. The levels of Arab aid may even be understated. In the case of Kuwait, for example, the figures only represent disbursements from the Kuwait Fund for Arab Economic Development, not other parts of government.

There are three main reasons why providers of South-South co-operation do not report their development assistance to the DAC:

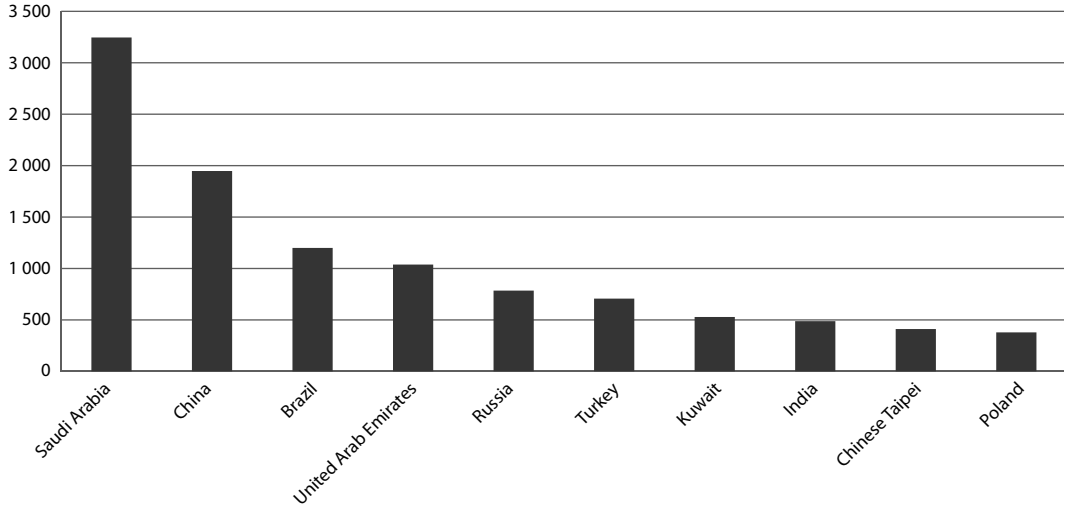
1. Many do not have statistical systems in place to capture information from the various national institutions that provide development assistance. Several countries are trying to strengthen their information systems and have turned to the DAC for support.[3]
2. Some are concerned that reporting would require them to apply DAC principles and guidelines to their development co-operation. While the DAC encourages all providers to engage in – and help shape – the global dialogue on what does and does not work in development co-operation, it does not expect non-member countries who report their aid to adhere to its principles.

Figure 1. **Development co-operation flows from the BRICs, 2009**
USD million



Source: OECD DAC statistics, 2010.

Figure 2. **Development co-operation flows from the top 10 co-operating countries beyond DAC members, 2009**
USD million



Source: OECD DAC statistics, 2010.

3. SSC providers – many of whom remain aid recipients with large domestic poverty levels – are concerned that reporting would make them ineligible to receive ODA. This is a misconception that the DAC would like to dispel. ODA is a statistical concept that allows expenditures on development assistance to be calculated transparently. The availability of more comprehensive data on ODA would help partner country governments determine their development strategies and allocate their resource flows.

Shared goals, diverse approaches

The international aims of development assistance have converged during the past decade, guided by the UN Millennium Development Goals. More recently, addressing the development impacts of climate change and dealing with situations of conflict and fragility have become other shared global imperatives. The impacts of the global financial and economic crisis have amplified calls for collaboration among all actors.

However, while the overarching goals may be shared by all providers of development co-operation, their approaches are diverse. There is opportunity in this diversity, and great potential for learning from each other. The DAC recognises that other providers of development co-operation have expertise and development experience to share with the international community (Box 1). At the same time, it has begun sharing its own collective experience and principles with other providers.

Box 1. **Sharing experiences and learning from each other: China, Africa and the DAC**

China and Africa have had very different development experiences in recent decades. By ensuring that growth was broad-based – across sectors and regions – and inclusive of poor men and women, China's phenomenal economic growth has lifted a huge number of people out of absolute poverty. Africa, by comparison, has not seen such progress in growth and poverty reduction.

In recent years, China's economic relations with developing countries have been expanding rapidly. In Africa, China is emerging as a key foreign player. Potentially, China's trade, investment and aid could contribute substantially to reducing Africa's economic marginalisation and create new opportunities for promoting growth and reducing poverty. But how can China's co-operation with Africa be an effective vehicle for transferring lessons from China's own development experience? What can DAC members and other donors learn from China's approach to development co-operation?

These questions are being addressed by the China-DAC Study Group, which was formed in 2009 and is co-chaired by the International Poverty Reduction Centre in China (IPRCC) and the DAC. Through a series of evidence-based dialogues among a range of people from China, Africa and the donor community, the Study Group is focusing on two themes: *(i)* China's experience of economic growth and poverty reduction, including the contribution of international assistance, and its relevance for other developing countries, particularly in Africa; and *(ii)* China's economic co-operation with Africa and the lessons that China and other donors can share with each other to increase the collective impact of aid on reducing poverty in Africa. The main lessons and key findings from these events will then be distilled and discussed at a policy symposium in Beijing.

Already, emerging findings from the China-DAC Study Group's activities suggest that Africa can reduce poverty substantially by achieving an agricultural revolution based on small-scale farmers meeting national and especially regional demand for food in a continent with fast expanding food markets. But to do so, the policies and actions of African countries need to connect up to initiatives emerging at the continental and regional levels (*e.g.* under the auspices of the African Union or the Regional Economic Communities in Africa). As China's own experience shows, strengthening the rural economy requires a combination of public policies and reforms (including infrastructure, research and farmer-level education), adjusted as circumstances evolve; and an expansion in off-farm employment as rural productivity increases.

For more information visit the China-DAC Study Group website *www.oecd.org/dac/cdsg*.

Emerging donors: Sharing lessons on transition and strengthening aid management

Many emerging donors, notably those that have recently joined the European Union, now have two decades of experience of economic transition to share with their partner countries and the wider donor community. They have a deep understanding of how to develop effective governance systems. They have nurtured effective and trust-based relationships with countries in their neighbourhood, supporting capacity development in, for example, the reform of judicial systems and taxation.

At the same time, emerging donors are seeking to strengthen their development co-operation systems. Those that are EU members are working to align their programmes with EU principles and commitments. Having adhered to the 2005 European Consensus on Development, they have committed to increase their net ODA volumes to 0.17% of gross national income (GNI) by 2010 and 0.33% by 2015.

Several have turned to the DAC for support, for example asking for special reviews of their aid programmes. These reviews, which are modelled on DAC Peer Reviews[4] and based on DAC knowledge and good practice, result in a set of recommendations on the strategic orientation, management, size and scope of the country's aid system. For the DAC, the reviews provide valuable insights into the priorities and concerns of the emerging donor community. Special reviews have been completed – on the Czech Republic (2007), Korea (2008), Poland (2010, see Box 2) and the Slovak Republic (early 2011). Reforms in Korea have since seen it become the DAC's newest member country.[5]

Box 2. **A review of Poland's development co-operation**

Polish development assistance focuses on enhancing and promoting democracy and good governance, human rights, sustainable development and civil society, particularly among its neighbours in Eastern Europe. In 2008, Poland's ODA amounted to USD 372 million, or 0.08% of GNI. Poland has committed to increase its aid to 0.33% ODA/GNI by 2015. Poland has also committed to making its aid more effective by applying the principles of the 2005 Paris Declaration on Aid Effectiveness.

Poland asked the DAC to perform a special review of its development co-operation programme in 2009. A team of examiners representing Belgium, Canada, Turkey and the DAC Secretariat visited Warsaw in January 2010, where they consulted with government officials and civil society representatives. Their review suggested that Poland should continue to align its aid with partner countries' national systems, untie its aid, and improve the harmonisation of its aid with that of other donors. Poland was also encouraged to move from aid relationships based on small-scale projects to multi-year programmes.

With respect to Poland's legal and institutional framework, the review suggested that Poland proceed with its planned law on development co-operation. Poland was encouraged to reflect carefully on whether the creation of a new aid agency was the most effective way to reform aid management structures. Finally, the review recommended that Poland clarify the role of its Ministry of Foreign Affairs in relation to other ministries engaged in development co-operation. The review's findings were discussed by Polish stakeholders, DAC members and other emerging donors at a roundtable event in Warsaw on 17 May 2010.

Source: OECD (2010), DAC Special Review of Poland, OECD, Paris, available at *www.oecd.org/dac/opendoors*.

Arab donors: Specific expertise, fast delivery and harmonised approaches

Financial assistance has been a major feature of Arab aid since the petroleum boom of the 1970s. Collectively, Arab donors have developed support programmes in sectors such as infrastructure, energy and agriculture. Aid has also been an important instrument to demonstrate solidarity among Arab countries, helping to support and stabilise states in situations of conflict and fragility in the region.

In 1975, Arab donors formed the Co-ordination Group.[6] This group, the Secretariat of which is hosted by the Arab Fund for Economic and Social Development, offers an example from which other donors can learn. The group's regular meetings have led to more harmonised policies for development co-operation, more streamlined procedures for project management and more frequent co-financing of projects.

In two recent meetings, members of the Co-ordination Group and the DAC expressed strong interest in learning from each other.[7] Besides agreeing to exchange information on their respective assistance programmes, they agreed to collaborate in several priority areas, including supporting partner countries in strengthening food security; helping improve the supply of adequate, accessible, low-cost energy for the poor; addressing the climate-change impacts of traditional energy sources; and providing more co-ordinated support to Yemen in its efforts to implement reforms.

South-South co-operation: Towards mutual learning and understanding

SSC providers reject the notion that some countries are "donors" and others "recipients"; they regard themselves as peers in mutually-beneficial relationships with their partner countries. As a result, it is the exchange of technical skills (*e.g.* through technical assistance, training or scholarships) that lies at the heart of SSC, not the unilateral provision of aid. When financial co-operation does become part of a South-South relationship, commercial considerations can be an integral component. Finally, SSC providers claim not to attach policy conditions to their co-operation. Doing so, they argue, would undermine the principles of "national sovereignty" and "solidarity".

The 2008 Accra Agenda for Action (AAA), endorsed by over 100 governments, explicitly recognises the importance of South-South co-operation as a "valuable complement" to North-South co-operation. *The Bogota Statement: Towards Effective and Inclusive Development Partnerships* – endorsed at the High Level Event on South-South Co-operation and Capacity Development in March 2010 – goes further, promoting a greater role for, and increased effectiveness in South-South co-operation.[8] Further progress in this direction will hopefully be made at the Fourth High Level Forum on Aid Effectiveness in Busan, Korea, in late 2011.

One of the most exciting initiatives in the build-up to the Busan forum is the OECD's Task Team on South-South Co-operation, led by Colombia and hosted by the Working Party on Aid Effectiveness. The evidence and case stories that it has been collecting suggest that technical co-operation from SSC providers respects the priorities of partner countries (OECD, 2010). Moreover, it may be more efficient than traditional aid, as SSC providers bring cheaper labour and more relevant expertise to their partner countries. Areas in which SSC providers could still improve their practices include the need to co-ordinate co-operation with other actors and to move from smaller, fragmented approaches to longer-term efforts. For SSC providers, measuring and evaluating the impact of their efforts also remains a challenge.

Opening doors at the Development Assistance Committee

These examples show the range of opportunities for partnerships between the DAC and other providers of development co-operation. There are promising signs of convergence among all providers of co-operation around the principles of effective collaboration (Gurria, 2010). Through more open dialogue, the quality and relevance of international policy guidance will improve. And through more information sharing, other providers of development co-operation will receive greater global recognition for their efforts.

Notes

1. Official development assistance (ODA) is a statistic compiled by the DAC to measure aid. It includes both financial assistance and technical co-operation. To qualify as ODA, assistance must be given to countries on the DAC list of ODA recipients (see *www.oecd.org/dataoecd/32/40/43540882.pdf*) and to multilateral agencies. To qualify as ODA it needs to contain three elements: *(i)* be given by the official sector; *(ii)* have economic development and welfare as the main objectives; and *(iii)* be given at concessional financial terms (for example, loans must have a grant element of at least 25%).
2. In most DAC publications, figures on presented on a net disbursement basis. The figures in this article, however, are presented in gross disbursements to make them more comparable to the estimates for those countries that do not report to the DAC and for which loan repayment figures are not available.
3. See *www.oecd.org/dac/opendoors* for further information on statistical collaboration.
4. For further information, see *www.oecd.org/dac/peerreviews*.
5. All reviews performed by the DAC can be consulted online at *www.oecd.org/dac/peerreviews*.
6. This group now brings together three bilateral and six multilateral agencies. For further information, see *www.arabfund.org/Default.aspx?pageId=472*.
7. For further information, see *www.oecd.org/dac/opendoors*.
8. For further information, see *http://bogotahle.info*.

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Triangular co-operation and aid effectiveness

by Talita Yamashiro Fordelone*

Can triangular co-operation make aid more effective? Judging by recent international declarations, governments think it can. The underlying assumption is that better results are achieved when Southern partners and "traditional" donors (i.e. those that gather in the OECD Development Assistance Committee) join forces through triangular co-operation. This article addresses what triangular co-operation is, which countries are involved in it and why; examines the claimed benefits of triangular co-operation vis-à-vis bilateral forms of co-operation; identifies some challenges in rendering triangular co-operation an effective mode of development co-operation; and provides recommendations on how these challenges can be met.

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Introduction

This article is motivated by two trends that have become highly prominent in the international dialogue on development co-operation in recent years. The first is the growing role of middle-income countries as not only recipients, but also providers of development co-operation. The second is the increased attention to principles of effective aid, in response to the criticism that decades of aid have not led to the desired results of sustainable economic growth and poverty reduction.

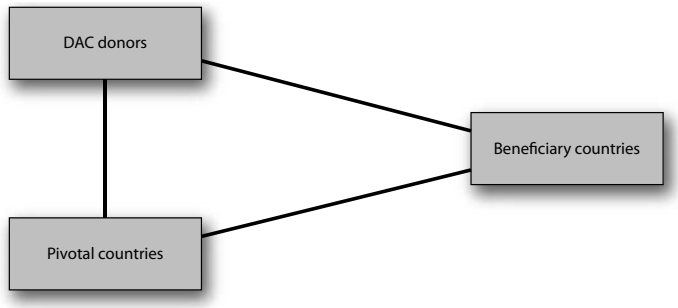
Taken together, these trends raise an important question: can middle-income countries providers of development co-operation and "traditional" donors – *i.e.* those that gather in the OECD Development Assistance Committee (DAC) – work together to make aid more effective than it has been in the past? Judging by recent international declarations, governments think they can. At the 2008 UN Development Co-operation Forum, participants called for all providers of development co-operation to arrive at more widely agreed practices and objectives. The Accra Agenda for Action, endorsed by more than 100 governments in 2008, recognises the importance of a close partnership among different development actors and, more specifically, it calls for "further development of triangular co-operation".

It is this concept of triangular co-operation that lies at the centre of our paper, which was designed to support discussions at the Policy Dialogue on Development Co-operation, held in Mexico City on 28-29 September 2009. Based on a study of the available literature and a series of interviews with officials engaged in triangular co-operation initiatives, we address the following questions:

- What is triangular co-operation, which countries are involved in it and why?
- What are the claimed benefits of triangular co-operation vis-à-vis bilateral forms of co-operation?
- What are the challenges in rendering triangular co-operation an effective mode of development co-operation?
- How can the benefits of triangular co-operation be achieved and its challenges overcome?

This article recognises that there are diverse definitions and forms of triangular co-operation that can foster development, such as co-operation among three developing countries. However, in order to focus on the objectives of the Policy Dialogue in Mexico City, we have chosen to concentrate the paper on partnerships between *DAC donors* and *pivotal countries*[1] to implement programmes/projects in *beneficiary countries*.[2] Our aim is to discuss if triangular co-operation can be an effective modality of development co-operation.

Figure 1. **Partnerships between DAC donors, pivotal countries and beneficiary countries**



The paper is structured as follows. Section 2 will provide an overview of triangular co-operation, identifying its main actors, their motivations and the geographical concentration of their efforts. Section 3 will outline the claimed benefits of triangular co-operation for more effective aid. Section 4 will list the main challenges faced by current triangular co-operation initiatives. Section 5 proposes some conditions for achieving effectiveness in triangular co-operation, based on the principles put forward in the Paris Declaration on Aid Effectiveness. We illustrate our arguments with evidence from two triangular co-operation projects: "Honour and Respect for Bel Air" and the "Public Sector Training and Development Projects in Post-Conflict Countries".

