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Aid effectiveness – Improving accountability and introducing new initiatives

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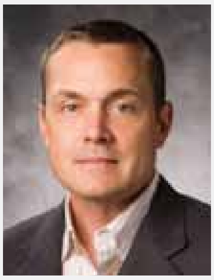
cutting through complexity



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Keeping up to date with the very latest and most pressing issues facing your organization can be a challenge. While there is no shortage of information in the public domain, filtering and prioritizing the knowledge you need can be time consuming and unrewarding. I hope that you find *Issues Monitor* useful and welcome the opportunity to further discuss the issues presented and their effect on your organization.

Welcome to the November edition of *Issues Monitor – International Development Assistance Services.* Each edition pulls together and shares industry knowledge to help you quickly and easily get briefed on the issues that affect your sector.

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Aid effectiveness – Improving accountability and introducing new initiatives

Developing countries have long depended, to varying degrees, on humanitarian and development aid provided by donor countries and organizations. Over the past decade, both the number of donors and the amount of aid have increased. Consequently, there is now a greater need to encourage efficiency in the way aid is deployed, while also ensuring that it produces the desired impact. And as the economic downturn and the resulting strain on budgets have put donors under extra pressure to demonstrate results, they have become more cautious.[1]

While aid allocation may be driven by good intentions, a significant amount of aid fails to achieve its intended purpose. Governments and donor organizations have recognized that increased aid effectiveness is imperative for them to achieve development goals on the ground. Consequently, donors and recipients are working toward greater transparency and accountability, implementing new measures designed to improve effectiveness.

Introduction – What is aid effectiveness?

> "Development aid, when spent wisely, is the most effective investment that governments can make for saving lives, improving livelihoods and building prosperous societies."
> — *Bill Gates, Co-Chair, Bill & Melinda Gates Foundation*[9]

> "All too often, aid is driven more by politics than by need, undermining its effectiveness."
> — *Ban Ki-moon, United Nations (UN) Secretary-General*[10]

Over the past decade, developed countries, particularly those which are members of the Organisation for Economic Cooperation and Development (OECD), and international organizations have been working to facilitate the achievement of the Millennium Development Goals (MDGs) in developing countries. The last decade witnessed increased funding from development partners collectively. Such assistance — particularly that directed toward the MDGs — is intended to build capacity, reduce inequality and ensure sustainable economic growth in order to meet these global targets.[2, 3]

According to the World Bank, "aid effectiveness is the impact that aid has in reducing poverty and inequality, increasing growth, building capacity, and accelerating achievement of the Millennium Development Goals (MDG) set by the international community."[4]

The OECD says that aid effectiveness is bolstered by "enhancing partner country ownership, reducing aid delivery transaction costs, avoiding overlapping and contradictory interventions and increasing the accountability of both sets of partners to their sources of finance."[5]

However, aid is not always effective. Utilization of aid is often hampered by unrealistic targets, budget constraints, divergent political interests and a lack of coordination among development partners and recipient organizations.[6] In a resource-strained global economic environment, it has become even more crucial to ensure that aid delivers Value-for-Money (VFM) and achieves planned results.[7] Aid effectiveness requires greater accountability in both donor and recipient countries, to ensure that both taxpayers and beneficiaries achieve the targeted development results.[8]

High-Level Forums to promote development

The most significant steps toward promoting aid effectiveness were designed at three High-Level Forums (HLF), organized by the OECD's Working Party on Aid Effectiveness (WP-EFF).[11] At the Paris HLF in 2005, donors and recipient countries agreed on five principles and a series of specific indicators to measure aid effectiveness. This came to be known as the 'Paris Declaration.' This included 12 performance indicators to assess progress and targets for each of the principles that were set to be achieved by 2010.[12]

At the HLF 3, in Accra, Ghana, in 2008, a further improvement in the framework for accountability was agreed upon. Participants from nearly 100 countries attended and endorsed the Accra Agenda for Action, and committed to strengthen the partnership for effective aid.[13]

The HLF 4, in Busan, Korea, in November–December 2011, may enhance cooperation toward more effective global development partnership, as participants will discuss progress made by various countries and organizations in implementing the frameworks from the Paris Declaration.[14]

An independent global evaluation of the Paris Declaration has assessed the progress of efforts by various countries and measured the success and areas for further improvement. Phase 2 of the evaluation — the first phase having been completed before the HLF 3 (Accra Agenda) — was based on more than 50 studies in 22 recipient countries and 18 donor agencies. The Phase 2 report, published in May 2011, highlights that most recipient countries successfully implemented the frameworks, which allowed them to better manage aid and improve financial management, public procurement and accountability.

