

GDN's Next Horizons Essay Contest 2014*

THE FUTURE OF DEVELOPMENT ASSISTANCE

Supported by the Bill and Melinda Gates Foundation

Winning Entry

“SURFING THE WAVE: HOW TO CAPITALIZE ON THE NEW BREED OF GLOBAL FUNDS”

Abstract

Since 2000, new 'global funds' or global partnerships have offered development aid solutions not because they are perfect institutions at present, but because they can be perfected. They have shown that they are capable of transformation, largely because they had better institutional structures and governance arrangements at the time of their creation, and because they involve governments, the private sector and civil society. They have also demonstrated their political agility and fundraising prowess – they are here to stay.

Author

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**The [GDN Next Horizon Essay Contest](#) was launched globally by the [Global Development Network](#) (GDN) in 2014, with the support of the [Bill & Melinda Gates Foundation](#). The contest invited contributions related to the future of development assistance to inform the ongoing discourse on development assistance with fresh thinking, and revamp policy debates with new voices. This essay is one of 13 winning entries selected by a high-profile Jury of aid policy makers, experts and practitioners chaired by Nancy Birdsall.*

Introduction

Aid effectiveness principles, enshrined in successive agreements in Rome, Paris, Accra and Busan, have at best been unevenly implemented. In particular, progress on managing for developing results and mutual accountability has been poor.¹ Whatever gains there have been may be temporary. Given the fact that levels of global Overseas Development Assistance (ODA) are expected to reach a plateau, it remains critical to improve ODA's quality.²

The arguments for aid effectiveness are well-rehearsed and well-evidenced. What remains is the fact that despite a steady stream of major international conferences, numerous repeated exhortations to action alongside claims of 'transformative moments' and 'turning points', there has been far less progress than might have been expected.³⁴⁵ This essay seeks to make more pragmatic, imperfect recommendations to make a contribution towards resolving this dilemma.

The aid-effectiveness record of bilateral donors

The Center for Global Development produces a comparison of the quantity and quality of aid that donor agencies give.⁶ The index:

- discounts spending if it is tied aid,
- discounts spending if it is spent in relatively wealthy or poorly governed countries,
- discounts spending if it overloads recipient governments with too many small projects,
- discounts spending if governments do not allow taxpayers to write off their charitable contributions.

The index has been in effect since 2003. When considering the top 10 donors of ODA, it shows high variability within donors but relatively little progress when it comes to individual donors. This would suggest that it is very difficult to shift these scores, and that the

¹OECD, *Evaluation of the Paris Declaration*, Policy Brief, Available here: <http://www.oecd.org/dac/evaluation/dcdndep/48316105.pdf>

² OECD (2013), *Development Co-operation Report 2013: Ending Poverty*, OECD Publishing, Available here: <http://dx.doi.org/10.1787/dcr-2013-en>

³William Easterly, *The Cartel of Good Intentions: The problem of bureaucracy in Foreign Aid*, Policy Reform 2002, Vol 5(4), pp. 223 – 50

⁴Radelet, Steven, *Aid Effectiveness and the Millennium Development Goals* (April 15, 2004). Center for Global Development Working Paper No. 39. Available at SSRN: <http://ssrn.com/abstract=1112641> or <http://dx.doi.org/10.2139/ssrn.1112641>

⁵ Hill, P.S.: **The rhetoric of sector-wide approaches for health development.** *SocSci Med* 2002, **54**(11):1725-37. [PubMed Abstract](#) | [Publisher Full Text](#)

⁶Center for Global Development, *Commitment to Development Index 2013*, <http://www.cgdev.org/sites/default/files/CDI2013/cdi-brief-2013.html>

performance on the index is largely fixed over time. Progress is also not guaranteed — in some cases donors have actually become worse.