Definitions of triangular co-operation

Even if there is no official definition of triangular co-operation, it is generally described as a partnership between developing countries for implementing a development project/programme with the support of a developed country or an international organisation (see UNDP, 2004: 2; CUTS, 2005:1; Kumar, 2008: 2; UN ECOSOC, 2008a: 3). The UNDP defines triangular co-operation "as a way of fostering development by leveraging the best features of cooperation between developing countries with assistance from developed countries" (UNDP, 2004: 2). Other sources provide similar definitions:

- UN ECOSOC (2008a: 3): "Triangular development cooperation has been interpreted as OECD/DAC donors or multilateral institutions providing development assistance to Southern governments to execute projects/programmes with the aim of assisting other developing countries."
- Kumar (2008: 2): "A relatively new trend reinforcing SSC is of triangular development cooperation (TDC) with Northern countries and multilateral agencies supporting the programmes of cooperation between developing countries."
- CUTS (2005:1): "'trilateral development cooperation' where aid is channelled through institutions in third countries for being applied to development projects in poor countries."

Some defend that there can be triangular co-operation among developing countries only. For instance, Abdenur (2007: 1) writes that triangular co-operation is an arrangement where "a developing country partner with either another developing country or an industrialized counterpart to lend technical assistance to a third country." One example of triangular co-operation among developing countries cited by different authors is the IBSA initiative, which regroups India, Brazil and South Africa. IBSA aims to co-ordinate member countries in many different areas, including co-operation with other developing countries that may benefit from Indian, Brazilian and South-African expertise (Abdenur, 2007; Braude *et al*., 2008; CUTS, 2005; UN ECOSOC, 2008).

In this paper, we focus on partnerships between *DAC donors* and *pivotal countries* (providers of South-South co-operation) to implement development-co-operation programmes/projects in *beneficiary countries* (recipients of development assistance). It is expected that this working definition will allow concentrating our attention on the dynamics of collaboration between DAC donors and participants in SSC and studying the potentialities and shortcomings of this partnership. It is important to clarify that our definition does not imply that triangular co-operation necessarily involves only three partners. In fact, it is a partnership among *three types of development actors*: *DAC donors*, *pivotal countries* and *beneficiary countries*. The actual number of partners may be higher than three, as it is noted by CIDA

(Canadian International Development Agency, 2007: 1) and CUTS (Centre for International Trade, Economics & Environment, 2005: 3).

Finally, we note that the adjectives "tripartite" or "trilateral" are also used in the place of "triangular" by some countries (*e.g.* Sweden, Canada). We chose to employ "triangular cooperation" or "triangulation" because these terms are used by many countries and international organisations as well as in international fora (*e.g.* UNDP Special Unit for South-South Co-operation, G8, G77, OECD, Asian Development Bank).

An overview of triangular co-operation[3]

Numerous countries are engaging in triangular co-operation in different parts of the world.[4] Their motivations are varied. Besides joining forces to promote development in beneficiary countries, they aim to strengthen ties with Southern partners and build capacity of developing countries as providers of South-South co-operation.

Most OECD DAC members are involved in triangular co-operation. At least 16 of them have negotiated, implemented or completed projects in partnership with developing countries. They are: Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, Norway, Spain, Sweden, Switzerland, the United Kingdom, the United States and the European Community.[5] However, only Japan and Spain have set objectives for triangular co-operation in their development co-operation policies. Some other have included triangular co-operation in their strategies to foster regional co-operation.

A large number of providers of South-South co-operation are also engaging in triangular co-operation, particularly with countries from their own region. In Africa, Egypt, Kenya, Morocco, South Africa and Tunisia share their knowledge with other developing countries through triangular arrangements. In Asia, pivotal countries include India, Malaysia, Philippines, Singapore, Sri Lanka, Thailand and Vietnam. In Eastern Europe, examples include Russia and new European Union members. In Latin America, virtually all countries are providers of South-South co-operation and some of the most active in triangular co-operation are Argentina, Brazil, Chile, Colombia and Mexico. In most cases, pivotal countries provide their support to nations from the same region. However, there are also examples of projects across continents. For instance, Brazil co-operates with lusophone countries in Africa and Asia; Malaysia and the Philippines have collaborated with Kenya, and Vietnam with Madagascar.

Figure 2. **DAC Donors participating in triangular co-operation**
(Projects in negotiation, in implementation or completed)

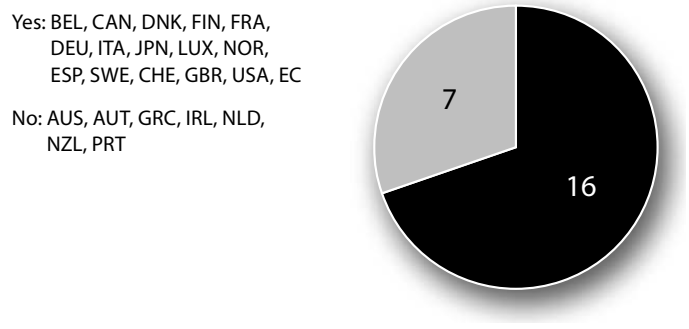


Table 1. **Examples of pivotal countries engaging in triangular co-operation with DAC donors**

Africa	Egypt, Kenya, Morocco, South Africa, Tunisia
Asia	India, Malaysia, Philippines, Singapore, Sri Lanka, Thailand, Vietnam
Eastern Europe	Russia, new EU members
Latin America	Argentina, Brazil, Chile, Colombia, Mexico

On a multilateral level, triangular co-operation is promoted by the United Nations, in particular by the UNDP Special Unit for South-South Cooperation and the UN ECOSOC Development Cooperation Forum. The first produces analytical work, prepares policy recommendations and finances triangular co-operation projects while the latter is a discussion forum that provides policy guidance and recommendations on a variety of subjects including South-South and triangular co-operation. Most recently, triangular co-operation was also discussed by countries participating in the Heiligendamm Dialogue Process.[6]

The main motivation behind triangular co-operation appears to be the possibility of combining the strengths of DAC donors and providers of South-South co-operation to promote development in beneficiary countries. However, triangular co-operation may also help:

- build the capacity of developing countries as providers of development co-operation
- strengthen relations between DAC donors and providers of South-South co-operation
- strengthen relations among Southern partners and enhance regional integration

The claimed benefits of triangular co-operation

Advocates of triangular co-operation claim that its value lies in combining the comparative advantages of pivotal countries and DAC donors. As the United Nations Development Programme puts it: "Triangular South-South co-operation is becoming increasingly popular as a way of fostering development by leveraging the best features of cooperation between developing countries with assistance from developed countries" (UNDP, 2004: 2).

One advantage that pivotal countries are often credited with is an expertise that is adapted well to the needs of beneficiary countries. This adaptability stems from the fact that pivotal countries face or have faced development challenges in environments that are similar to those of beneficiary countries. Whilst social, economic and political contexts vary from country to country, pivotal and beneficiary countries may share economic and geographic characteristics, cultural, historical and regional ties, and common languages (CUTS, 2005; Kumar, 2008; OECD, 2009a: 140). These similarities favour better understanding of beneficiary countries' reality and increase the possibility that solutions designed and implemented in pivotal countries may thus be replicated in beneficiary countries with success. Our interviewees agreed that the use of pivotal countries' experience and know-how is one of the main elements contributing to effectiveness in triangular co-operation.

A second advantage of pivotal countries is that their experts, services and technologies cost less than those of DAC Members countries, rendering triangular co-operation more cost-effective than traditional bilateral aid. Some argue that developing-country experts costs one third of developed country experts at prevalent international rates (CUTS, 2005: 4). However,

others point out that triangular co-operation may increase the transaction costs of development co-operation (Ashoff, 2009: 8), particularly in the initial phase of projects/programmes, when multiple partners have to negotiate the objectives, activities and procedures of their collaboration. These negotiation costs would thus have to be weighed against the costs saving resulting from less expensive services and technologies.

The main advantages brought to triangular co-operation by DAC donors are their funding and years of know-how in development assistance. Their support may enable co-operation among developing countries or increase the scope and impact of such partnership. UNDP (2004: 2) claims that: "In order to maximize their financial, logistical and technical resources, [developing] countries can ask for the support of a Northern donor as a third partner" (similar claims are made in Braude *et al.*, 2008: 4; and SEGIB, 2007: 19). Kumar (2008: 5) explains that "Even though developing countries may have development experiences to share with other developing countries, their funding capacities may be limited. Hence, TDC [triangular development cooperation] is a win-win approach to meet the ends of both Northern as well as Southern partners." He adds that with the help of DAC donors, "Triangular co-operation could thus assist in fuller exploitation of potential of SSC [South-South co-operation]" (Kumar, 2008: 12). Whilst DAC donors often finance triangular co-operation, their role may go beyond financing. Many of our interviewees expressed that deeper engagement of DAC donors is desirable so as to promote fuller use of each partner's distinct expertise. DAC donors could contribute with their know-how in development assistance, for example in the design and evaluation phases of triangular co-operation projects.

Practical challenges in triangular co-operation

Our interviews suggest that, in practice, the claimed benefits of triangular co-operation may be difficult to realise. They are hindered by difficulties in co-ordinating partners, involving beneficiary countries in projects, and enlarging the scale and scope of triangular co-operation projects. Of course, these challenges are not unique to triangular co-operation and are recognised as threats to effective aid in general by the Paris Declaration on Aid Effectiveness.

The main obstacle to effective triangular co-operation seems to be co-ordination among partners. This challenge is noted in the Paris Declaration, which recommends harmonisation of donors' policies and procedures to decrease costs of development assistance (OECD, 2005: 6). In the case of triangular co-operation, the presence of multiple stakeholders may hamper harmonisation and increase transaction costs, as a result of:

- existence of distinct procedures in partner institutions from different countries (*e.g.* organisation of work at field level, performance assessment frameworks, evaluation techniques…)
- longer negotiations on the operational aspects of the project/programme
- difficulties on agreeing common standards/procedures for monitoring and evaluating projects
- unclear division of roles and responsibilities leading to inefficiencies in implementation

Not all interviewees agreed that triangular co-operation raises co-ordination costs. Some noted that, in practice, triangular co-operation often builds on existing bilateral co-operation, for example when a bilateral initiative is replicated in third countries or a third partner joins an existing project/programme.

A second challenge pointed out by interviewees was that beneficiary countries were insufficiently engaged in the planning and execution of triangular initiatives. This appears to run counter to the well-recognised principle that beneficiary countries must exercise effective leadership over development programmes and projects in order for them to achieve their desired development results. Beneficiary country's ownership is one of the pillars of the Paris Declaration on Aid Effectiveness.

A third difficulty in triangular co-operation mentioned by interviewees is the limited scale and scope of triangular co-operation initiatives – which usually adopt a project-based approach. The Paris Declaration on Aid Effectiveness highlights that the main risk of projects is the potential disconnection with broader development goals established by beneficiary countries (OECD, 2005: 2). In addition, the multiplication of projects may generate duplication of efforts, dispersion of resources and incoherence among different initiatives.

Conditions for achieving effectiveness in triangular co-operation

In this final section, we discuss how to achieve the claimed benefits of triangular co-operation and overcome its practical challenges. Since the recommendations of the Paris Declaration on Aid Effectiveness focus on minimising difficulties that also affect the performance of triangular initiatives, we will use the Paris Declaration's principles to study how triangular co-operation can achieve better results for beneficiary countries. Our interviews imply that triangular co-operation might be more effective when the following principles are observed: ownership of beneficiary countries, alignment with local development priorities and harmonisation of partners' procedures. We could not gather enough information to discuss how triangular co-operation benefits from results-oriented management or mutual accountability. In order to illustrate our argument, we will provide examples from two triangular co-operation projects – "Honour and Respect for Bel Air" and the "Public Sector Training and Development Projects in Post-Conflict Countries" (Boxes 1 and 2).

Alignment with national development priorities

Alignment of donors' support on partner countries' national development strategies, institutions and procedures is one of the main messages of the Paris Declaration on Aid Effectiveness. In the case of triangular co-operation, alignment of co-operation activities with national development priorities is important for ensuring good adaptation of pivotal countries' practices to beneficiary countries' realities. Beneficiaries' priorities should constitute the criteria for choosing implementing agencies that have relevant expertise to address national development challenges. They should also be taken on board during negotiation, formulation, implementation and evaluation of triangular co-operation. Otherwise, instead of "adaptation" it would be an "imposition" of foreign practices.

If triangular co-operation projects are aligned well with the objectives set out in the national development strategies, then the risks of dispersion of efforts and incoherence among different development initiatives – usually connected to project-based approaches – may be reduced.

Overall, the Bel Air and the Public Sector Training projects seem to be aligned with the priorities of the respective beneficiary countries. In both cases, the implementing agencies from pivotal countries have relevant expertise to share with beneficiary countries and the views and needs of local governments and/or populations are taken into account in project design and implementation.

Box 1. **Project "Honour and Respect for Bel Air"**

The project "Honour and Respect for Bel Air" aims to promote security and development in the neighbourhood of Bel Air, Port-au-Prince, Haiti. It is led by the Brazilian NGO Viva Rio with the support of the Brazilian government, Canada, Norway and international organisations. The main partners are:

- the Haitian government, public companies and civil society (beneficiary country)
- Viva Rio, implementing NGO from Brazil (pivotal country)
- the Brazilian Embassy in Port-au-Prince (pivotal country)
- the Canadian International Development Agency (CIDA), from Canada (DAC donor)
- the Norwegian Ministry of Foreign Affairs (MFA), from Norway (DAC donor)
- the Norwegian Church Aid (NCA), a NGO from Norway (DAC donor)
- the Inter-American Development Bank (IDB), sponsoring the project

Viva Rio has been operating in Haiti since 2004 and has focused its activities in Bel Air since 2007. Its mission in Bel Air is to reduce armed violence and promote urban rehabilitation, focusing on ensuring security, development and human rights of inhabitants. The areas of intervention are diverse, including water supply, solid waste management and education. Viva Rio pays special attention to associate its activities with peace-keeping purposes, women empowerment and youth education.

It is important to clarify that the government of the pivotal country (*i.e.* Brazil) does not participate directly in the implementation of this project, which is led by the NGO Viva Rio. The Brazilian government has a supportive and advisory role, participating, for instance, in the Steering Committee of the project. However, Brazil is considered the pivotal country in this case because the expertise in dealing with armed violence and situations of urban precariousness was developed in this state.

Results

In 2008, good results were already achieved in areas such as security, water distribution and solid waste management. For instance, there was an important reduction of urban violence and numbers of homicides after the signature of a peace accord among rival groups. The rate of homicides in Bel Air decreased from 26 deaths per 100 000 inhabitants in 2006-07 to 17 deaths per 100 000 inhabitants in 2008-09. This number is lower than those of many cities in Latin America and comparable to the 2006 homicide rate in Detroit, USA (Viva Rio, 2009: 20-21). In addition, access to water has been increasing after the improvement of distribution channels and the reduction of prices. Today, the distribution of drinking water is managed in partnership with Bel Air community and reaches nearly 24 000 people. Finally, waste collection was also improved. The cleanup operations, carried out in cooperation with Haitian authorities, have made it possible to unclog waste-filled water mains, making the neighbourhood healthier and safer in the event of heavy rainfall.

These results might be partially due to Viva Rio's choice of focusing its attention on only one neighbourhood and not the whole city of Port-au-Prince. Thus the NGO could invest in a comprehensive development project that addresses many of Bel Air problems and achieves more and better results in a shorter period of time. It appears that many NGO's take the opposite approach: they disperse efforts over many neighbourhoods of Port-au-Prince or the entire country, conducting many but very small interventions.

Box 2. **"The Public Sector Training and Development Project in Post-Conflict Countries"**

"The Public Sector Training and Development Project in Post-Conflict Countries" is a triangular co-operation involving South Africa, Rwanda, Burundi and Southern Sudan supported by Canada. The agencies involved in the project are:

- the "Ecole Nationale d'Administration" (ENA), the Management Development Institute (MDI) from Burundi (beneficiary country)
- the Rwanda Institute of Administration and Management (RIAM), the MDI from Rwanda (beneficiary country)
- the Capacity Building Unit of the government of Southern Sudan (beneficiary country)
- the Public Administration Leadership and Management Academy (PALAMA), the MDI and implementing agency from South Africa (pivotal country)
- the Canadian International Development Agency (CIDA), from Canada (DAC donor)

The purpose of this initiative is to "support public sector training and development" aiming to improve service delivery in three post-conflict countries: Rwanda, Burundi and Southern Sudan (CIDA website, Project Browser). The training methodology is developed by PALAMA and the partner MDIs in the three post conflict countries and covers four areas: "project management," "financial management," "human resource planning" and "monitoring and evaluation" (PALAMA, 2008: 2). During its five-year duration (2008-13), the project is expected to provide training for "approximately 6 700 middle and senior public service managers" (CIDA website, Project Browser).