At the same time, the study finds that most donor countries and agencies face limitations, such as the over-centralization and inflexibility of systems.[15] Table 1 shows the extent of aggregate progress on the key indicators.

HLF in Busan, Korea may enhance cooperation toward a more effective global development partnership.[14]

Table 1: Progress toward intended outcomes from the Paris Declaration

Intended outcome	Main initiative/ responsibility	Starting points 2000–05	Pace and extent of change	Status
Country ownership of development				
I. Stronger national development strategies and operational frameworks	Recipient countries	Mostly midstream to low	Moderate to fast	↑
II. Increased alignment of aid with recipient country	Donors/agencies	Mostly low	Mostly low	↓
III. Defined measures and standards of performance and accountability in country systems	Recipient countries	Mostly low/some midstream	Mostly slow/some moderate to fast	↔
Building more inclusive and effective partnerships				
IV. Less duplication of effort and rationalized, more cost-effective donor activities	Donors/agencies	Mostly low	Mostly low/some moderate to fast	↔
V. Reformed and simplified donor policies and procedures, more collaborative behavior	Donors/agencies	Mostly low	Mostly low/some moderate to fast	↔
VI. More predictable and multi-year commitments on aid flows	Donors/agencies	Mostly low	Mostly slow	↓
VII. Sufficient delegation of authority and incentives to donors' field staff for effective partnership	Donors/agencies	Mostly low/some midstream	Mostly slow/some moderate to fast	↔
VIII. Sufficient integration of global programs and initiatives into broader development agendas of recipient countries	Global programs and their supporters	Uniformly low	Mostly slow/some moderate	↔
IX. Stronger institutional capacities in partner countries to plan, manage and implement results-driven national strategies	Recipient countries	Mostly low	Mostly slow/some moderate	↔
Delivering and accounting for development results				
Xa. Enhanced donor and recipient countries' accountability to their citizens and parliaments	Donors/agencies	Mostly midstream	Mostly slow/some moderate to fast	↔
	Recipient countries	Mostly low	Mostly slow/some moderate	↔
Xb. i. Enhanced transparency for development results	Donors/agencies	Mostly midstream	Mostly slow to moderate	↔
	Recipient countries	Mostly low	Mostly slow to moderate	↔
Xb. ii. Structured arrangements for mutual accountability	Donors/agencies	Mostly midstream	Slow to none	↓
	Recipient countries	Mostly low	Slow to none	↓
XI. Less corruption and more transparency; strengthening public support and effective resource mobilization and allocation	Donors/agencies	Mostly midstream	Mostly moderate	↔
	Recipient countries	Mostly low/some midstream	Mostly slow	↓

Source: The Evaluation of the Paris Declaration, Phase 2, Final Report, Danish Institute for International Studies, May 2011
Note: The intended outcomes are as summarized in the Phase 2 evaluation.

Key challenges for effective utilization of aid

Although the Paris Declaration has helped promote the need for aid transparency, the Phase 2 report highlights many implementation challenges. Surveys show that the objectives are being met for only 3 of the 12 performance indicators, while 8 require additional effort to stay on track.[16]

The following are some of the challenges that need further attention at Busan, according to various monitoring surveys of recipient countries:[17]

- Capacity development
- Alignment of aid
- Transparency
- Aid predictability
- Aid fragmentation

Capacity development – Recipient countries still struggling to improve country systems

One of the key concerns — and one of the key challenges for aid effectiveness — is developing and strengthening the capacity of recipient countries. While aid provides the necessary resources, the recipient country must be able to ensure sustained growth, in the aspiration that aid will eventually become unnecessary.[18] The Paris Declaration states that "capacity development is the responsibility of developing countries, with donors playing a supportive role."[19]

Surveys show that the objectives are being met for only 3 of the 12 performance indicators.[16]

Figure 1: How do OECD and UNDP define capacity development?

OECD

Capacity development is the process whereby people, organizations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time.

UNDP

Capacity development is the process through which individuals, organizations and societies obtain, strengthen and maintain the capabilities to set and achieve their own development objectives over time.

Source: Aideffectiveness.org, August 4, 2011

Donors continue to express both a lack of confidence in recipient countries and concerns about corruption.[21]

"It is clear that fragile and post conflict states require particular attention and that this needs to be built on a much deeper understanding of the political economy, key stateholders and the timescales required to embed sustainable change."