Results

During interviews, partners' opinions about the project were very positive, even if it is too early to draw definitive conclusions about it. The main positive aspect seems to be the high level of commitment and participation of beneficiary countries, which has already produced some good – and somehow unintended – results:

- Change of mentality: beneficiary countries have been participating actively in the project and, as a result, they are increasingly aware of the importance of ownership over their own development.
- Strengthened relations among beneficiary countries: the project has been an opportunity for building trust and strengthening relations between countries that were not in close contact before. For instance, Rwanda and Burundi are now exchanging information about public sector training.

Even if the expected results are not concrete yet, partners are already thinking about long-terms plans and scaling-up. Plans involve replicating the initiative into a regional programme and inviting other DAC donors to support it. A long-term project co-ordinator has just been appointed to serve in the new PALAMA's office in Kigali (Rwanda). In the long run, the idea is to turn Kigali's office into a regional hub for development co-operation in public service training. PALAMA has also been talking with DFID (United Kingdom Department for International Development) and Germany about the possibility of supporting the project. It appears that these donors are very interested in the proposition.

The high incidence of armed violence in a context of poverty and great socio-economic inequality is a challenge shared by the "favelas" in Rio de Janeiro and poor neighbourhoods in Port-au-Prince. Viva Rio has been working for more than a decade in such a context, designing and implementing projects for urban rehabilitation and the reduction of armed violence in poor neighbourhoods of Rio de Janeiro. This experience enables the Brazilian NGO to develop certain activities in Bel Air that have not been completely performed by the Haitian government.

Besides having relevant expertise, Viva Rio attempts to understand the local context in deep before planning its activities so as to attend local needs and priorities. For instance, the NGO has conducted an extensive household survey (with more than 10 000 families) in 2007 and also preliminary research on Bel Air's water market before structuring their water-supply project. This attention to local reality helps the adaptation of projects to the Haitian context and facilitates alignment to local development priorities.

Finally, Viva Rio also maintains a close dialogue with the representatives of the Haitian government and civil society organisations participating in the Steering Committee of the Bel Air project. This contact also facilitates alignment to local development priorities.

In the Public Sector Training project, the pivotal and beneficiary countries have needed to improve the quality of their public services after a period of political instability and subsequent transitions to a democratic regime. South Africa is not a post-conflict country, but faced major challenges in public sector management during the transition from the apartheid regime. PALAMA, the South African Management Development Institute (MDI), developed expertise in public management training, enabling the institution to support the MDI's from Burundi, Rwanda and Southern Sudan.

Burundi, Rwanda and Southern Sudan have the opportunity to express their development priorities in the Public Sector Training project. The respective MDIs participate actively in designing the curricula and training programmes, which are developed according to each country needs. Here, beneficiary countries' ownership and project's alignment with national development priorities are closely linked.

Active engagement of beneficiary countries

Alignment to national development priorities and use of relevant expertise from pivotal countries may not be sufficient to guarantee that a triangular co-operation programme/project will be able to address development challenges in beneficiary countries. The Paris Declaration on Aid Effectiveness and Accra Agenda for Action point to the primary importance of ownership for effective development co-operation. So does the final report of the United Nations Development Co-operation Forum 2008: "Effectiveness of South-South and triangular cooperation also rests on national leadership. […] as in North-South cooperation it is imperative that programme countries show leadership by defining priorities and needs" (UN ECOSOC, 2008b: 19).

Engaging beneficiary countries in the design, implementation and monitoring of triangular co-operation projects will help ensuring that local priorities and systems are respected, and will support beneficiary countries in developing their capacity to manage the development process. However, as discussed in the previous section, involving beneficiary countries in triangular co-operation may be challenging in practice. Since it would be "easier" to implement projects without consulting local governments or civil society, the implementing agencies should devote efforts and time to co-ordinate with and guarantee active participation from local partners. This difficulty was found during the implementation of both the Bel Air and the Public Sector Training projects.

During implementation of the Bel Air project, Viva Rio works together with civil society organisations, local public administrations and local population – employing a majority of Haitians to conduct its work in Bel Air. For example, on water-supply projects, the NGO has been working with CAMEP ("Centrale Autonome Métropolitaine d'Eau Potable"), the public water-supply company. This active engagement of different groups from beneficiary country helps to build local knowledge about how to address their own development challenges. With regards to accountability, Viva Rio provides reports of activities to local public administrations on a demand-driven and *ad hoc* basis. But their reports, work plans and research papers are also available at their website: *www.comunidadesegura.org/en/node/42433*.

Beneficiary countries are also engaged in every phase of the Public Sector Training project. MDI's from South Africa, Rwanda, Burundi and Southern Sudan work jointly, taking every decision concerning the project's administration and the development of training programs together. Our interviewees agreed that the active engagement of beneficiary countries has:

- contributed to adapt the curricula and training methods to local needs
- promoted local learning and capacity development in the design of public-sector training programmes
- helped building mutual knowledge, trust and confidence among partners

Clear assignment of roles and responsibilities

The main claimed benefit of triangular co-operation is the effective combination of the strengths of different partners. According to the Paris Declaration on Aid Effectiveness, donors' actions are more effective when they are harmonised, achieving greater complementary and reducing transaction costs when they adopt a "pragmatic approach to division of labour" (OECD, 2005: 6). If we apply this recommendation to triangular co-operation, partners may benefit from a clear assignment of roles and responsibilities according to their area of expertise, contributing to harmonise and enhance complementarity of their actions. According to the Brazilian Co-operation Agency (ABC), obtaining satisfactory results in triangular co-operation – a "new and [operationally] challenging environment" – depends on the successful division of responsibilities among the partners (including their respective HQs and at the field level). Other interviewees agreed that defining respective responsibilities from the outset of their project/programme facilitated co-ordination during the implementation and evaluation stages.

We could not collect any evidence that would allow measuring the impact of triangular co-operation on financial costs of development assistance. Thus, no conclusions about cost-effectiveness can be drawn.

The most common division of roles in triangular co-operation is to assign the provision of financial resources to DAC donors and delegate formulation and implementation to pivotal and beneficiary countries. This is the case of both of our case studies. There are also examples of triangular co-operation where DAC donors and beneficiary countries have leading roles and pivotal country provides limited technical assistance in some aspects of the project. For instance, the project SMASSE ("Strengthening of Mathematics and Science in Secondary Education Project") started as a bilateral partnership between Japan and Kenya, but Malaysia and the Philippines joined later to provide training to Kenyans (JICA – Japan International Cooperation Agency, 2006: 95-96).

In Bel Air, Viva Rio is in charge of the project's formulation and implements the activities in partnership with Haitian public administrations and civil society. Canada, Norway

and IDB sponsor the project, and the Brazilian embassy in Port-au-Prince gives institutional support to Viva Rio since the NGO's arrival in the country. The embassy facilitates relations with Haitian government, UN, UNDP, MINUSTAH (United Nations Stabilization Mission in Haiti) and Brazilian troops in Haiti.

However, co-ordination appears to be less efficient with regards to evaluation and co-ordination of different sponsors. Working with many donors requires a lot of effort from Viva Rio, which has to negotiate small-scale contributions several times. Moreover, each donor has requested individual monitoring reports from the NGO, and they have been planning to conduct separate project evaluations. CIDA, NCA and IDB are now considering the possibility of harmonising their evaluations in order to reduce the burden on Viva Rio. It would be interesting if donors could also co-ordinate themselves for the approval of work plans.

In the Public Sector Training project, roles seem to be clearly divided among partners: Canada mainly provides financial support and MDI's from South Africa, Burundi, Rwanda and Southern Sudan implement the project. Decisions concerning the project's orientations (*i.e.* approval of the work plan) are taken together in the Steering Committee's meetings, which happen twice a year. The Committee is composed by representatives from the three MDI's, PALAMA, CIDA and South Africa's National Treasury.[7] Although its main contribution is financial, CIDA also provides some elements of technical co-operation when asked by the other partners. For example, Canadian experts were invited to conduct part of the trainings in French for Rwanda's and Burundi's nationals**.**

Conclusion

The objective of this study was to provide an introductory discussion on what is triangular co-operation and how it can be an effective modality of development co-operation and deliver better development results in beneficiary countries. Our analysis shows that many DAC members and Southern partners are involved in triangular co-operation. It also suggests that triangular co-operation may be a good opportunity for joining efforts and using the comparative advantages of DAC donors and pivotal countries to support the development of beneficiary countries. However, in order to achieve these benefits and overcome the practical challenges of triangular co-operation, it is important to observe certain principles of effectiveness. Respect to ownership, alignment and harmonisation may be particularly useful for promoting good results in triangular co-operation.

As noted in the introduction, this paper is meant to provoke discussion and reflection about triangular co-operation and aid effectiveness. Therefore, further research and debate on this topic is welcome, addressing not only the arguments presented in this study, but also other questions that could not be discussed in this opportunity. Examples of discussions topics are:

- What is the benefit of triangular co-operation when compared to other co-operation modalities (*i.e.* bilateral co-operation, multilateral co-operation, South-South co-operation)?
- Can triangular co-operation become an alternative to other types of cooperation (bi-, multi-, SSC)? How? In what circumstances?
- Is it possible to agree on certain principles of effectiveness in triangular co-operation?
- How can we guarantee effective evaluation and mutual accountability in triangular initiatives?
- Can triangular co-operation be cost-effective?

- How can we minimise the transaction costs of triangular co-operation?
- How can we promote the matching of needs and offers in triangular co-operation? In other words, how to identify which developing countries have expertise that might be helpful and well-adapted to other developing countries so as to promote co-operation among them with the support of a DAC donor?

Table 2. **Triangular co-operation projects**

Supporting partners	Project	Beneficiary countries
	AGRICULTURE	
Argentina Brazil Canada Spain	Pro Huerta Project	Haiti
Brazil France	Training in agriculture of conservation	Mozambique
Indonesia Japan	Agricultural assistance	Madagascar
Japan Vietnam	Rice production project	Madagascar
	EDUCATION	
Egypt Norway	Training courses in the field of nursery	African countries
Japan Malaysia Philippines	Strengthening of Mathematics and Sciences in Secondary Education (SMASSE)	Kenya
	FISHING	
Brazil France	Training in the area of fish-farming	Cameroon
Japan Mexico	Aquaculture	Honduras
Japan Morocco	Co-operation projects with JICA in the area of fishery	African countries
Japan Tunisia	Training of trainers for fisheries development (2006-08)	Gabon
Japan Tunisia	Experts in fishery techniques, navigation and shipbuilding mechanics to vocational training centre (2002-04)	Mauritania
	FOOD SECURITY ASSISTANCE	
Colombia UN World Food Programme	Donation to UNWFP to support triangular co-operation projects	Haiti
	FORESTRY	
Brazil Spain	Reforesting the Mapou River Basin	Haiti

Table 2. **Triangular co-operation projects** *(continued)*

Supporting partners	Project	Beneficiary countries
	GOVERNMENT AND CIVIL SOCIETY	
Brazil Germany	Institutional Strengthening of INNOQ (Metrology and Quality Control)	Mozambique
Brazil Norway	Promotion of institutional / public administration strengthening	Angola
Brazil Norway	Promotion of institutional / public administration strengthening	Guinea-Bissau
Brazil Spain	Institutional strengthening of the Office of the Attorney General	Uruguay
Brazil United States	Strengthening of the National Popular Assembly of Guinea-Bissau	Guinea Bissau
Canada South Africa	The public sector training and development project in countries emerging from conflict	Burundi Rwanda Southern Sudan
France Mexico	Criminal investigation and forensic medicine	Haiti
France Mexico	Police training and re-equipment	Haiti
Germany Tunisia	Setting up the Audit Commission of Mauritania by training 30 magistrates in Tunisia and appointing Tunisian experts and consultants for institutional support	Mauritania
Japan South Africa	Police training and capacity building	Democratic Republic of Congo
Japan Thailand	Capacity building of drug law enforcement	Cambodia Lao PDR Myanmar Vietnam
South Africa Sweden	Police co-operation: capacity development in Rwanda and sometimes in South Africa	Rwanda
	HEALTH	
Brazil Canada	Triangular programmes and actions in the area of health (immunisation)	Haiti
Brazil Japan	Human resources development programme for Josina Machel Hospital	Angola
Brazil Japan	Improvement of children's health services	Madagascar
Brazil Spain	Water resources and sanitation	Bolivia
Brazil United Kingdom	Support for the control of HIV	Peru
Brazil United States	Support for the programme of prevention and control of malaria	São Tomé and Príncipe
Italy Tunisia	Short- and medium-term professional training in the health sector	Niger
Japan Mexico	Integrated management of plagues	Nicaragua
Japan Sri Lanka	Asia-Africa Knowledge Co-Creation Project: share experience of hospital management	African Countries

Table 2. **Triangular co-operation projects** *(continued)*

Supporting partners	Project	Beneficiary countries
	HUMANITARIAN AID	
Egypt Food and Agriculture Organization	Sending Egyptian experts to Africa and delivering humanitarian assistance	African countries
Japan Mexico	Disaster prevention – the Taishin project: improvement of earthquake-proof popular housing	El Salvador
Japan Mexico	Environment and disaster prevention	Guatemala
	INDUSTRY	
Chile Finland	Long-term technical assistance to develop small and medium-sized furniture production	Nicaragua
Colombia Japan	Share expertise in the designing and maintenance of monitoring systems and automation of industrial processes	South and Central American countries
Colombia Spain	Land planning, protected areas and institutional strengthening	Haiti
Japan Mexico	Industry and manufacturing	Paraguay
	MULTISECTOR/CROSS-CUTTING / GENERAL ENVIRONMENTAL PROTECTION	
Brazil Germany	Technological centre for the environment	Paraguay
Cuba Spain	Biodiversity stocktaking of National Park La Visite	Haiti
	MULTISECTOR/CROSS-CUTTING / MULTISECTOR EDUCATION / TRAINING	
Brazil Japan	Professional training programme	Angola
Chile United States	Programme for staff of the Ecuadorian Internal Revenue Service to visit and learn best practices from the Chilean Internal Revenue Service	Ecuador
Chile United States	Scholarships for Latin American students to pursue a graduate degree in a Chilean university	Bolivia Ecuador Paraguay Peru Countries from Central America and the Caribbean
European Commission Singapore	Training in areas such as finance, trade promotion, World Trade Organisation matters and information technology. Since 2004, a total of 114 officials have been trained.	Cambodia Lao PDR Viet Nam
Japan Thailand International Organisations: Colombo Plan, UNDP, UNFPA, and UNICEF	Trilateral co-operation for annual training programmes: Thai International Postgraduate Programme (TIPP), Annual International Training Courses (AITC), and annual training courses	More than 50 countries in South Asia, Middle-East, Commonwealth of Independent States, Africa, Latin America and the Caribbean
	OTHER SOCIAL INFRASTRUCTURE AND SERVICES	
Brazil United Kingdom	Technical co-operation agreement for social protection work	Ghana

Table 2. **Triangular co-operation projects** *(continued)*

Supporting partners	Project	Beneficiary countries
	POPULATION POLICIES / PROGRAMMES AND REPRODUCTIVE HEALTH	
Brazil Germany	AIDS-fighting in Latin America and the Caribbean (e.g. Argentina, Chile, Paraguay, Peru and Uruguay)	Latin American countries
France Tunisia	Training courses in reproductive health – a two-year term project – infant and maternal mortality	Nigeria
	TOURISM	
Colombia Germany	Community-based rural tourism	Costa Rica
	TRADE POLICY AND REGULATIONS AND TRADE-RELATED ADJUSTMENT	
Canada Tunisia	Establishment of a trade and export promotion structure	Niger
	TRANSPORT AND STORAGE	
Brazil Italy	Urban mobility: rationalise urban planning activities in given municipalities; improve urban mass transport infra-structure and modernisation of traffic control	Mozambique
	WATER SUPPLY AND SANITATION	
Brazil Japan	Improvement of water services and sanitation in the Zambezia Province	Mozambique
Germany Mexico	Municipalities' solid waste integral management	Guatemala
Germany Mexico	Municipalities' solid waste integral management	Dominican Republic
Japan Mexico	Development of national strategy and framework of reference (priority areas, action lines and involved actors) for solid waste management	Guatemala
Japan Tunisia	Water waste management (three-year programme)	Iraq
Mexico Spain	Potable water and sanitation	Haiti
	GENERAL	
Argentina Italy	Area of technical assistance, professional training and health	Latin American and Caribbean countries
Argentina Japan	The Partnership Programme for Joint Co-operation	Latin American countries
Asia and Africa Japan	TICAD – Tokyo International Conference on African Development	African countries
Belgium Egypt	Fund to Egyptian experts working in Africa	African countries
Brazil Germany	Triangular schemes for fostering South-South co-operation	Haiti
Brazil Japan	Triangular schemes for fostering South-South co-operation	Haiti
Brazil United Kingdom	Triangular schemes for fostering South-South co-operation	Haiti
Brazil United States	Triangular schemes for fostering South-South co-operation	Haiti

Table 2. **Triangular co-operation projects** *(continued)*

Supporting partners	Project	Beneficiary countries
Chile Germany	Fund for triangular co-operation aiming to share the Chilean development experience with other Latin American countries (examples: consumer protection (El Salvador), promoting local economies (Paraguay) or land use planning (Colombia))	Latin American countries
Egypt Japan	Annual training programmes since 1985, benefiting 2200 trainees	African countries
Luxemburg Tunisia	Setting up of a Malian solidarity fund in 2004-06 (sending Tunisian experts)	Mali
South Africa Sweden	Tripartite co-operation and regional programmes: Sweden has contributed funds to the African Renaissance Fund. Sweden also supports a number of regional initiatives in which South Africa takes part.	African Countries
South Africa United States	U.S./South Africa tri-lateral assistance: a mechanism for the South African government to utilise its expertise to provide needed services in other African countries. Furthermore, it provides a means for the SAG to enhance its capacity to deliver foreign assistance and improves inter- and intra-ministerial SAD co-operation	African countries
World Bank Many examples	South-South experience exchange facility (multi-donor trust fund) – IDA countries eligible	IDA countries

Notes

1. We consider the expression "pivotal country" the most suitable for naming the countries providers of South-South co-operation. The terms "emerging donors" and "non-DAC donors" are employed more often but do not describe this group of countries accurately. Some pivotal countries began to provide assistance as early as many DAC donors; therefore, it is not adequate to call them "emerging donors." "Non-DAC donors" does not appear to be very appropriate either since it is not precise and defines the group by what they are not. According to UNDP: "Pivotal countries can be defined as developing countries which, by virtue of their capacities and experience in promoting South-South cooperation, are positioned to play a 'lead' role in the promotion and application of TCDC [technical cooperation among developing countries], mainly by sharing their capacities and experience with other developing countries; although they could themselves also benefit from the experience of such countries." For further information, please refer to UNDP SU/SSC website: *http://tcdc.undp.org/knowledge_base/pivotal_issue.html*.

2. Throughout this paper, the terms *Pivotal Country* and *Beneficiary Country* will be used to distinguish between provider and recipient of development co-operation. In some of our references the expression "recipient country" is used instead of "beneficiary country."

3. This overview presents a summary of information gathered from interviews and preliminary surveys with development actors involved in triangular co-operation, presentations in international meetings, and Internet sources. It does not intend to be neither a definitive nor an extensive stocktaking of current triangular co-operation activities.

4. Annex B provides a non-exhaustive list of triangular co-operation projects compiled during our research.

5. This list reflects the information received from DAC members' headquarters and found on alternative sources (papers, international conferences' presentations, other Internet sources). However, it is possible that more DAC donors are involved in triangular co-operation at the field level but their headquarters' offices are not aware of these initiatives.

6. The Heiligendamm Dialogue Process was established at the Heiligendamm G8 Summit in June 2007 by the G8 (Canada, France, Germany, Italy, Japan, Russia, United Kingdom and the United States) and the G5 (Brazil, China, India, Mexico and South Africa) countries. It aims to promote dialogue with view «to enhance trust and confidence among the dialogue partners as well as developing common understanding on global issues,» such as development, energy, cross-border investment and responsible business conduct, and research and innovation (Heiligendamm L'Aquila Process Support Unit's website: *www.oecd.org/site/0,3407,en_21571361_40549151_1_1_1_1_1,00.html*). At the L'Aquila G8 Summit (July 2009), G8 and G5 agreed to pursue their dialogue through the Heiligendamm L'Aquila Process (HAP).

7. CIDA channels funds through South Africa's National Treasury, which transfer the money to PALAMA.

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Tax and good governance

by Ben Dickinson*

Taxation is fundamental to sustainable development. The ability to raise revenue and manage public expenditure is of core importance to every state. However, taxation plays another crucial role which has been often overlooked or underestimated in the past: as a catalyst for more responsive and accountable governments. This article explains why international taxation is a "missing link" in the development-statebuilding process and offers an important route for building effective and self-supporting states. It explores the challenges for developing countries with regard to international taxation and how future work proposed by the OECD will address these challenges. The article concludes with an assessment of what more the international community can do to better target aid towards building the capacity of developing countries' tax administrations.

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Tax and good governance: The missing link?

Tax is more than just a source of revenue and growth. It also plays a key role in building up institutions, markets and democracy by making the state accountable to its taxpayers (OECD, 2010). Just as excessive tax burdens might hinder growth in wealthier countries, in developing economies a lack of tax structures is a major cause of weak, unresponsive governance and an overreliance on aid. A good tax system can allow the public to hold governments to account for their decisions, and it means that developing countries do not feel tied to the will of aid donors. And because tax revenues are relatively predictable, governments can plan ahead with greater certainty (Owens and Parry, 2009). Recent evidence also indicates that reforms of the tax administration may catalyse reforms in other parts of the public sector, thus rejuvenating stagnant change processes. For example, throughout Latin America tax authorities have frequently led the introduction of e-government functions, particularly through electronic filing of tax returns and the electronic management of customs clearance. The Chilean tax agency also introduced modern internal auditing tools that became a model for the broader civil service (OECD, 2010).

Taxation is not a new subject in international development discussions. The 2002 Monterrey Consensus, for instance, which launched a new focus on development, recognised the key role of taxation in mobilising domestic resources. At the September 2010 Millennium Development Goals summit, the mobilisation of domestic resources was recognised to be crucial for achieving the MDGs. According to the UN, attaining government revenue representing 20% of GDP is one of the conditions necessary for achieving the MDGs (UNDP, 2010). This is a significant challenge, particularly in Africa, given the large number of countries that currently collect much lower levels of tax (Table 1).

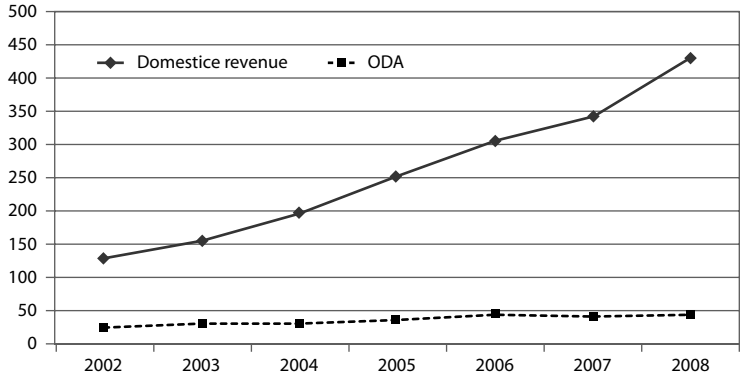
Nevertheless, some strides have been made in increasing domestic taxation in recent years. Between 2002 and 2008 government revenue in sub-Saharan Africa, for example, more than tripled to reach over USD 430 billion (Figure 1).

Table 1.**Tax-to-GDP ratios in African countries**

11 countries	16 countries	11 countries	7 countries	3 countries
Equatorial Guinea	Sierra Leone	Côte d'Ivoire	Kenya	Morocco
Libya	Gabon	Egypt	Ghana	Seychelles
Congo	Guinea Bissau	Benin	Cape Verde	Botswana
Nigeria	Niger	Malawi	Liberia	
Chad	Comoros	Burundi	Namibia	
Sudan	Togo	Zambia	Djibouti	
Central African Republic	Burkina Faso	Senegal	South Africa	
Angola	Uganda	Cameroon		
Algeria	Mauritania	Mauritius		
Ethiopia	Congo Dem. Republic	Gambia		
Madagascar	São Tomé and Principe	Tunisia		
	Guinea			
	Rwanda			
	Mozambique			
	Mali			
	Tanzania			
Less than 10%	10-14%	15-19%	20-24%	More than 25%

Source: Online data provided by OECD (2010), *African Economic Outlook*, OECD, Paris; available at *www.africaneconomicoutlook.org/en/data-statistics/.*

Figure 1. **Trends in government revenue and ODA in sub-Saharan Africa, 2002-08**
USD billion



Source: Based on data from the IMF (2009), *Regional Economic Outlook: Sub-Saharan Africa*, International Monetary Fund, Washington, DC; and OECD DAC statistics, 2010.

International taxation:[1] Highly relevant for developing countries

What more can be done at the international level to complement developing countries' domestic revenue raising efforts? The international picture reveals some of the obstacles to further progress in securing the tax bases of many of the poorer nations. Tackling these will be crucial for creating a more enabling environment for developing countries to collect an appropriate share of tax revenue and to build effective states (Box 1):

Tax havens lead to a loss of revenue in two ways. Firstly, through tax evasion, income is hidden in tax havens. Improving the exchange of information among jurisdictions helps authorities tackle this dimension of the issue. The second is tax avoidance, where profits are routed through tax havens to avoid being taxed.

- **Transfer prices**. In a global economy, multinational enterprises (MNEs) play a prominent role, with operations in several countries. International transfer pricing standards determine the "price" to be paid for transactions between different taxable entities which are part of the same MNE. They thus determine the tax that should be paid in each jurisdiction. The incomplete and inconsistent application of international standards on transfer pricing, inadequate legislation or a lack of basic tax capacity in developing countries can mean that transfer prices can be manipulated by MNEs in order to shift profits to low tax jurisdictions, resulting in lower revenue for countries with normal tax rates, including developing countries.
- **Lack of transparency in MNE reporting**. To improve tax transparency and compliance in developing countries, NGOs[2] have proposed that MNEs provide a detailed report on a country-by-country basis in their annual financial statements including, for example, the countries in which MNEs operate and their financial performance in each country. This should identify third party and intra-group trade, labour related information and pre-tax profits as well as taxes paid. Proponents suggest that this country-by-country reporting would discourage profit shifting, reduce corruption, increase corporate social responsibility and facilitate corporate governance. However, critics dispute the benefits and point to the potentially heavy compliance burden and the increased costs of both auditing and reporting which would be incurred by MNEs.

Box 1. **Tax revenues being lost to developing countries**

Developing countries are losing significant potential development resources – certainly billions of US dollars[3] – to tax evasion, profit shifting and other similar practices. For example:

- a 2010 study by Global Financial Integrity suggests illicit financial flows from developing countries reached nearly one trillion dollars in 2006 (Kar and Cartwright-Smith, 2010)
- according to the Oxford University Centre for Business Taxation, revenue losses suffered by developing countries due to corporate profit shifting[4] are reported to be between USD 35 billion and USD 160 billion a year (Fuest and Riedel, 2009)
- estimates of tax evaded by individuals living in developing countries that hold financial assets abroad and do not report this income in their country of fiscal residence are about USD 124 billion a year (Fuest and Riedel, 2009)

Sources: Kar, D. and D. Cartwright-Smith (2010), "Illicit Financial Flows from Africa – Hidden Resource for Development", *Global Financial Integrity*, 1, March 2010, Center for International Policy, Washington, DC; Fuest, C. and N. Riedel (2009), *Tax Evasion, Tax Avoidance and Tax Expenditures in Developing Countries: A Review of the Literature*, Oxford University Centre for Business Taxation, Oxford.

Of equal importance, international tax evasion and profit shifting damage the process of statebuilding. The ability of elites to avoid tax through international channels is likely to prevent efforts by businesses to negotiate constructively and collectively with governments over taxes. Where citizens know that elites are avoiding taxation through illicit means, citizen compliance is also discouraged, thus undermining the fundamental legitimacy of the tax system. Closing off the pathways for elites to evade tax, for example by eradicating tax havens, is thus integral to building effective states. Powerful and influential multi-national enterprises have a particularly important role to play in demonstrating transparency and fairness in the payment of taxes, with important knock-on effects and signals given to other taxpayers (Box 2).

Box 2. **Tax base issues in Africa**

In an address to African ambassadors at the African Tax Administration Forum, South African Revenue Service Commissioner Mr Oupa Magashula had this to say about the potential for increasing the tax base in Africa:

> Taxable capacity in Africa tends to be highly concentrated in a small number of people and companies that can often evade taxes by using their power and influence. The majority of the population, while it may not have much political power and influence, typically has low taxable capacity that is costly to collect, especially in rural areas. The result is that, often, only middle-size firms tend to pay taxes. Large firms can use their influence and relations within the State to evade taxes and small firms can dodge taxes by staying in the informal sector.

Source: African Tax Administration Forum, Pretoria, 4 August 2009.

The call for action is increasingly led by developing countries themselves. In Africa, the creation of the African Tax Administration Forum (ATAF), driven, managed, and in due course to be operationally funded by Africans, provides a key platform for peer learning, capacity development and dialogue on international tax issues. NGOs have also raised the profile of tax evasion and illicit financial flows with several high profile reports. Much of the recent attention has focused on the behaviour of multi-national enterprises (MNEs), whose bargaining power over poor governments has in some cases triggered a "race to the bottom" as developing countries compete to offer the most attractive tax incentives for potential investors. Some MNEs may take advantage of low or nominal tax jurisdictions to shift out part of their profits. Political and business elites who use weaknesses in the international financial system to avoid and evade tax have also been scrutinised and in some cases exposed by an increasingly engaged international media. Links have been made to broader concerns, money laundering, and illicit flows of people, drugs and arms.

How the OECD is helping

To address these challenges the OECD has established a Tax and Development Task Force, to be backed up by an OECD Tax and Development programme. The Task Force brings tax, development and finance practitioners from the OECD's Development Assistance Committee (DAC) and the Committee on Fiscal Affairs together with representatives from developing countries, international organisations, international business and civil society groups. The Task Force provides an important platform where developing countries can put forward their needs, study ideas and proposals and match needs with potential solutions and suppliers. Under the Chairmanship of the African Tax Administration Forum and the Netherlands, the Task Force has agreed to operate four multi-stakeholder working groups (on transparency and exchange of information, transfer pricing, MNE reporting, and statebuilding and international support). The immediate priorities for the Task Force and the OECD include the following:

- **Helping to ensure developing countries can benefit from a more transparent and co-operative tax environment**. More effective international support for developing the necessary capacity in tax policy and administration will be co-ordinated in close association with the OECD-hosted Global Forum on Transparency and Exchange of Information for Tax Purposes, which includes over 90 countries. This has been the multilateral framework within which work on transparency and exchange of information has been carried out by both OECD and non-OECD economies since 2000.
- **Helping developing countries to operate effective transfer pricing regimes**. A structured dialogue will be set up with developing countries on capacities in policy and technical areas, including developing administrative frameworks for an efficient, effective and fair implementation of transfer pricing regimes. Guidance will also be provided to assist countries in developing and enforcing transfer pricing legislation, including providing model legislation.
- **Exploring the case for more transparency in MNE reporting**. As mentioned above, this is the subject of active political debate in many countries, and between NGOs and business, but the evidence base is weak. An objective assessment is urgently needed of the pros and cons of introducing country-by-country reporting, which may extend beyond tax matters into broader issues of disclosure. The OECD will undertake analysis to set out possible options.

- **Helping developing countries build effective states through taxation**. One of the central issues is how governments can demonstrate to their citizens that paying taxes can lead to improved public services and involve them directly in the taxation process. The cases in Box 4.3 provide promising examples of how this can be supported.

Box 3. **Case studies of successful tax reform in developing countries**

There is a growing number of examples worldwide which show that careful information campaigns can rebuild taxpayer confidence and build their awareness of the essential role of taxes in the sustainable growth of their nation:

The Peruvian tax reform during the early 1990s included extensive efforts to improve services and educate taxpayers in order to rehabilitate public perceptions of the tax agency, SUNAT. Efforts to expand public outreach included creating an information centre downtown in the capital city; developing a free taxpayer bulletin, which was reaching 5 000 people by 1994; hosting tax fairs throughout the country; and disseminating important information through newspaper ads and brochures. At the same time a large investment was made in training, with more than one-third of employees sent to professional training courses between 1992 and 1996 and all staff involved in ethics courses. Coupled with good performance, the result was that SUNAT quickly came to be viewed as a model agency by much of the public.

In Rwanda the government has also prioritised public outreach and education, with significant success. This has included a series of Taxpayers' Week events, a focus on improving customer service, making tax issues a prominent subject of speeches by the president, working with local private sector associations and developing taxpayer surveys to identify problem areas and measure success in changing public perceptions. It has also developed the following charter, to build the confidence of taxpayers:

Taxpayers' rights laid down in the Taxpayer Charter of the Rwanda Revenue Authority

- to be treated warmly, hospitably and equitably
- to be properly informed of taxpayer services and obligations
- to receive timely and professional services
- to have one's information kept confidential
- to receive clarification on decisions and appeal those that are unsatisfactory
- to be refunded excess taxes
- to have opinions heard and addressed
- to participate in the formulation of national tax policy

Sources: Examples cited in OECD (2010), *Citizen-State Relations. Improving Governance Through Tax Reform*, OECD, Paris; Taxpayer charter available on the Rwanda Revenue Authority website: *http://rra.gov.rw/IMG/pdf/RRA_Taxpayer_charter_2_.pdf.*

How can development co-operation strengthen tax systems?