— Trevor Davies, Partner, KPMG in the UK

However, donors have not fully studied and reviewed the very systems recipient countries depend on to implement aid programs adequately — nor fully acted to improve those systems — as highlighted in the Phase 2 Final report.[20] Donors continue to express both a lack of confidence in recipient countries and concerns about corruption. In addition, they worry that country systems are slower and more cumbersome than necessary. Donors often use their own systems to distribute aid, notwithstanding efforts by countries as poor as Malawi and Bangladesh to improve country systems.[21]

At the same time, donor efforts to improve the local capacity of these countries have been inadequate. The following three factors were identified as the greatest challenges to improving capacity in recipient countries:[22]

- The recipient countries lack clear strategies or priorities for capacity development.
- Donors prefer to strengthen capacity selectively, focusing on their own priority areas.
- Frequent job turnover in key public service roles often impedes capacity development efforts.

The inability to reform not only discourages donors from using recipients' national financial and public procurement systems, it also impedes the attainment of development objectives.* Most recipient countries struggle, as their human capacity, infrastructure and systems are insufficient to absorb any rapid increase in aid money, leading to negative return from development assistance. For instance, several African governments undertook an initiative to leverage aid and debt relief, with the goal of ending user fees for health and education. However, staff numbers and classroom facilities were both inadequate to cope with the influx of new students and patients, so the quality of services suffered.[23] This inefficiency indicates the lack of 'absorption capacity' among aid receivers. Therefore, before raising the amount of aid, donors have to scrutinize the ability of recipient countries "to use additional aid without pronounced inefficiency of public spending and without induced adverse effects." Although there is no set quantitative benchmark to understand absorption capacity, donors can track the points of negative marginal net returns to foreign assistance, and accordingly allocate their aid money.[24]

Fragile states still struggling

The ongoing conflicts in, and the economic fragility of, many developing countries continue to present major challenges to achieving the MDGs. Development agencies find it difficult to implement best practices in these emerging nations.[25, 26] Fragile states are influenced by the conflicting agendas of various bodies, including international foreign ministries, military forces and international political and relief agencies, which affects their ability to plan and leads to confusion and misalignment of goals.[27] An example of this is seen in the post-earthquake Haiti initiatives which have taken time to coordinate and implement. Improving peace-building, state-building and humanitarian assistance efforts in

** Note: Public procurement is the ability of a national government to acquire goods and services and successfully conduct all programs related to any contract. (BetterAid, accessed as on August 25, 2011).*

these fragile states is a substantial and important challenge.

Nevertheless, donors and fragile states have cooperated to strengthen some government capacity, as seen in the April 2010 Dili Declaration of the g7+ nations. With that declaration, the g7+ group of fragile states pledged to improve their social and political circumstances.**[28] Many countries have cited the conditions in fragile countries as threats to the success of the Paris Declaration, and more must be done to address the problems they face.[29]

Misalignment of aid

Matching donor aid with country requirements is a key element of the Paris Declaration. However, most donors are lagging in matching their development aid with country needs. In fact few, if any, are being successful in this regard.[30]

Evidence of misalignment is in most cases anecdotal. Two examples from the US and the World Bank illustrate the point, and there are certainly many other agencies that have administered misaligned programs.

- Additional US aid to Afghanistan has not been able to reach economic development targets, according to a recent report by the US Senate Committee on Foreign Relations.[31] Some humanitarian and development projects may even be counterproductive, as much of the aid is being spent on short-term stabilization projects and winning the goodwill of local people, rather than enhancing internal capacity in Afghanistan. For instance, the report stated that the US government has been paying "inflated salaries" to Afghans working for foreign governments and international organizations. Such jobs have attracted civil servants away from the Afghan government, thereby undermining local capacity.[32] Such aid, critics argue, could fuel corruption, distort the labor market and even reduce the control of the local government over resources.[33]

Matching donor aid with country requirements is a key element of the Paris Declaration.[30]

- The World Bank's health programs in sub-Saharan Africa were not delivering the desired results, as the number of tuberculosis (TB) infected people kept rising, according to another study (2010).[34] The study showed that, instead of supporting TB-specific programs, the World Bank relied on a model that attempted to address a wide spectrum of diseases, even in countries where the rate of TB infection was more than 20 percent.[35]

The broad lesson is that there is scope for donors to better understand the specific challenges of the recipient countries, and ensure that aid is aligned to the actual local needs.

*** Note: g7+ includes national and regional governments of Afghanistan, Burundi, Central African Republic, Chad, Côte d'Ivoire, the Democratic Republic of Congo, Haiti, Liberia, Nepal, the Solomon Islands, Sierra Leone, Southern Sudan and Timor-Leste.*

Q How can aid be more effectively aligned with recipient country needs or recipient country requirements?