More can be done to target development co-operation at improving the tax systems within developing countries:

1. Target capacity building to the sectors that can achieve the most. Aid directed at developing the capacity of the revenue and customs sectors seems to be money well spent. The reasons for this success are complex but include the ability to monitor outputs and, in some cases, the organisational benefits of semi-autonomous revenue authorities and departments. While technical assistance has its critics, it seems that for building tax administrations it can have an important role to play.
2. Increase the volume of ODA targeted towards developing tax systems, which remains very low. DAC statistics suggest that direct support for revenue and customs sectors has only attracted a very small percentage of aid (around 0.1% of ODA annually) in recent years.[5]
3. Ensure that engagement is long-term and targeted at the institutional level. The best and most lasting results have been achieved where external support has taken a comprehensive institutional approach, delivered over a period of years, if not decades. There are few quick fixes.
4. Support "South-South" tax administration co-operation, in which one developing country helps another. Chile's partnership with Kenya on tax IT systems is a promising example that demonstrates the truly global nature of the ways in which experiences and ideas can be exchanged in the taxation field. Another example is the African Tax Administration Forum (described above), which provides a regional platform for sharing experiences and best practices among African countries.

Several other initiatives are underway to promote collective international action on taxation. These include the International Tax Dialogue (which involves the OECD, the International Monetary Fund, the World Bank, the EU and other development partners), and the German-inspired International Tax Compact. The G20 also made tax and development a priority for 2010.

Notes

1. The term "international taxation" covers cross-border issues such as transfer pricing, exchange of information between jurisdictions, treaties and so on.
2. For example, the Tax Justice Network (*http://taxjustice.blogspot.com/2008/06/press-release-country-by-country.html*).
3. However, the data used in many high profile studies are considered by some experts to overstate the scale of the problem.
4. Corporate profit shifting is an activity by a company to transfer its profits between jurisdictions to reduce tax.
5. However, the statistics do not capture general fiscal programmes, work undertaken by the IMF, nor the influence of political dialogue on revenue priorities derived through the provision of general budget support.

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Mapping innovative finance for development mechanisms[1]

by Elisabeth Sandor*

This article aims to offer an OECD benchmark for regular monitoring and assessment of innovative financing for development (IFD), focusing on the relation of IFD with official development assistance (ODA) and aid effectiveness. This article looks at IFD from the perspective of both policy makers and investors from the public sector who are acting in the wider public interest. It presents coherent, compact and comparable information about various mechanisms that allows them to generate and mobilise new resources for development so that they can leverage other resources through the "catalytic" use of their own funding powers. To do so, this article includes an extensive mapping table that covers a range of IFD mechanisms.

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Overall approach

This article aims to offer an OECD benchmark for regular monitoring and assessment of innovative financing for development (IFD), focusing on the relation of IFD with official development assistance (ODA) and Aid Effectiveness. It builds and expands on a previous overview[2] which proposed a first typology and raised preliminary questions concerning IFD from this specific institutional perspective.

In a rich and evolving landscape that involves many other stakeholders in designing, managing or analysing IFD, the OECD retains a particular mandate and comparative advantage, especially in: *(i)* tracking applications of ODA today in IFD; *(ii)* identifying synergies between ODA and other sources of funding and monitoring possible substitution effects; and *(iii)* promoting compliance of these new sources and mechanisms with internationally agreed aid effectiveness principles.

This article looks at IFD mainly from the perspective of policy makers and investors coming from the public sector, acting in the wider public interest. It presents coherent, compact and comparable information about various mechanisms that allows them to generate and mobilise new resources for development so that they can leverage other resources through the "catalytic" use of their own funding powers (which, invariably, have an opportunity cost in other, more "traditional" uses).

Given the central role of the OECD Development Assistance Committee (DAC) in tracking the use of ODA, a particular focus is to clarify whether, how and when ODA is used and with what other flows it is associated – where possible in which amounts.

A particular focus, given the central role of the DAC in tracking the use of ODA is to clarify for this audience, and the wider public, whether, how and when ODA is used in such constructs, and with what other flows it is associated, where possible in what amounts.

This differentiates this article from some other recent approaches to IFD.[3] For example, alternative definitions of IFD often also include new ways to deliver aid (from existing or new sources) to country level. Many of these have "innovative" features, governance arrangements, conditions etc. These can undoubtedly increase the effective use of funds on the ground and thereby bolster support for development funding indirectly, as well as generating improved outcomes directly. These are clearly important considerations, but not covered in the present paper, in the interest of focus and clarity.

Four criteria

To build on the previously proposed typology and to provide useful, practical information for policy makers and a larger public interested in IFD, we have selected schemes that fulfil all of the following **four criteria**:

1. **Official sector involvement**: focusing on mechanisms that involve some clear and visible stake (including guarantees etc) by the official sector, along with, in most cases, the private and voluntary sectors. The official sector involvement should be *substantial*, exceeding small contributions to technical assistance, advisory services, knowledge platforms etc. Mechanisms that are purely private, such as new forms of philanthropy, remittances and private investments are excluded when they do not intrinsically require such a public stake. (Annex A of Table 1 presents some mechanisms which involve private voluntary contributions channelled through public or public-private international institutions, hence derive indirect institutional

support from them. These are very relevant from the wider development policy perspective of course.)

2. **Mobilisation of substantial finance:** focusing on mechanisms that tap new concessional sources or enable or bring forward the availability of finance (see categories that follow). Mechanisms that do not mobilise major additional funding, but concentrate on the effective use of existing finance, are excluded, as mentioned above. (Annex B of Table 1 presents some examples of mechanisms that do not mobilise new official funding, but improve the array of financial products of existing development agencies.)
3. **Ready for Prime Time?** Successful innovations, including in development finance, run through a number of phases from idea to plan/proposal, piloting, and diffusion and mainstreaming. Our focus is on early-stage, but practical innovations offering some proof of concept: either technically advanced proposals with wide political support and close to implementation, or schemes that are implemented but not yet taken to scale. At the opposite ends of the spectrum, ideas still on the drawing board and long-mainstreamed mechanisms do not make the cut. (Annex C of Table 1 provides an overview of some mechanisms that are at idea stage, but have generated interest and are therefore on our "watch list".)
4. **Cross-border resource transfers:** focusing on mechanisms that involve *international* donor funding, international capital markets or other cross-border transactions. Purely domestic mechanisms such as local taxes and capital market innovation in partner countries not requiring or generating international support are excluded. Some of these may become relevant in the future if they are coordinated on an international level (following the example of the solidarity levy on airline tickets) or if they explicitly earmark funds to development assistance (following the German example of auctioning/sales of emissions permits).

These criteria do not mean to suggest that other finance mechanisms are not innovative, but they were not selected in this article because they were mainly illustrating financial engineering or primarily designed to increase the effectiveness of aid and did not fulfil the range of criteria we thought were of particular interest from the "public investor" perspective. This is not intended as an exhaustive overview on innovative finance.

Consultation with potential users will undoubtedly lead to improvement and refinement of these four criteria and the three categories into which we have grouped the results:

Three basic categories of IFD

1. **New public revenue streams**: includes mechanisms that generate concessional funds allocated to international development from new sources such as new taxes, dues, and obligatory charges raised by one or more governments or supranational revenue generating authorities.
2. **Debt-based instruments and frontloading**: includes mechanisms that make public funds (existing or innovative) available for development earlier. They generate liabilities of some sort. Other mechanisms reduce the debt and debt service burden of developing countries allowing higher up-front availability of funding.
3. **Public-private incentives, guarantees and insurance**: includes mechanisms that use public funds to create investment incentives for private sector actors, for

example by offering advance commitments or subsidies, and new insurance-type facilities to manage *e.g.* catastrophic and weather risk.

The categories have been defined to facilitate the analyses of IFD, its relation to ODA and the possible substitution effects. When considering any IFD mechanism within the current DAC statistical system it is necessary to *(i)* clearly distinguish between official vs. private flows;[4] and *(ii)* identify the point at which the flows will be recorded as outflows from donor countries and whether they are provided on concessional terms. Moreover, it should be recalled that DAC statistics measure flows on a cash basis: data are collected on commitments and actual disbursements, whereas pledges and guarantees are not recorded since they do not (yet) constitute flows.

Mechanisms that raise new public revenue for international development may, but do not necessarily, increase ODA. If raised under national legislation, the funds would be reportable as ODA when the government allocates and spends them on activities satisfying the usual ODA criteria (bilateral development assistance or contributions to ODA-eligible multilateral agencies). If raised under an international settlement system, no ODA would be involved. However, the allocation and spending of funds by an international agency would be reportable as official multilateral flows for development (concessional or non-concessional as the case may be) and recorded in DAC statistical series on developing countries' resource receipts. It is important to note that the amount of new revenue raised would not be captured in statistical reporting in any way. Consequently, in cases where the new revenue is fed into a donor country's general development co-operation budget, it will not be possible to monitor the specific uses of the funds or their additionality vis-à-vis the regular development co-operation budget.

IFD mechanisms described as "front-loading" generate public liabilities that are reportable as ODA with several years' time lag, *i.e.* when the liabilities fall due. The expenditures are recorded in data series on developing countries' receipts as and when they arise. In monitoring IFD special attention should be given to front-loading since such mechanisms may endanger future ODA budgets: To release the funds necessary for paying the liabilities, donors may have to reduce their traditional funding approaches (*i.e.* bilateral country programmable aid). In this case, IFD would not be additional but merely a substitute for ODA.

The third category – incentives, guarantees and insurance – falls to a large extent outside the current DAC statistical system. However, work is underway to examine the feasibility of collecting data on such mechanisms in some form. There is great interest in this question because relatively modest investment by the official sector may resolve bottlenecks and market failures, and have a significant catalytic effect on financing available for development.

The mapping table[5]

The table below covers a range of IFD mechanisms that meet the four criteria. Mechanisms are ordered along the three categories of innovative finance: new public revenue streams; debt-based instruments and frontloading; public-private incentives, guarantees and insurance. A sample of instruments that provide a wider perspective on innovative finance but are not focus of this article, are described in the annexes.

The table focuses on five topics:

- **Initiative** describes the main purpose of the mechanism and indicates what it is used for, such as raising of resources, frontloading, or insurance. The column also provides the year when it was established and its official website, if available.
- **How does it work?** explains the functioning of the mechanisms in broad terms from a financial perspective.
- **Financial flows** describe the volume of financial flows that have been generated or that are expected to be generated by the mechanism. The column focuses on the origins of funds and how much funds have been mobilised. Most information, especially future estimates, come from sponsor documentation and should be read with care and this caveat in mind. Flows that constitute a result of the mechanism such as disbursements or payouts of an insurance are covered under development results.
- **Development results** reports on some already achieved results or expected future results, if available. The column mostly relies on information by the sponsors of the initiative, has not been verified, and should be read with care. The paper merely provides some indication on the results that can be achieved by the mechanism; it cannot provide a comprehensive discussion of results.
- **Is it ODA?** discusses to what degree the IFD mechanism generates flows that count as ODA. It also describes if the flows are recorded in any other way in DAC statistics such as OOF or multilateral flows.

Table 1. **Mapping innovative finance for development mechanisms**

Initiative	How does it work?	Financial flows	Development results	Is it ODA?
		New public revenue streams		
2% share of proceeds from issuing new Certified Emission Reduction (CER) Credits: generates funds for the adaptation Fund **(2009)**. *http://adaptation-fund.org*	2% of CERs issued under the Clean Development Mechanism (CDM) are allocated to an Adaptation Fund Account. The Trustee, currently the World Bank, monetises these CERs on behalf of the Adaptation Fund, keeps proceeds in trust, and disburses them on instruction by the Adaptation Fund Board.	• USD 130.5 million monetised, from inception to October 2010.[a] • CER inventory is at EUR 14.3 million to EUR 19.5 million.[b] • Future monetisation until 2012 may generate EUR 110-150 million.[c] • From 2013-20 the Adaptation Fund may accrue another 107 million CERs.[d]	• The first projects were approved in September 2010: projects in Senegal and Honduras totalling USD 14.4 million, and project concepts in Guatemala, Madagascar, Mongolia, Nicaragua, Pakistan and Solomon Islands totalling USD 30.5 million. • No project funds have been disbursed.	• No ODA is involved unless the CDM project was funded by ODA, in which case the 2% share has already been reported in the project cost. (The share of proceeds is not raised under national legislation. There is no additional transfer from a donor country.) • The outflows from the Adaptation Fund count as official multilateral concessional flows for development.
Auctioning/sales of emission allowances (2008): generates funds under the European Union Emissions Trading System (EU ETS).	Under the EU ETS governments can auction and/or sell emission allowances to emitters or allocate them for free.[e] Auction revenue accrues to Member States.	• Germany raised some EUR 1.5 billion in 2008 and 2009 and allocated EUR 327 million to support international climate finance in developing countries.[1] • EU ETS could generate EUR 2.2 billion to EUR 2.9 billion per year.[f] • From 2013 on, when auctioning will be the rule, a multiple could be raised every year.	• The EU Directive recommends that at least half the revenue should be used to fight and adapt to climate change, mainly within the EU, but also in developing countries. • Only Germany has made explicit commitments to use funds for development assistance.	• Germany integrates the proceeds from auctioning/sales of emission allowances into its development co-operation budget. They are reportable as ODA when spent for development (*i.e.* on activities satisfying the usual ODA criteria).
Carbon emissions trading: the **Clean Development Mechanism** (CDM) allows countries with an emission cap under the Kyoto Protocol to invest in emission-reduction projects in developing countries (2004).	Emitters can invest in CDM projects that reduce emissions additional to what would otherwise have occurred. These projects can earn certified emission reduction (CER) credits that count towards meeting the Kyoto targets. Carbon funds can act as intermediaries that purchase emission reduction credits on behalve of emitters from low carbon projects in developing countries.[g]	Between 2004 and 2009, agreements for CDM transactions totalling some USD 25 billion (2 billion tonnes of carbon equivalent, tCO2e) have been signed.[2]	The primary objectives are a reduction of carbon emissions, or mitigation of climate change. Co-benefits through improving access to clean energy, developing local natural resources, providing solutions for solid wast management, reducing local air and water pollution, generating employment, and improving livelyhoods are expected.[h]	• Donors can report their official concessional support for CDM projects as ODA. • However, where projects generate CERs, the value of CERs at a reference price should be deducted from ODA as and when CERs accrue to the donor. (The CERs can be considered as a return to donors.)

In these tables, notes are indicated as letters and sources as numbers. See page 93 for notes and page 94 for sources.

Table 1. **Mapping innovative finance for development mechanisms** *(continued)*

Initiative	How does it work?	Financial flows	Development results	Is it ODA?
		New public revenue streams		
Global Currency Transaction Tax (proposed[i]): generates funds through a centrally collected multicurrency transaction tax.	The tax would apply to foreign exchange transactions on all major currency markets at point of settlement. Countries with global financial centers would not be burdened disproportionally. The proposed tax rate is 0.005%.	A Committee of Experts estimates annual revenues of USD 25 billion to USD 34 billion for the four major currencies (dollar, euro, yen and sterling). If the tax was applied at both ends of the transaction, revenues would increase significantly.[j]	• Development results would depend on the use of funds. • The Committee of Experts suggests using the funds for international development and environmental crises through a new, dedicated financial facility, a "Global Solidarity Fund".	• If funds were raised under national legislation, they would count as ODA when spent for development (activities satisfying the usual ODA criteria). • If funds were raised through an international settlement system, there would be no transfers from donor countries and thus no ODA. The outflows from the dedicated fund may count as official multilateral concessional flows for development.
Solidarity levy on airline tickets (2006): generates funds for UNITAID and IFFIm through a nationally implemented and internationally coordinated tax on airline ticket sales.	In France, airlines are responsible for collecting the levy as an addition to existing airport taxes. Passengers in transit are exempt. The tax ranges from USD 1 for economy to USD 10 and USD 40 for business- and first-class tickets. Different rates are set by other participating countries (Chile, Madagascar, Mauritius, Niger and the Republic of Korea).	• France raised EUR 544 million from July 2006 to December 2009. 90 percent of proceeds have been allocated to UNITAID and 10% to IFFIm. • Contributions to UNITAID by other countries that participate in the levy were USD 29 million between November 2006 and 2009.[3]	The levy is about 50-60% of UNITAID's budget[k] and contributes to its results proportionally, including:[l] • Treating about 285 000 children for HIV/AIDS • 6200 MDR-TB, 785 100 first line TB treatments • 55 million ACT treatments • 20 million bed nets • price reductions of up to two-thirds for medicines	• The funds are raised under national legislation and count as ODA when spent for development (*i.e.* when contributions are made to UNITAID and IFFIm).

In these tables, notes are indicated as letters and sources as numbers. See page 93 for notes and page 94 for sources.

Table 1. **Mapping innovative finance for development mechanisms** *(continued)*

Initiative	How does it work?	Financial flows	Development Results	Is it ODA?
		Debt-based instruments and frontloading		
Debt2Health (2007): makes funds available to the Global Fund projects and at the same time reduces a country's debt burden. *www.theglobalfund.org/en/innovativefinancing/debt2health*	A Debt2Health swap is a conversion of official debt at a discount. An official creditor cancels bilateral debt (in countries that do not qualify for HIPC debt cancellation). In turn, the debtor pays a portion of the debt – so far in all implemented swaps 50% – to the Global Fund. The Global Fund uses this contribution for projects in the debtor country.	By 2010 some EUR 160 million in debt2health swaps have been agreed.[4] • 2007: Germany and Indonesia, EUR 50 million • 2007: Germany and Pakistan EUR 40 million • 2010: Australia and Indonesia, AUS75 million • 2010 Germany and Côte d'Ivoire, EUR 19 million	• Debt2Health contributes proportionally to Global Fund results. • In Indonesia, with approved grants of almost USD 400 million, the Global Fund financed 17 617 people currently on ART, treatment of 800 057 new smear-positive TB cases, and distribution of 2 million nets.[5]	• Debt cancellation (one portion of swap) is reportable as ODA grant for debt forgiveness. For ODA debt, only forgiven interest counts as new net ODA; for other debt, forgiven principal and interest count counts as new ODA. • Debt conversion (the other portion) is reportable as ODA grant for debt conversion. Depending on the origin of debt (ODA, OOF or private), either converted interest, or converted interest and principal, counts as a new ODA flow. • Global Fund spending from debtor payments should not be recorded in DAC statistics because they are net flows to developing countries, and the cancellation and conversion operations that have facilitated them are already reportable as bilateral ODA.[m]
IDA buy-down (also referred to as credit buy-down, 2003): increases the concessionality of an IDA credit by buying down its principal and interest in the future after predefined results have been achieved.	Before the country receives an IDA credit, a donor commits to buy down principal and interest in the future. Required funds are held in trust until the credit is bought down. Because the net present value of IDA credits is smaller than the book value, USD 1 of donor funding leverages about USD 2 in IDA funding.	Since 2003, IDA buy-downs in Pakistan and Nigeria received almost USD 150 million from the Gates Foundation, UN Foundation, Rotary International, and the U.S. Centers for Disease Control, to buy down more than USD 300 million in IDA credits.[6]	• Most areas of Pakistan are now polio-free; cases declined from 117 in 2008 to 89 in 2009.[7] • Progress in Nigeria has been slower, but reported cases of the virus have begun to decline.[8]	• Official contributions by donor countries would count as ODA when the donor transfers funds to the trust fund. If buy-downs are not triggered and funds are returned to donors, they are recorded as negative ODA. • Contributions by foundations do not qualify as ODA, but would be recorded as private grants.

In these tables, notes are indicated as letters and sources as numbers. See page 93 for notes and page 94 for sources.

Table 1. **Mapping innovative finance for development mechanisms** *(continued)*

Initiative	How does it work?	Financial flows	Development Results	Is it ODA?
		Debt-based instruments and frontloading		
IBRD buy-down (also referred to as loan buy-down, 2002): increases the concessionality of IBRD loans by buying down a part or the full amount of their principal and interest, where it is justified by global public goods or cross-border externalities.	A donor commits to blend an IBRD loan with a grant. Required funds are held in trust (China) or governed by a bilateral agreement between donor and recipient (Botswana). Later, debt is bought down, in the case of Botswana triggered by predefined results.	• An IBRD buy-down with China (2002) combined a 104.0 million loan with a USD 37.4 million UK grant.[9] • Two more buy-downs were implemented in China: A USD 100 million loan with a USD 34.4 DFID grant for education and a USD 100 million loan with USD 32.45 DFID grant for rural development. • A USD 50 million loan for HIV/AIDS to Botswana (2008) was supported by a results-based USD 20 million buy-down funded by the EC.[10]	• The IBRD buy-down for tuberculosis control in China exceeded targets for case detection and cure rates, treated close to 1.6 million and cured nearly 1.5 million patients. • The IBRD buy-down for education contributed to near universal enrollment by 2009. 2.4 million students have benefited, 19% from ethnic minorities. • So far, results reports have not been published for the other two buy-downs in China and Botswana.	• Official contributions by donor countries count as ODA when donors transfer funds to the trust fund. If buy-downs are not triggered and funds are returned to donors, they are recorded as negative ODA.
International Finance Facility for Immunisation (IFFIm, 2006): funds immunisation programmes by frontloading development assistance (making it available up to 20 years earlier) and increasing its predictability. *www.iff-immunisation.org*	IFFIm issues bonds in the capital markets backed by legally binding donor commitments to pay grants over the next 20 years. Funds are used to finance GAVI immunisation campaigns.	By end of October 2010: • donor commitments to IFFIm amounted to USD 5.9 billion (UK, France, Italy, Norway, Spain, Netherlands, Sweden, South Africa)[11] • bond issuances amounted to USD 2.6 billion[12]	• By end of September 2010, IFFIm programmes of USD 2 billion had been approved;[13] USD 1.2 billion had been disbursed to recipients.[14] • GAVI estimates that IFFIm had saved more than 3 million lives by 2008.[15] • The WHO projected that more than a million additional lives will be saved in 2009 and 2010.[16]	• Official contributions by donor countries count as ODA when donors transfer funds to IFFIm. These cover set-up costs, administration and payments to meet bond interest and principal, during the life cycle and at maturity of bonds.

In these tables, notes are indicated as letters and sources as numbers. See page 93 for notes and page 94 for sources.

Table 1. **Mapping innovative finance for development mechanisms** *(continued)*

Initiative	How does it work?	Financial flows	Development results	Is it ODA?
		Public-private incentives, guarantees and insurance		
Pilot **Advance Market Commitment (AMC,** 2009): for pneumococcal vaccines helps making these vaccines available and affordable in developing countries by reducing investment uncertainty for manufacturers. *www.vaccineamc.org*	The AMC promises a future donor co-payment, contingent on vaccine delivery, thereby creating incentives to engage in research, development, production, and distribution of a specified vaccine. The World Bank holds donor payments on its balance sheet, assuming the financial risk of donor payments. After payments are made, it passes them on to the GAVI Alliance.[n]	Donors (Italy, UK, Canada, Russia, Norway, Gates Foundation) have committed a USD 1.5 billion subsidy and GAVI has committed an additional USD 1.3 billion of its own funds through 2015.[17]	• By 2020, the pilot AMC will have helped immunise estimated 700 million children and prevent 2.8 million deaths.[18] • Acceleration could prevent another 4.9 million deaths.[19] • Other estimates expect prevention of 7 million childhood deaths by 2030.[20]	• Official contributions by donor countries count as ODA when donors transfer funds to the World Bank. • Contributions by foundations do not qualify as ODA, but would be recorded as private grants.
Affordable Medicines Facility-malaria (AMFm) (2010): is a global subsidy, managed by the Global Fund, designed to expand access to artemisinin-based combination malaria therapies (ACTs). *theglobalfund.org/en/amfm*	The Global Fund negotiates the price of ACTs, and subsidises it to lower the cost to first-line buyers. First-line buyers are expected to pass on a proportion of the subsidy to enable patients to buy ACTs.[21]	By end of September 2010, AMFm had received USD 212.5 million in contributions from UNITAID, the UK and the Gates Foundation.[22]	• AMFm may save estimated 174 000 to 298 000 lives per year,[23] delay resistance to artemisinins, and increase access by reducing consumer prices of ACTs from USD 6-10 to USD 0.20-0.50.[24] • In 2010, importers pay up to 80% less than in 2008-09.[25]	• Official contributions to AMFm by donor countries count as ODA when donors transfer funds to the Global Fund. • Contributions by foundations do not qualify as ODA, but would be recorded as private grants.
Caribbean Catastrophe Risk Insurance Facility (CCRIF) (2007): is an example of a sovereign insurance pool that provides access to affordable coverage against natural disasters for immediate budget support after a major earthquake or hurricane. *www.ccrif.org* Facilities for Pacific Island Countries and Central America are under preparation.[26]	CCRIF is a parametric mutual insurance facility controlled by participating governments. It pools countries' risks by retaining reserves and by transferring the remaining risks to the market where it purchases reinsurance and catastrophe swaps.[o]	• Total premium payments of some USD 20 million per year, some supported by bilateral donors and IDA.[27] • Contributions by Bermuda, Canada, EU, France, Ireland, UK, Caribbean Development Bank and IBRD of some USD 67.5 million to a Multi-Donor Trust Fund that supports operating expenses, insurance payouts, and reinsurance costs.[28]	In 2009-10 CCRIF's aggregate exposure was about USD 600 million. Payouts of about USD 32 million since inception:[29] • USD 1 million, Dominica and St. Lucia, 2007 • USD 6.3 million, Turks and Caicos Islands, 2008 • USD 7.75 million, Haiti, 2010 • USD 4.2 million, Anguilla, 2010 • USD 1.1 million, St Vincent and the Grenadines, 2010 • USD 3.2 million, St. Lucia, 2010 • USD 8.5 million, Barbados, 2010	• Contributions by official donors to the CCRIF trust fund and subsidy of premium payments qualify as ODA.

In these tables, notes are indicated as letters and sources as numbers. See page 93 for notes and page 94 for sources.

Table 1. **Mapping innovative finance for development mechanisms** *(continued)*

Initiative	How does it work?	Financial flows	Development results	Is it ODA?
		Sovereign Index Insurance		
• *Weather Index Insurance for Ethiopia* (2006) provides contingency funding to Ethiopia in case of extreme drought with support by WFP and USAID. [30]	The payment would have been triggered when an index of rainfall data from March to October rainfall was significantly below historic averages.	A USAID grant financed the premium payment of USD 930 000.	Insurance has not been triggered. The maximum payout of USD 7.1 million would have provided funds to protect the livelihood of up to 62 000 households.[31]	USAID grant to finance the premium payment qualifies as ODA.
• *Index-Based Weather Derivative for Malawi* (2008) provides funding to Malawi in case of severe drought. It transfers a portion of the risk to the capital markets with support by UK and World Bank.[32]	The contract is an option on a rainfall index that links rainfall and maize production. The payout is triggered if the index falls to 10% below the historical average.	• The UK financed the premium payment. • The World Bank acted as an intermediary between Malawi and reinsurance companies or investment banks.[p]	The coverage of the 2008-09 pilot was about USD 5 million, the coverage of the 2009-10 contract USD 4.4 million.	Premium payments by the UK qualify as ODA.

In these tables, notes are indicated as letters and sources as numbers. See page 93 for notes and page 94 for sources.

Annex A. **Voluntary contributions using public or public-private channels**

Initiative	How does it work?	Financial flows	Development results	Is it ODA?
Product(RED) – or (RED, 2006) raises funds for HIV/AIDS programmes in Africa of the Global Fund. *www.joinred.com*	(RED) receives a share of profits from the sales of (RED) branded products it is an example of cause-related marketing and a consumer-based income-generating initiative with 12 partner corporations.	As of December 2009, (RED) has generated more than USD 150 million for the Global Fund.[33]	"More than 5 million people have been impacted by (RED) supported Global Fund grants."[q, 34]	Funds are voluntary private contributions and do not qualify as ODA.
Massivegood, a pilot **voluntary solidarity contribution** (2010) raises funds for UNITAID[r] *www.massivegood.org*	Travelers can make a USD 2 micro-contribution for travel services when they book travel services.	Massivegood raised almost USD 200 000 micro-contributions as well as matching funds and donations as of June 2010.[35]	Under implementation – too early to report on results.[s]	Funds are voluntary private contributions and do not qualify as ODA.
Eco 3Plus Note (2007) and **Green Bond** (2008) issued by the World Bank, raise funds from investors that demand financial and social returns.[32] *www.treasury.worldbank.org*	• Eco 3Plus Note: coupon is linked to an equity index focusing on alternative energy, water and waste management, and reduction of pollution. • Funds for the Green Bond are used for climate change mitigation and adaptation projects.	• In 2008 three Eco 3Plus Notes raised a total of USD 333 million. • From 2008-10 the World Bank raised almost USD 1.5 billion with Green Bonds.	• Eco 3Plus Notes contribute to International Bank for Reconstruction and Development (IBRD) lending and therefore to IBRD results. • Green Bonds contribute to IBRD lending related to climate change and therefore to the results the IBRD achieves.	• Bond issuance does not qualify as ODA. Onlending of funds to IBRD borrowers can be reported as multilateral non-concessional outflows (assimilated to OOF).
Global Fund investment products raise funds by receiving a portion of revenues generated from licensing co-branded financial market indexes which can serve as a basis for Exchange Traded Funds (ETFs) (2010).	The Dow Jones Global Fund 50 Index[SM 37] has been established. It measures the performance of the largest companies that support the mission of the Global Fund.[38] So far the index has been licensed db X-trackers, an ETF of Deutsche Bank.[39] The Global Fund receives a portion of the licensing fee.	Estimates on flows including potential future flows are not available.	Proceeds from the portion of the licensing fee will proportionally contribute to Global Fund results.	Funds are private contributions and do not qualify as ODA.

In these tables, notes are indicated as letters and sources as numbers. See page 93 for notes and page 94 for sources.

Annex B. **Improvement of the array of financial products of existing development agencies without major involvement by official donors**

Initiative	How does it work?	Financial flows	Development results	ODA
Securitisation of future flow receivables (Mexico, 1987) provides access to lending on the capital markets (sovereign and non-sovereign) and brings down cost of capital.[40]	Securitisation pools future receivables from commodity trade, airline tickets and/or credit cards in order to back the issuance of securities. Securitisation reduces investors' risks and may allow financing at a lower interest rate. Potential official involvement through subsidies.	The three main credit rating agencies have rated more than 400 transactions in low and middle income countries. More than USD 80 billion have been raised between 1992 and 2006.[41]	No analysis of aggregate development impact available.	Proceeds from securitisation do not qualify as ODA since these do not involve concessional funds from official donors. Subsidies for setting up a securitisation, technical assistance, and administrative costs by official donors may qualify as OOF if they support international development.
• *Residential mortgage-backed securities* to provide affordable home loans. (IFC in South Africa, 2001).[42]	The structure involved the securitisation of 6 462 residential mortgages.	USD 128 million securitisation with USD 1.5 million IFC investment in subordinated tranche.	First residential mortgage-backed securities in SA that contributed to development of housing finance sector.	Proceeds from securitisation do not qualify as ODA. Subsidies by IFC are recorded as multilateral non-concessional outflows (assimilated to OOF).
• *Securitisation of student tuition payments* to finance expansion/ modernisation of private university (IFC in Chile, 2003)[43]	• University transferred right to receive future tuition payments to Special Purpose Vehicle (SPV). • SPV issued bonds. • Bondholders received an IFC guarantee for up to 30% of outstanding principal.	• USD 23 million bond issue denominated in inflation-indexed local currency, with an 8-year maturity • Backed by USD 6.9 million partial credit guarantee by IFC.	• Helped private university to raise capital. • Contributed to development of domestic capital markets and expansion of the local currency financing for educational institutions.	Proceeds from securitisation do not qualify as ODA. Subsidies by IFC are recorded as multilateral non-concessional outflows (assimilated to OOF).
• *Securitisation of agribusiness* secures current and future sales receivables of agricultural and industrial conglomerate. *(IFC in Peru, 2005)*[44]	A trust domiciled in Peru receives sales revenues and Trustee makes allocation to bondholder account. IFC provided a PCG that covers principal and interest.	USD 25 million securitisation of current and future receivables with IFC partial guarantee for up to 30% of the outstanding principal.	Contributed to development of local capital markets.	Proceeds from securitisation do not qualify as ODA. Subsidies by IFC are recorded as multilateral non-concessional outflows (assimilated to OOF).

In these tables, notes are indicated as letters and sources as numbers. See page 93 for notes and page 94 for sources.