The Global Fund suspended a US$28 million HIV/AIDS grant to Mali due to evidence that aid funds had been misused.[38]

In 2008, the OECD DAC bilateral donors registered 85,000 new aid commitments.[46]

Countries still struggling with corruption

Many recipient countries face the challenge of corruption on a substantial scale. For example, corruption has hindered improvements in the public financial management systems in Benin, where an inefficient financial system has resulted in weak budgetary support for the government.[36]

As a result, most development partners and organizations have increased scrutiny of aid channels, leading to exposure of cases of fraud. These problems affect official aid agencies and philanthropic channels alike.

- The Australian Agency for International Development (AusAid) investigated 175 cases of fraud involving misuse of funds and aid diversion by corrupt overseas agencies and officials in nearly 27 countries involved in its foreign aid program in March 2011.[37]
- In October 2011, the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) announced plans to stop a US$28 million HIV/AIDS grant to Mali due to evidence of fund misuse. Earlier, in March 2011, the Global Fund suspended another grant worth US$13.9 million, on similar grounds.[38]

Lack of aid predictability

Aid predictability remains problematic.[39] Often, aid commitments from donors exceed actual aid disbursements. An OECD report from 2008 highlighted that, on average, less than 50 percent of committed aid is delivered on schedule.[40] The impact is more severe in the least developed countries (LDCs). Only about 66 percent of aid to LDCs is disbursed within the intended year. In the Democratic Republic of Congo, this amount is as low as 20 percent.[41] Such deviation hampers the effective utilization of aid money in various programs.[42] Moreover, an inability to rely on scheduled aid flows means that recipient governments may have to adjust their consumption and investment plans. For instance, if a donor abruptly reduces its budget aid within any given year, the recipient government will be forced to realign its investment outlays. That realignment may create imbalances in the recipient's budget. At the same time, the recipient government may not be able to effectively integrate any unplanned disbursement of such aid into its expenditure. Therefore, its use may be delayed or, more likely, spent on recurring projects rather than invested.[43]

With more predictable aid, recipient countries are more likely to improve their estimates of the timing of the aid flow and thus help ensure that external resources are used effectively and integrated with domestic resources.

Aid fragmentation

The global development and humanitarian aid environment has changed over the past few years. As Brazil, China, Russia, India, Venezuela and many other emerging economies have evolved from recipients to donors, the sources of aid to the developing world have diversified.[44, 45] At the same time, the number of aid projects has also increased. In 2008, the OECD's Development Assistance Committee (DAC) bilateral donors registered 85,000 new aid commitments, up from 16,000 in 1996. Over the same period, the mean size of activities fell steadily, from US$3.0 million in 1996 to US$1.4 million in 2008. The execution of small projects results in increased administrative costs, and consequently, the effective utilization of available funds is impaired.[46]

Recently, there have been positive signs of increased coordination. New approaches, such as the World Bank's Programme for Results (P4R), have been developed to enable them to pool funding with donors, NGOs, foundations, corporations and sovereign wealth funds to more effectively address development funding.

Ineffective recipient governments

The outcome of aid funding is also affected by recipient countries' ability to implement projects as scheduled. Yemeni economist Ali Al-Wafi expressed concern over his country's inability to manage aid funds, and stated, "The amount of money pledged by donors during the London conference reached $5.7 billion. Yemen failed to make good use of these funds because it was unable to implement the development projects agreed upon with the donor countries."[47] Similarly, the United States Agency for International Development's (USAID) aid to Pakistan has been judged as ineffective since 2009 — when the US government approved a US$7.5 billion development grant aimed at improving the country's infrastructure. USAID said that the Pakistani government was unable to implement the projects, due to the lack of staff, the hostile security environment and the general misuse of the aid.[48]

Greater attention is needed on building capacity to develop policy options, manage large programs, manage financial planning and

The UK Department for International Development (DFID) has been piloting a cash-for-results approach, aimed at encouraging recipient governments to take greater ownership for delivery of development outcomes.

"Effective aid implementation requires that donors understand local and national needs; thus for aid to be effective, donor countries must engage with local in-country stakeholders and civil society organizations to spend funds more efficiently and economically."
— Timothy A. A. Stiles Global Head, International Development Assistance Services, KPMG

For the past few years, Afghanistan, Bangladesh, Ethiopia, Mozambique, Tanzania and Uganda have been 'donor darlings,' receiving large amounts of aid per capita.[50]

resources, and monitor and evaluate programs. Otherwise, the desire to use recipient country systems is trumped by the need to produce results and to remain accountable.

The UK Department for International Development (DFID) has recently been piloting a cash-for-results approach which is aimed at encouraging recipient governments to take greater ownership of delivery of development outcomes by linking payment of the donors contribution to clear evidence of program delivery.

Uneven aid allocation

The distribution of aid to recipient countries is not done efficiently, according to several credible studies.[49] Some countries receive disproportionate amounts of aid, while others remain deprived of grants. Donors consider factors such as geopolitical links, trade, investment opportunities, language, culture and historical factors to prioritize their donations. Uneven distribution affects LDCs more, as many of them are highly dependent on donor funding.

A UN report suggests that for the past few years, Afghanistan, Bangladesh, Ethiopia, Mozambique, Tanzania and Uganda have been 'donor darlings,' while others have received very little donor funding, often referred to as 'donor orphans.'[50] Small countries tend to receive disproportionately large amounts of aid per capita, while large, sometimes well-managed countries receive relatively little.

Oxfam International argued in a recent report that global aid spending is increasingly skewed toward countries where threats to donors' national security are perceived to exist, and where donors are militarily engaged. Donors assert that providing maximum assistance to conflict-affected and fragile states can be highly beneficial in reducing poverty, as such states lack stability and any real economic growth.[51] But this is hard to demonstrate, as there may be a growing politicization of aid allocations.

Measures to overcome challenges

"Aid effectiveness and VFM are neither complementary nor divergent — they are one and the same, aiming for the same goal — more impact from our money for poor people."
— Liz Ditchburn, Director, Value for Money, DFID[53]

To ensure aid efficiency, donors and recipient countries have considered ways to achieve optimum aid allocation and transparency across the aid value chain.

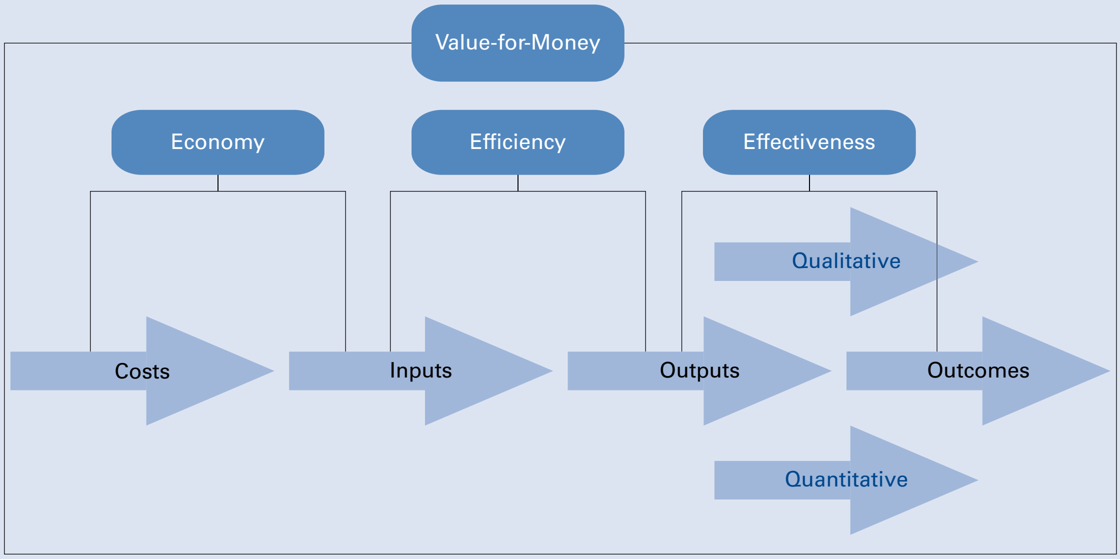
Assessing value-for-money

Periodic assessment of aid flow is important to determine the effectiveness of funds, particularly if aid is being disbursed to fragile states with poor governance and widespread corruption. In such states, lack of proper reporting makes it challenging to measure the VFM, which indicates the return on available resources.[52]

UK DFID assesses multilateral aid to determine VFM

DFID's definition of VFM is broader, covering various aspects from control of costs to delivery of outcomes. During 2010–11, DFID assessed 43 multilateral organizations to determine whether the UK is getting the maximum VFM for UK aid through its contributions to such organizations.[54]