Annex B. **Improvement of the array of financial products of existing development agencies without major involvement by official donors** *(continued)*

Initiative	How does it work?	Financial flows	Development results	ODA
Contingent loans provide liquidity in case of macroeconomic shocks				
• A development policy loan with *deferred drawdown option* (DPL DDO) is a committed credit line by the World Bank (2002)[45]	A DPL DDO allows middle-income countries postponing drawing down a IBRD loan for a defined time period. DPL DDOs provide liquidity to IBRD borrowers in case of adverse economic events such as downturns in economic growth or changes in commodity prices or terms of trade.	In 2002-03, two DDOs for Latvia and Chile totaling USD 220 million have been approved. After a review of the instrument in 2008, 13 new DPL DDO for USD 5.5 billion have been approved including Indonesia (USD 2 billion), Colombia (USD 550 million), Mexico (USD 500 million) and Costa Rica (USD 500 million).[46]	The two initial DPL DDOs have been drawn down. Out of the new DPL DDOs, USD 2.5 billion have been drawn down.[47]	DPL DDOs are based on standard IBRD lending products and qualify as multilateral non-concessional outflows (assimilated to OOF) when disbursed.
• Development policy loans with *catastrophe (CAT) DDOs* by the World Bank provide bridge financing in case of a natural disaster (2008).	The instrument provides liquidity up to USD 500 million or 0.25% of GDP (whichever is less) in state of emergency due to a natural disaster. Eligible countries must have a hazard risk management program in place.	Since 2008 4 IBRD loans with CAT DDO have been approved: • USD 65 million, Costa Rica • USD 150 million, Colombia • USD 85 million, Guatemala • USD 100 million, Peru	In 2009 and 2010 Costa Rica (so far USD 25 million), Guatemala (full), and Colombia (full) drew down their loans to finance reconstruction efforts after an eruption of a volcano, earthquake, tropical storm, floods and landslides.[t]	Cat DDOs are based on standard IBRD lending products and qualify as multilateral non-concessional outflows (assimilated to OOF) when disbursed.
• *Contingent credit facility*[48] by the Inter American Development Bank and first contingent loan to the Dominican Republic (2009).[49]	Loans are disbursed rapidly upon verification that a hurricane or earthquake of severe catastrophic intensity has occurred to meet extraordinary expenditures that arise during emergencies.	• The credit facility has a volume of USD 600 million[50] • First loan provides access to a USD 100 million loan to the Dominican Republic.[51]	No results yet.	Contingent IDB loans qualify as non-concessional outflows (assimilated to OOF) when disbursed.

In these tables, notes are indicated as letters and sources as numbers. See page 93 for notes and page 94 for sources.

Annex B. **Improvement of the array of financial products of existing development agencies without major involvement by official donors** *(continued)*

Initiative	How does it work?	Financial flows	Development results	ODA
Index-based livestock insurance for Mongolia (2005)[u] *www.iblip.mn* Another example for property insurance is the **Turkish Catastrophe Insurance Pool** (2000).[v] Assessments for further property insurance programs are under way for China and Romania.[52]	The Insurance protects herders against livestock mortality, provides them with liquidity after a disaster; and helps the government to transfer part of its fiscal risk to the reinsurance market. The Insurance is based on an index of livestock mortality rates. Herders bear the cost of small losses. Larger losses are covered by an insurance pool and the largest losses are born by the government that has access to a contingent credit line from the World Bank.	• Technical assistance by Japan (USD 1.3 million, PHRD), World Bank and First Initiative. • USD 5 million IDA credit to be triggered if facility reserves are insufficient to pay all claims. • Premium volume increased from USD 98 thousand to USD 153 thousand.[53]	• The insured loss increased from USD 4.5 million in 2006-07 to USD 6.2 million in 2008-09.[54] • Number of animals insured increased from 246 thousand to 309 thousand. • The 2009-10 season resulted in the largest payments of more than USD 1.3 million.[55]	• Technical assistance (and potential premium payments) by official donors count as ODA. • IDA credits are recorded as multilateral concessional outflows (assimilated to ODA).
Countercyclical Loans (CCL, 2008) by the French Development Agency (AFD) adapt sovereign debt service obligations to the ability to meet these obligations.[56]	Concessional loan with a reduced grace period from ten to five years. The borrowing country can draw upon the remaining grace period when an adverse shock occurs.	In 2008-10, AFD has signed 8 CCL agreements with Burkina Faso, Mali, Mozambique, Senegal, and Tanzania totaling almost EUR 200 million.[57]	Flexible grace period becomes relevant only after five years. None of the loans was implemented long enough to reach the flexible grace period. No results yet.	Provided they are concessional, bilateral loans by the AFD, including countercyclical loans, qualify as ODA.
Carbon Delivery Guarantee (CDG, 2008) by the IFC mitigates emerging market project, credit, and country risks for CDM projects[58]	The CDG guarantees the delivery of carbon credits from companies in developing countries to compliance buyers in developed countries.[59] As an intermediary, IFC facilitates delivery of carbon credits and eliminates the risk of not receiving promised carbon credits.	In 2008 IFC signed the first Carbon Delivery Guarantee in South Africa covering up to 900 000 carbon credits and in India covering up to 850 000 carbon credits.[60]	In South Africa the CDG helps a fertilizer producer to employ cleaner technology that prevents nitrogen oxide emissions.[61] In addition, the producer contributes 5% of CER revenue to the local community. In India the CDG helps the worldwide largest merchant of calcined coke to generate power with a waste heat recovery power plant and reduce dependence on fossil fuel-based power.	• Financial guarantees do not count as ODA or any other financial flows. • In case the guarantee is triggered and funds are provided by IFC, the CGD would qualify as multilateral non-concessional outflows (assimilated to OOF) when disbursed.

In these tables, notes are indicated as letters and sources as numbers. See page 93 for notes and page 94 for sources.

Annex C. **Mechanisms at idea stage**

Initiative	How does it work?	Financial flows	Development results	Is it ODA?
Eco, forest, or carbon securitisation (proposal) would frontload funds by securitising potential future returns from carbon emission reductions, the management of forests, or other ecosystems services.[62]	Investments in ecosystem services potentially would generate funds to (partially) repay investments. Security is issued on the capital markets, potentially guaranteed by donors, and repaid from future flows.	No financial flows yet. No financial models/estimates available.	No result estimates available.	Proceeds from securitisation would not qualify as ODA since it involves private, non-concessional funding. Bilateral subsidies to establishing securitisation arrangements may qualify as ODA. Guarantees may qualify as ODA when called.
Product Development Partnership Financing Facility (PDPFF) (proposal) would generate funds for research and development of vaccines (and potentially other health products) by frontloading potential future returns from research and development.[63]	Proceeds from sale of bonds would support research and development. The funds to back and repay bonds would derive from royalties from sales and donor-funded premiums linked to sales of PDP vaccines in low-income countries. Potentially requires donor guarantee.	Proponents estimate that revenues from a PDPFF between 2010 and 2040 would range from USD 2.2 to USD 6.9 billion for the three Product Development Partnerships Areas, IAVI, and MVI. Backed by donor guarantees, they yield a net present value of USD 0.9 to USD 2.3 billion.[w]	Depends on vaccine developed and roll out. PDPFF would only finance research and development but not production and distribution of vaccine.	Proceeds from bond issuance would not qualify as ODA since it involves private, non-concessional funding. Subsidies by sovereign donors may qualify as ODA. Donor guarantees would qualify as ODA when called.
The **De-Tax** (proposal) would raise funds by earmarking a share of VAT revenues for development assistance. Funds would be topped by a voluntary contribution by businesses.[x]	The De-Tax would combine two elements: governments would give one percentage point of VAT revenues by businesses associated with the initiative. Businesses would, on a voluntary basis, give a share of their profit if they wish to co-finance development projects.	It has been estimated that the De-Tax could raise USD 2 billion annually if 26 countries participate. Italy estimated annual revenues between EUR 100-150 million for Italy only.	No result estimates available.	Proceeds from earmarked VAT, when spent by official donors on development assistance, would count as ODA. Voluntary contributions by the private sector would not count as ODA.

In these tables, notes are indicated as letters and sources as numbers. See page 93 for notes and page 94 for sources.

Notes for the previous tables

a. From May 2009 (first sales) to end of October 2010 the Trustee sold 7.7 million CERs generating USD 130.5 million. Source: Financial Status of the Adaptation Fund Trust Fund (as at 31 October 2010). Third Meeting of the Adaptation Fund Board Ethics and Finance Committee, Cancun, December 13, 2010. AFB/EFC.3/7Rev.1, December 7, 2010.

b. Estimate as of end of October 2010. Amount may change significantly because of volatile CER prices. The estimate is based on the CER balance of 1.3 million as of end of October 2010 (AFB/EFC.3/7Rev.1, December 7, 2010) and a trading range of EUR 11-15 per tonne (Trustee presentation to the Adaptation Fund Board on December 15, 2010, *http://adaptation-fund.org/system/files/CER%20Market%20Update%20December%2015%202010.pdf*).

c. November 2010 to end of 2012. The estimate is based on the UNEP Risoe CDM Pipeline as of December 1, 2010 (*http://cdmpipeline.org/overview.htm#4*) and a potential CER price of EUR 11-15 per tonne. UNEP Risoe expects that a total of 962 million CERs will be issued by the end of 2012. Two percent, or 19.2 million CERs, would be allocated to the Adaptation Fund. By end of October 2010, about 10 million CERs have not been issued. The Trustee estimates a similar range of a total USD 273 million to USD 388 million from monetisation for 2009-12 (Trustee presentation to the Adaptation Fund Board on December 15, 2010).

d. Credible estimates about revenues from monetisation are not possible because of market uncertainty.

e. So far, Germany, the UK, Netherlands, Austria, Ireland, and Hungary have auctioned or sold emissions allowances. In the European Union, during the first trading period (2005 to 2007) governments have auctioned only limited quantities. In the second trading period (2008 to 2012) still most allowances are allocated for free. As from the third trading period starting in 2013, new regulation will make auctioning of allowances the rule rather than the exception. *http://ec.europa.eu/environment/climat/emission/auctioning_en.htm*.

f. For 2011 and 2012 National Allocation Plans (NAPs) determine emission allowances of some 2 billion annually for 26 countries participating in the EU ETS (EU Commision Press Release from 26 October 2007: Emissions trading: Commission approves Romania's national allocation plans for 2007 and 2008-12. IP/07/1612. *http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1612*). Estimate is based on the assumption that all countries will auction 9% of total allowances, as done by Germany. The estimated is based on the range of carbon price for spot transaction of European Union Allowances (EUAs) – EUR 12.17-16.29 per tonne, the maximum and minimum prices in 2010. (Source: *www.bluenext.eu*).

g. See *www.carbonfinance.org*.

h. World Bank (2010), "Ten Years of Experience in Carbon Finance: Insights from Working with the Kyoto Mechanisms", World Bank, Washington, DC.

i. This description is based on the proposal of the Expert Group to the Leading Group's, which seems to have the greatest political support. Other financial transactions taxes have been proposed recently such as the Financial Activities Tax (FAT) by the IMF. The FAT would be a national tax generating funds for national budgets.

j. Committee of Experts to the Taskforce on International Financial Transactions for Development (2010). Globalizing Solidarity: The Case for Financial Levies. This is in line with earlier estimates, for example Schmidt, R. (2007). The Currency Transaction Tax: Rate and Revenue Estimates. The North South Institute.

k. In 2009, revenues from the levy were 62% of total revenues. For the 2010 budget, UNITAID expects the share of revenues from the levy to be about 54%. Norway is allocating a part of its air tax on carbon dioxide to UNITAID. If included in the calculation, the share from proceeds from levies on air travel is about 10% higher for both years.

l. UNITAID, "Innovative Financing for Health: Increasing Access and Affordability of Medicines through Market Impact *www.unitaid.eu/images/Factsheets/unitaid_brochure_july_en.pdf*.

m. Recording the multilateral outflow would lead to double-counting.

n. The World Bank holds donor payments on its balance sheet, assuming the financial risk of donor payments. After the payments are made, the Bank will pass them to the GAVI Alliance. WHO has established technical criteria that the vaccine must meet; UNICEF will handle procurement and distribution. Once AMC funding is depleted, the manufacturer continues to provide the product at an established price for a specified period of time. World Bank (2010). Innovative Finance for Development Solutions: Initiatives of the World Bank. Washington.

o. A USD 20 million cat swap between IBRD and CCRIF was the first derivative transaction to enable emerging countries to access the capital market to insure against natural disasters.

p. IDA entered into a derivative transaction with Malawi and simultaneously into a mirroring, back-to-back transaction with a market counterpart. World Bank GFDRR Risk Financing Case Study. December 2010. Weather Derivative in Malawi.

q. (RED) constitutes a (small) portion of Global Fund resources which finance ARV treatment for more than 145 000 HIV+ people, preventative antiretroviral treatment for more than 84 000 HIV+ pregnant women to reduce the risk of transmission of HIV to their babies and HIV testing and counseling of 4.8 million people.

r. Massivegood is run by the Millennium Foundation for Innovative Finance for Health. Funds are channeled through UNITAID.

s. Massivegood has not achieved results on the ground. It claims that USD 1 will provide a HIV test kit for a pregnant woman, USD 10 will buy an insecticide-treated mosquito bednet, USD 20 will provide tuberculosis treatment, USD 100 will provide HIV treatment for a child for a year.

t. In 2009, Cost Rica drew down USD 24 million to rebuild infrastructure damaged by an earthquake that affected more than 120 000 people (World Bank Treasury. Managing Catastrophe Risk in Costa Rica. *http://treasury.worldbank.org/web/Financial_Solution_CostaRica_CatDDO_Dec2010.pdf*). In 2010, Guatemala drew down USD 85 million to finance reconstruction after the eruption of the Pacaya volcano and the Agatha tropical storm. The cost of the two disasters was USD 982 million, approximately 2.6% of the 2009 GDP (World Bank Treasury. Managing Catastrophe Risk in Guatemala. *http://treasury.worldbank.org/web/FinancialSoutionsinGuatemalaDec2010.pdf*). In December 2010, Colombia drew down USD 150 million to address a crisis caused by floods and landslides (World Bank Press Release from 28 December, 2010. *http://go.worldbank.org/M0XZ06QLV0*.

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w. Estimates are based on a concrete business case and vary with participation. Aeras, IAVI, MVI. (2009).

x. All information based on Working Group 2 Report to the High Level Taskforce on International Innovative Financing for Health Systems (2009). Raising and Channeling Funds.

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Notes

1. This document, prepared by the OECD with the support of the World Bank, was initially presented at an informal meeting of the OECD Development Assistance Committee's (DAC) Working Party on Statistics on 22 February 2011 and discussed at an experts' meeting on 14 March 2011 at the OECD. Participants at both meetings welcomed the work on the typology and mapping of innovative financing mechanisms, as well as the clarification of how these are treated in DAC statistics. At the experts' meeting, suggestions were made to guide future work of the OECD, which included more ongoing mechanisms, more detailed work regarding the category of incentive/public-private/guarantees and more evidence around the contribution of international financing for development to aid effectiveness. The OECD will take this forward in conjunction with other agencies.

2. "Innovative financing to fund development: progress and prospects", Development Brief November 2009.

3. The World Bank distinguishes between innovative finance mechanisms that generate additional funds, make funds more efficient, and link funds to results (World Bank. Innovative Finance for Development Solutions: Initiatives of the World Bank Group. Washington, DC, *http://siteresources.worldbank.org/CFPEXT/Resources/IF-for-Development-Solutions.pdf*). The Brookings institution differentiates between service delivery within countries, product delivery to countries, or product discovery and between different sources of money including governments, private donations, and investors (Ferranti, David de, Charles C. Griffin, Maria-Luisa Escobar, Amanda Glassman, and Gina Lagomarsino. 2008. Innovative Financing for Global Health: Tools for Analyzing the Options. Washington, DC: Brookings Institution, *www.brookings.edu/~/media/Files/rc/papers/2008/08_global_health_de_ferranti/08_global_health_de_ferranti.pdf*).

4. Official transactions are those undertaken by central, state or local governments or their executive agencies at their own risk and responsibility, regardless of whether these agencies have raised the funds through taxation or through borrowing from the private sector. Private transactions are those undertaken by firms and individuals resident in the reporting country from their own private funds. Private transactions do not count as ODA, but would be included in data on developing countries' resource receipts.

5. The mapping table has been put together with technical support by the World Bank. The information was collected mostly through a desk review from publicly available documents from December 2010 to January 2011, supplemented with some interviews by the OECD. Note that most information comes from sponsors of the innovative finance mechanism and not from objective evaluations. It has been tested for plausibility and discussed by technical staff. However, the document should be read with the necessary care. All sources of information and assumptions are explained in the footnotes. Information is kept close to its original form, has not been not simplified and streamlined to reflect the broad variety of mechanisms.

Improving conflict prevention and peacebuilding assistance through evaluation

By Megan Grace Kennedy-Chouane*

Evaluation and peacebuilding experts have been working together to encourage more and better evaluation of conflict prevention and peacebuilding programmes. Draft guidance has been produced and used over a two-year test phase to evaluate donor support for peacebuilding in southern Sudan, Sri Lanka, the Democratic Republic of Congo, Haiti and elsewhere. This article looks at what has been learned from these experiences in terms of both policy lessons and how evaluation can be managed and carried out in these challenging settings. This series of evaluations has shown that progress is needed on a number of fronts – institutional, political, managerial etc. – to make development co-operation more effective in conflict affected and fragile states.

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Introduction

The OECD Network on Development Evaluation and the International Network on Conflict and Fragility have developed guidance on evaluating conflict prevention and peacebuilding activities. The guidance has been used for evaluations in southern Sudan, Sri Lanka, the Democratic Republic of Congo and elsewhere.[2] This article looks at what we have learned from these experiences in terms of both policy lessons and how to undertake evaluations in these challenging environments.

The need for a better approach to evaluation in conflict settings

The astoundingly high human, societal and financial costs of recent violent conflicts led to a marked increase in international interventions intended to avert or end conflict and strengthen the foundations for sustainable development in fragile states in the early 2000s (OECD and Collaborative for Development Action (CDA), 2007). At the same time, concern has grown over the efficacy and value of such efforts. Concerns about the performance of pro-peace initiatives were exacerbated as many countries once thought to be emerging from conflict slipped back into war. There is also mounting alarm about the lack of development results – including slow to no progress on the Millennium Development Goals – in conflicted affected states and countries with weak or failing governments (International Dialogue on Peacebuilding and Statebuilding, 2010).

Coupled with these concerns are a number of practical and methodological challenges which make evaluating these types of programmes difficult and resulted in a dearth of rigorous evaluations. Data are scarce, objectives frequently ill-defined and the logic underpinning interventions often murky – to name just a few of the barriers to evaluation in conflict settings.

In 2007, two networks of the OECD Development Assistance Committee (DAC) working on evaluation and on conflict prevention and peacebuilding began a collaboration to support practitioners and policy makers in their efforts to enhance their work, by helping to improve evaluation practice in these fields. The two groups worked together to develop guidance on evaluating conflict prevention and peacebuilding activities[2] and to encourage more and better evaluation in conflict-affected areas.

While this collaborative initiative hoped to tackle some of the methodological challenges facing evaluators, it was also an attempt to address a broader strategic gap identified in the field of conflict prevention and peacebuilding (OECD and CDA, 2007). Despite massive (and growing) investment from international partners in fragile and conflict-affected states efforts to prevent conflict and build peace have been hampered by weak programme design and management, and a dearth of rigorous evaluations (Smith, 2004). Broader interest in and use of evaluation would provide much needed hard evidence about the role of development co-operation in transforming conflict and spurring development in settings of state fragility (Böhnke *et al.*, 2010).

The OECD published the *Draft Guidance on Evaluating Conflict Prevention and Peacebuilding* in 2008 and launched a two year application phase to try out the suggested approach in real conflict settings. The testing phase aimed at producing policy insights as well as feedback on the guidance itself. This article takes stock of the outcomes of this process, highlighting interesting policy findings and lessons learned on how to approach these evaluations.

Learning from recent evaluations

On the invitation of Norway, some 70 experts and policy makers, from a range of OECD member states and international development research institutions met in February 2011 to review experience with the draft guidance.[3] The guidance was intended to help strengthen professionalisation and fill a strategic gap in these fields, at a time when the international understanding of conflict and fragility was relatively limited with little agreement on how donors should work on conflict prevention and peacebuilding. The outcomes shared at this event demonstrated that, while many challenges remain, quality evaluation is possible and it can provide useful insights to improve donor support to peacebuilding and statebuilding processes.

During the application phase, the guidance was used by a variety of actors: programme managers, embassy staff, training institutions, evaluation managers, evaluators, and research institutions (both development and military). It was employed for three major joint donor evaluations, in southern Sudan, Sri Lanka, and the Democratic Republic of Congo. Norway's evaluation department used the draft to assess the Norwegian contribution to peace in Haiti. The Swedish military commissioned an independent evaluation of its Provincial Reconstruction Teams in Afghanistan. At the same time, the European Commission began a review of its entire peacebuilding portfolio. Germany looked at the impact of aid in Afghanistan and evaluated its civil peace service programme.

Since the completion of the draft guidance, much progress has been made in the development community to improve understanding of conflict and peace as well as the intertwined challenges of fragility, governance and statebuilding.[4] Such work has strengthened the analytical framework for conflict prevention, peacebuilding and statebuilding activities – and their evaluation. The evaluations carried out during the application phase also contribute further evidence to help advance knowledge in these fields.

Despite these advances, the evaluation findings presented in Oslo demonstrate that donor policies and programmes in this field are still falling short. There is considerable scope for improving how donors engage in conflict settings. Highlights of emerging policy recommendations and evaluation lessons are outlined below, with specific examples provided in Boxes 1-3. Outcomes from these evaluations are also being compiled and disseminated for use in national policy forums and international discussions on statebuilding, peacebuilding and aid effectiveness.

Findings from the evaluations: How donors can better support peace

Ground interventions in solid conflict analysis

There is a pressing need to ground interventions in better, more strategic conflict analysis. Good conflict analysis includes analysis of the political economy, context and stakeholders, and should be used flexibly, monitored and updated regularly. Numerous tools for analysis are already available; the guidance provides an overview. Incentives need to be strengthened and adequate resources provided to ensure the integration of strong conflict understanding throughout the programme process.

The need for better conflict analysis was supported by the finding – shared by all evaluations – that donors lacked (to a greater or lesser extent) strategic prioritisation in terms of aiming programmes and funding at addressing core peace drivers/conflict mitigating factors. A focus on providing humanitarian aid or basic services tends to be driven by the

flawed assumption that all development activities will somehow contribute to peace. This assumption was not supported by evidence in the evaluations. In fact, in some cases, the lack of strategic targeting seemed to undermine peacebuilding prospects by diverting attention and resources away from more critical elements such as security and justice reform in southern Sudan or land ownership issues in the Democratic Republic of Congo.

Box 1. **Are donors aiding peace in southern Sudan?**

In January 2011, citizens of southern Sudan voted for independence, six years after the peace agreement that ended the civil war with the North. What can the international community do to support the new government? A recent joint evaluation sheds light on how donors have done so far, and what changes are needed to better support peacebuilding in this young state. The evaluation concludes that support to conflict prevention and peacebuilding has only been partially successful. Donor strategies did not fully take into account key drivers of violence resulting in an overemphasis on basic services and a relative neglect of security, policing and the rule of law, which are essential in state formation. Insufficient assistance has been given towards preparing southern Sudan for secession. There was an over-use of nominally "good" practice – particularly with respect to ownership and harmonisation – at the expense of much needed in-depth knowledge and field presence. While harmonisation, co-ordination and alignment are not *contradictory* to conflict prevention and peacebuilding *per se*, they are not sufficient responses to state fragility.

Focus on statebuilding and legitimacy in the long term

Long-term peace and development are critically linked to the capacity and legitimacy of the state. Recent work by INCAF and others has led to a closer linking of the concepts of peacebuilding, conflict prevention and statebuilding. These processes are now understood as being inextricably linked; efforts to support such processes – whether they are labelled peacebuilding or statebuilding – are essentially moving towards common ultimate objectives. Donors need to base their interventions not only on the need to support short term stability (or the cessation of hostilities) but on a broader understanding of how their interventions affect state-society relations and the longer term prospects for the development of a functioning, legitimate state.

More realistic objectives for interventions (using conflict analysis, scenario planning and assessments of absorptive capacity, for instance) are needed to improve the impact of peace and statebuilding activities. The evaluation findings highlight that donors are too often operating on unrealistic expectations for the rapid creation of a functioning state. There are often equally unrealistic hopes for the role of international partners in influencing countries' long-term trajectories. Recent conceptual progress on statebuilding, political legitimacy and political settlements – by the OECD and the Norwegian Agency for Development (Norad), among others – should help policy makers and management build more realistic understandings of the contexts in which they work and the prospects for change. Evaluation teams looking at the contributions of donor interventions to "peace writ large" should keep in mind longer term goals related to state functions and legitimacy.

Adopt more flexible approaches

Donor policies should allow for greater flexibility of engagement in fragile and conflict-affected states. Instruments used for implementation are often not tailored to the challenges faced in these contexts. For instance, the evaluation in southern Sudan found that donors were locked in by three- to five-year spending plans that reduced their ability to shift geographical or sector focus in response to the evolving conflict. Similarly, in the case of Sri Lanka, many donors did not have the strategic and financial flexibility needed to change approaches and implementation channels once the parties pulled out of the ceasefire.

Box 2. **Norwegian support to peace in Haiti**

The Evaluation Department of Norad evaluated Norwegian peace efforts in Haiti to assess whether Norway has contributed to increased security and stability, and whether gains achieved are likely to be sustainable.

The evaluation team found that the Norwegian support to dialogue between political parties in the period of political stalemate from 1998 to 2005 was relevant and has contributed to reducing tensions in Haiti. Norwegian flexibility, perceived neutrality and ability to rapidly disburse transition funds are commended. The weakness of the engagement is linked to planning and sustainability. The Ministry of Foreign Affairs has lacked a systematic, programmatic approach beyond one year agreements, which risks making interventions less sustainable.

To implement more flexible strategies, donor agencies should find ways to deploy more and better qualified staff in the field for longer periods of time. The United States Agency for International Development (USAID), for instance, managed to deploy more long-term field staff in southern Sudan, which improved the performance of their programmes.

Findings from the evaluations: Strengthening the use of evaluation in conflict settings

Evaluation managers and evaluators have provided extensive feedback on their experiences and insights to improve evaluation practice in these fields.

Understand the political dimensions of evaluating in conflict settings

It was widely recognised that evaluation – like all aid-related work – is not simply a technocratic process, but also has highly political dimensions. Evaluators often found it difficult to defend a credible and safe evaluation space in contexts where donors and country governments were wary and evaluation questions highly sensitive – and even potentially dangerous in some settings. Defending the integrity of evaluation findings in conflict settings can pose problems for evaluation teams, particularly where there are worries that evaluation findings may be misused by different parties to the conflict. More concrete advice is needed on managing these identified risks.

The evaluation teams in several countries dealt with tensions between the need for conflict sensitivity and the good practice of involving country stakeholders in evaluation.[5] When the government is party to an ongoing conflict, its involvement may compromise the credibility and independence of the evaluation process. Likewise, donor governments commissioning evaluations (and their military or diplomatic missions) may also be engaged in

the conflict, as was the case in Afghanistan for Sweden, the United Kingdom and Germany. Creating and maintaining independent evaluation space is particularly challenging for those managing and conducting evaluations in such settings.

Assess peace programmes' theories of change

One of the core evaluation elements suggested in the guidance is the identification and assessment of the "theory of change" underlying the conflict prevention or peacebuilding intervention in question. A theory of change describes the assumed (or hoped) causal relationship between the activity or policy and its (intended) effects on larger peacemaking goals. A theory of change can also be described as a set of beliefs about how and why an initiative will work to change the conflict (OECD, 2007).

In many cases, particularly in the fields of peacebuilding and statebuilding, such theories are unclear or unstated. This may be due to a lack of clarity and strategic direction at the design stage or it can also be a reflection of donors' political agendas and the high sensitivity of working in conflict settings, as in Sri Lanka and southern Sudan. The Government of Sri Lanka did not want donors working on conflict; any programme that had "peacebuilding" as an explicit objective would not have been welcome. Such programmes therefore had to be framed otherwise, for instance as "promoting equitable growth". Similarly, in southern Sudan from 2005-09, it was thought to be inappropriate for donors to presume the outcome of the 2011 referendum on the creation of a separate state and donors therefore ignored (or at least were careful not to explicitly describe) how their interventions would build capacities for the future state of South Sudan.

The result is that evaluation teams had a very difficult time identifying theories of change in order to evaluate peacebuilding programmes. Evaluation teams should take into account that aid policy and programmes are the product of political and institutional processes with different interested parties, and strategies may be deliberately left unsaid or open to allow a broad interpretation. An inception phase in evaluations may be used to identify and understand how the evaluation will analyse underlying programme theories.

The workshop also highlighted challenges around using theories of change analysis in multi-donor evaluations or cross-country analysis. Teams working on cross-country (thematic) analysis, including the assessment of the European Commission's peacebuilding portfolio and the evaluation of the German Civil Peace Service, found it difficult to amalgamate multiple theories across conflicts to assess how effective programmes (or portfolios) are at a strategic level. Participants debated whether it is useful to try to identify a common theory of change across many international actors, as was done in the Sudan evaluation, or to elicit individual theories of change based on an analysis of donor policies, as in the Democratic Republic of Congo.

However, most evaluation teams found the use of theories of change to be useful in framing their analysis and an introduction to the use of this approach in assessing peacebuilding programmes was considered one of the most valuable contributions of the guidance.

Applying evaluation lessons across different conflicts

Tensions remain on the external validity of evaluation findings – that is, whether or not the findings of one evaluation could be applied in another country or different conflict setting. The evaluation findings all pointed to the need for deep contextual understanding and continuous analysis. The discussions highlighted the importance of grounding

interventions and policy in conflict realities and having a flexible, profound understanding of the context, change processes and the role of donors. How can this need for context and conflict specificity ("groundedness") be translated into strategic-level lessons applicable across countries? The guidance should provide more concrete information on its use for multi-country or thematic evaluations and how conflict analysis and other tools can be used for cross-country evaluations.

Box 3. **The impact of aid in Afghanistan**

In 2009, Germany's Federal Ministry for Economic Co-operation and Development (BMZ) commissioned an independent evaluation of the impact of development co-operation in North East Afghanistan and put forth a series of evidence-based policy recommendations for the German authorities. Based on a rigorous and innovative methodology, the impact analysis provides a major input to German strategy development and has already fed into the Government's new "Afghanistan Concept", finalised in January 2010.

The impact analysis does not directly assess the effects of development co-operation on economic and social indicators, but looks at two of the key variables for stabilisation: the perceived legitimacy of the international actors and of the Afghan state. The analysis shows that aid has no impact on people's attitudes towards foreign military forces. Rather, respondents' feelings are driven by their concerns about security. Aid positively influences attitudes towards the peacebuilding mission only in secure environments. Basic security is a prerequisite for progress in all other areas of stabilisation and development. Aid is therefore more efficiently and more effectively spent in more secure regions. Addressing the immediate security concerns of Afghans is the single most important task for the Afghan mission.

Conclusion

Through the collaboration of evaluation and peacebuilding experts, guidance for evaluating donor support for peacebuilding has been produced and used to evaluate programmes in a range of conflict settings over a two year test phase. The outcome of this process is improved knowledge on how evaluation can be managed and carried out in these challenging settings. The evaluations also provide insight for policy makers and development practitioners seeking to make peacebuilding and statebuilding strategies more effective. The OECD DAC will continue to advocate for improved use of evaluation in this and other emerging fields of development co-operation, while supporting further policy development in the interlinked fields of peacebuilding and statebuilding.

However, while evaluation contributes to improving knowledge, it is just one part of the puzzle. Evaluation is not a replacement for good analysis, solid programme design and a professional approach to strategic management of peacebuilding and statebuilding activities. As this series of evaluations has shown, progress is needed on a number of fronts – institutional, political, managerial, financial *etc.* – to make development co-operation in conflict affected and fragile states more effective. It is also evident that these solutions will not be purely technical, but must also respond to the political realities of donors and partner countries.

Notes

1. All of the evaluations mentioned here and many other relevant reports and evaluation resources are available from the DAC Evaluation Resource Centre (DEReC): *www.oecd.org/dac/evaluationnetwork/derec*.

2. Some confusion remains around the definitions used in these fast-evolving fields. Conflict prevention and peacebuilding interventions are defined here as any programmes, project or policy that adopts goals and objectives aimed at preventing conflict or building peace (OECD and CDA 2007). This is a working definition used to focus attention specifically on programmes targeting conflict/peace dynamics (and to distinguish from broader concepts of conflict sensitivity).

3. Workshop on evaluating conflict prevention and peacebuilding: What have we learned?, Oslo, Norway 16-17 February 2011. Proceedings and presentations available online at: *www.oecd.org/dac/evaluationnetwork* under *current work: peacebuilding.*

4. Including the OECD DAC Policy Guidance on Supporting Statebuilding in Situations of Conflict and Fragility, the Principles for Engagement in Fragile States and the work of the International Dialogue on Peacebuilding and Statebuilding.

5. See, for example, the *OECD DAC Quality Standards for Development Evaluation*, which point to the emerging good practice of supporting country ownership and systematically involving relevant stakeholders in evaluation work.

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