Figure 2: DFID's VFM model



The review included organizations such as the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the Global Alliance for Vaccines and Immunisation (GAVI) Alliance, the International Development Association (IDA) and the Food and Agriculture Organization (FAO). A set of criteria — controlling costs and delivering outcomes; focusing on poor countries; and ensuring accountability and transparency — was used to assess each organization.[55] The review found that nine organizations, including GAVI, UNICEF and IDA, are providing very good VFM for UK aid, while nine organizations, including UNESCO, FAO, the International Labour Organization (ILO) and the United Nations Industrial Development Organization (UNIDO), are providing poor VFM for UK aid.[56]

The results of this review will assist DFID's decision-making on the best ways to deliver funding to multilateral organizations in order to have the greatest possible impact on poverty. It will also provide guidance for DFID's partner countries on further reforms to make multilateral agencies more effective.[57]

SSC, or knowledge sharing among recipient countries, has become an effective strategy to improve capacity-building efforts.[58]

South-South Cooperation

As capacity building within recipient countries is a major focus for aid effectiveness, South-South Cooperation (SSC), or knowledge sharing among recipient countries, is argued to be an effective strategy to improve these efforts. SSC should help developing countries and local organizations collaborate with the developing world to devise and implement solutions to national problems. Sharing knowledge between recipient countries should help improve capacity by promoting institutional and policy changes. Recently, the G20 emphasized the need for cooperation among developing countries, as "it contributes to adoption and adaptation of the most relevant and effective development solutions." With efficient implementation, SSC can ensure sustainable growth, as it reduces capacity bottlenecks in developing countries.[58, 59]

Development Gateway (DG) – Spreading and sharing aid management practices

Implementing information technology projects is challenging in developing countries, as they often lack basic institutional and political infrastructure. The DG project, involving Burkina Faso, Burundi, Ethiopia, Haiti, Madagascar, Malawi, Niger, Senegal, South Sudan, Tanzania and other countries, facilitates annual knowledge sharing sessions on various aid management platforms being used by countries around the world.

At an international level, the need for SSC was highlighted in the Accra Agenda. Since then, major reforms and frameworks have been implemented to enhance SSC. The 2010 Bogota Declaration was a major step toward both improving SSC and promoting the cooperation and collaboration between northern and southern partners. Earlier, in September 2009, the OECD-controlled Task Team on SSC (TT-SSC) was launched as a joint effort between recipient countries, multilateral organizations, DAC donors, civil society and parliamentary organizations. The TT-SSC has focused on strengthening SSC initiatives and providing the evolving development partnerships with fresh ideas.[60]

Public administration and civil society are the most significant stakeholders in implementing SSC, as they can facilitate knowledge transfer and high-level cooperation among countries. The cooperation not only strengthens national leadership, but also enhances effective utilization of national resources. The Inter-American Network for Labor Administration (RIAL) is a cooperation and technical assistance mechanism that unites the ministries of labor in 34 American states, including Argentina, Brazil, Canada, Chile, Ecuador, the US, Mexico and Venezuela. The program strengthens the institutional and human capacities of labor ministries in these countries with various knowledge sharing practices.[61, 62, 63]

Q How transparent is the aid delivery system?

Improving transparency and accountability

Experts believe that donors and recipients need to increase collaboration in order to improve the transparency and accountability of aid. In recent years, global leaders and organizations have joined forces to endorse effective frameworks that have increased accountability, including the following:

- **The International Aid Transparency Initiative (IATI)** was launched at the Accra HLF, with signatories including the World Bank (WB), the African Development Bank (AfDB), the Asian Development Bank (ADB), GAVI Alliance, AusAid, Denmark and DFID. The initiative aims to make information on aid spending easier to find, use and compare. In February 2011, the participants of IATI agreed on common standards for publishing more and better aid information.[64] The three main standards are outlined in Figure 4.

Figure 4: IATI standards[65]

Activity standard	Organizational standard	IATI code lists
• Designed to report details of individual aid activities	• Designed to report total future budgets of organizations and forward planning budget data for recipient institutions and countries	• Designed to make IATI activity and organization data from different publishers comparable

Source: IATI, accessed on June 7, 2011

In May 2011, the UK launched ICAI, aimed at increasing accountability and VFM to the UK taxpayers and the government.[66]

- In May 2011, the UK launched the **Independent Commission for Aid Impact (ICAI)**, aimed at increasing accountability and VFM to the UK taxpayers and the government. As an independent third party, KPMG was appointed to provide professional services to undertake a program of evaluations and VFM studies. The ICAI is responsible for the independent scrutiny of UK aid spending across all government departments.[66, 67]

Untied aid

OECD DAC defines untied aid as "loans and grants whose proceeds are fully and freely available to finance procurement from all OECD countries and substantially all developing countries."[68] Untied aid reduces transaction costs for recipient countries and also improves country ownership and alignment.[69] At the Paris HLF, one of the commitments required donors to make aid untied, and by 2010 nearly 88 percent of aid was.[70] A minority of smaller donors are continuing to tie aid to the use of goods and services from their own countries. Procurement of goods and services from tied aid costs recipient countries 15 to 30 percent more than untied aid.[71]

Increased participation by civil society organizations

Most recipient countries emphasized the involvement of civil society organizations (CSOs) in development projects during the evaluation of the Paris Declaration. As a result, for the first time, CSOs will participate as development partners in HLF 4.[72]

CSOs, which are usually nongovernmental organizations (NGOs), are critical partners in ensuring the effective utilization of development aid. In their roles as development partners, these organizations have thus far had limited authority. However, with increasing importance, CSOs are expected to become more significant sources of delivery of government development projects.[73] Involving CSOs has been known to improve local capacity in recipient countries. For instance, AusAid found that engaging a local CSO in development projects in Indonesia improved the sustainability and efficiency of those projects, even after the project funding had concluded.[74]

Similarly, humanitarian aid experts, including former UN Special Representative for Afghanistan and

German parliamentarian Tom Koenigs, believe that, to attain sustainable growth in Afghanistan, development agencies will have to improve the capacity of the country's CSOs.[75]

This is not to say that NGOs are always effective, nor are they a relevant solution for all aid programs. However, progress could be enhanced if there was greater collaboration between the NGOs to minimize duplication of systems, outline clear objectives and focus on impact.

Challenge Funds

Challenge funds (CFs) are a form of competitive tendering, where there is a competition for a fixed amount of funding for specified purposes. CFs facilitate innovation and can strengthen accountability, which improves aid effectiveness.

- Among major donors, DFID has been a major proponent of CFs. DFID's Civil Society Challenge Fund promotes competition among UK-based civil society organizations for projects lasting up to five years.[76] DFID also implemented a major Governance and Transparency Fund, which is administered by KPMG.
- The Alliance for a Green Revolution in Africa (AGRA), an alliance to improve agricultural productivity and smallholder farming, hosts the Africa Enterprise Challenge Fund (AECF), with KPMG as its fund manager (FM). It is a US$150 million CF aimed at promoting private sector investment in innovative business models.[77] In May 2011, an independent mid-term review showed that the fund had attracted many innovative business ideas and is currently managing 48 projects in 16 African countries.[78]

Policy recommendations for recipient countries

Much literature suggests that, in order to achieve aid effectiveness, recipient governments need to improve project execution and develop a culture of high performance by revisiting policies, cooperation strategies and human resource plans.[79]

Joint Assistance Strategy for Tanzania and Accountability in Tanzania ensuring aid effectiveness in the country [80, 81, 82]

The Joint Assistance Strategy for Tanzania (JAST) is a national medium-term framework to manage development cooperation between the Tanzanian government and various development partners to achieve national development and poverty-reduction goals. The Tanzanian government promoted the initiative with technical and financial support from the African Development Bank (AfDB), Belgium, Canada, Denmark, the European Commission, Finland, France, Ireland, Japan, Germany, Netherlands, Norway, Spain, Sweden, Switzerland, the UK, the World Bank, UN organizations and the US.

The framework outlines the main objectives and principles of Tanzania's development partnerships, and has a renewable cycle of five years. An action plan further specifies concrete activities and time frames to implement the JAST, and sets down a monitoring framework with indicators to measure the performance of the government and the development partners.

The JAST is to be implemented at all levels of the government, within existing national, sector and local processes, for all relations with development partners. Development partners will employ the strategy to guide the management of their development cooperation with the government. Bilateral agreements and country assistance strategies will be brought in line with the JAST, along with concrete arrangements for its implementation.

Similarly, the Accountability in Tanzania Programme (AcT) — funded by the UK — aims to collaborate with CSOs to ensure accountability of the government in various public initiatives. The program came into effect in 2005, after it was determined that certain government-funded education development projects were ineffective, particularly the Primary Education Development Project (PEDP). In 2005, HakiElimu, one of the three CSOs associated with AcT, undertook a major review of the PEDP and published a critical evaluation of the project. Thereafter, various programs highlighting the corruption issues and mismanagement of funds were aired on TV and radio. Although the political parties did not approve of the disclosures, the CSO was successful in making the general public more aware of such mismanagement.

Conclusion – Sustainable economic and social development is possible with aid effectiveness

In Mali, 50 percent of government expenditures rely on international aid, and by 2015 this figure is anticipated to increase to 60 percent.[85]

Q

How can a country reduce its dependency on international aid?

Over the years, the volume of official development assistance (ODA) has increased. The involvement of non-DAC donors has increased the number of aid programs in developing countries. However, evidence suggests that by only increasing the volume of aid, development partners may not be able to ensure sustainable development in recipient countries.[83] It is therefore essential to improve the focus on ensuring that the development agencies operate in the most cost-effective way while delivering the required development impact. Attention should also be paid to reduce duplication and redundancy in back office processes and systems, including finance and treasury functions, to enable development agencies to improve the effectiveness of their aid management.

In fact, increased aid may lead to aid dependency, "a situation where a country cannot fulfill the core functions of government without foreign aid funding and expertise."[84] In Mali, 50 percent of government expenditures rely on international aid, and by 2015 this figure is expected to increase to 60 percent. However, the country is now trying to reduce its dependency on aid, as high aid dependency leads to low accountability of governments toward their citizens, and governments lose their ability to take the lead on policy implementation.[85]

With sustained economic growth, recipient countries can reduce their dependency on external assistance. In the 1970s, countries such as South Korea and Botswana gradually overcame their dependency on aid.[86] Similarly, China was once an aid recipient country (though never highly aid dependent); it has now emerged as a major aid donor. In 2008, China's international development assistance amounted to US$3.8 billion.[87]

At the same time, reducing aid dependency does not necessarily require or imply a reduction in aid donations in the short to medium term. In fact, it requires the effort of international development partners to promote non-aid policies such as improving international trade, preventing illegal capital flight and regulating commodity pricing, all of which can directly enhance a developing country's national economy.[88] As highlighted by various development partners in a recent survey of priorities for Busan's HLF 4, the OECD stated that many partners expressed their belief that the topics for discussion should include alternative sources of financing and non-aid elements of development effectiveness. Further, these partners stated that the involvement of more non-DAC donors would allow for more alternative financing options. They also called for more discussion of non-aid elements, such as financing climate change initiatives and improving the utilization of domestic revenue. Other focus areas for Busan will include aid to fragile states and middle income countries as well as exit strategies.[89]

Recipient countries need to focus on mobilizing their resources and establishing a coherent set of policies to sustain their economies. Further, they must improve their absorption abilities in order to effectively utilize aid.

One way to do so is by forming donor clubs and coordinating committees around pooled funds. While the benefits of these clubs and committees may not be obvious, they are considerable. Such groups encourage analytical review of fund usage, identify policy gaps and ensure accountability.[90] Further, these recipients can take advantage of an approach developed by the World Bank, known as the Maquette for MDG Simulation (MAMS). This model focuses on assessing the importance of public services, public infrastructure and growth in private production and incomes. MAMS promotes understanding of the effect of aid flow on various factors of growth, such as trade-offs between spending on infrastructure and spending on health and education.[91] In this way, the various models of accountability not only promote effective distribution and use of aid, but also ensure the proper development of various societal needs within their countries.

> “We are cautiously optimistic that Busan, albeit with tensions, will define a more realistic way forward, based on accumulated experience, and continue to make progress in the implementation of the Paris Declaration principles, since the Declaration has proved relevant to many different countries and donors.”
>
> *— Julio Garrido-Mirapeix, Partner, International Development Assistance Services, KPMG in Africa*

Further information

Visit kpmg.com for the following related publications

- *A Closer Look: Attaining Accountability in the Development Sector*
- *The Paris Declaration on Aid Effectiveness and Impact: What's next in Busan?*

How KPMG firms can help

Public sector reform and performance improvement

KPMG firms are committed to providing:

- Assistance in institutional assessment of large donors and stand-alone non-government organization
- Advice to development community and public sector on good governance and strategic planning
- A broad range of human resource tools and guidance
- Services for efficient, effective and transparent public and non-profit financial management
- Specialized monitoring and evaluation of objectives and goals

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Our global network is committed to helping:

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KPMG member firms have been providing:

- External audit services to development programs funded by all the major donors operating throughout the world, and possesses solid understanding of their individual reporting needs
- Internal audit systems aimed encouraging future financial transparency and business results
- A range of audit services to donors to ensure that commodities such as emergency food aid, medicines, and supplies have been appropriately distributed

Program and project management

KPMG is providing services:

- As a fund manager and intermediary for channeling funds between major donors and governments, NGOs, civil society, communities, and other beneficiary groups
- To governments, civil society and development partners in researching and designing programs that meet the specific development objectives of the host region and agenda of the development partner
- In project management of all types of development initiatives, from infrastructure and social service projects to major public sector reform programs

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