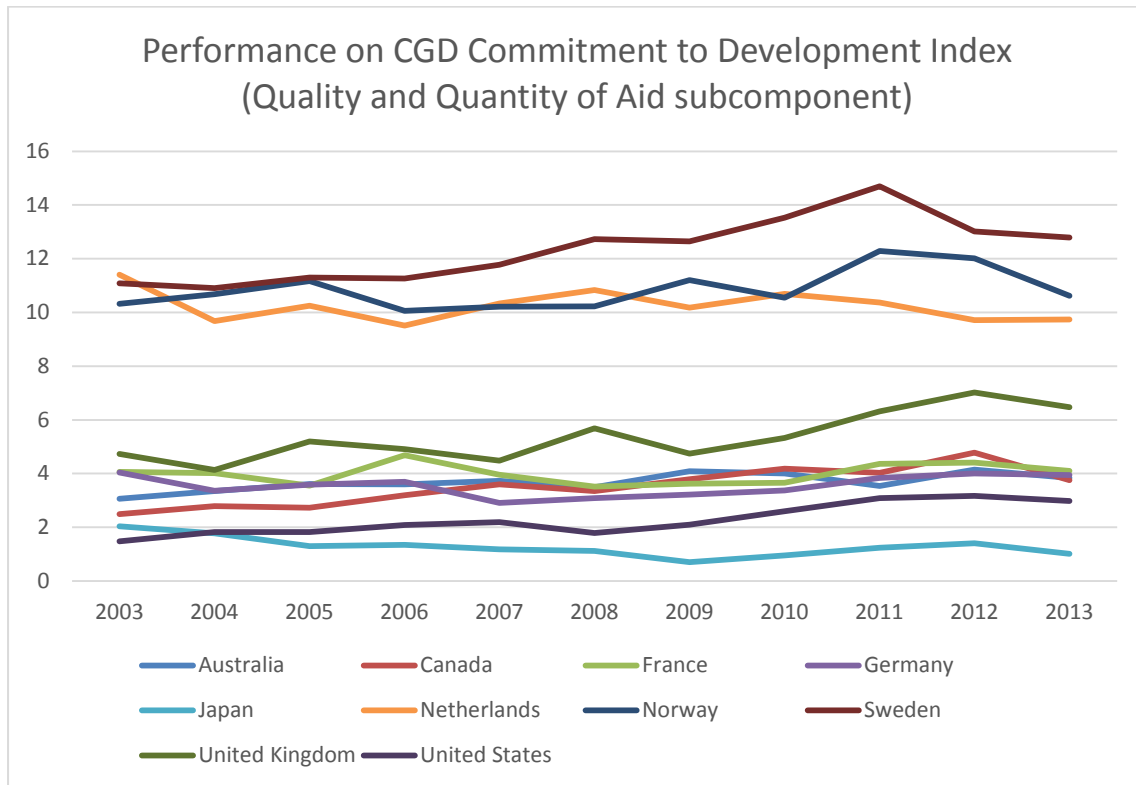


Figure 1⁷

Tied aid

Tied aid is a case in point in that it indisputably offers poor value for money in development. It raises the cost of goods, services and works by 15 to 30 percent on an average, and by as much as 40 percent or more for food aid.⁸

The United States, the largest global aid donor, tied 72 percent of its aid in 1996, following which it simply stopped reporting the statistic.⁹ Overall, donors’ use of tied aid is just as high

⁷ <http://www.cgdev.org/sites/default/files/CDI2013/cdi-brief-2013.html>

⁸ Clay, Edward J., Matthew Geddes and Luisa Natali: *Untying Aid: Is it working? An Evaluation of the Implementation of the Paris Declaration and of the 2001DAC Recommendation of Untying ODA to the LDCs*, Copenhagen, December 2009.

⁹ Easterly, William, and Tobias Pfutze. 2008. "Where Does the Money Go? Best and Worst Practices in Foreign Aid." *Journal of Economic Perspectives*, 22(2): 29-52.

in 2014 as it was in 2008.¹⁰ This is an issue that is not difficult to resolve in technical terms; the challenge is that the political environment within which some aid agencies operate simply will not countenance a solution.

Untying aid in theory does not necessarily untie it in practice. The United Kingdom aid has been officially untied since 2001. Yet it overwhelmingly flows to UK companies. From January 2011 to September 2012, of the 117 major DFID contracts and procurement agreements (together worth nearly £750 million) published on the government's contracts portal, only nine include non-UK firms among the grantees. An Indian company, Kran consulting, is the only firm from a developing country on the list to win a full contract.¹¹ It is simply not credible to claim that UK companies are this superior to foreign companies in a competitive procurement process.

The low-hanging fruit of donor aid effectiveness has largely been harvested. The issues that remain are problematic and require substantial political will. This essay argues that a simpler alternative, which would advance this agenda, is to 'multilateralise' by default, invest time and resources into the business of improving the multilateral system, and in particular utilize the new wave of global partnerships such as The Global Alliance for Vaccines and Immunization (GAVI), the Global Fund against Aids, TB and Malaria and the Global Partnership for Education.¹²

Evidence of multilateral aid effectiveness

The apparent alternative in the multilateral system offers relatively little hope on first inspection. Many multilaterals perpetuate their existence and have well-evidenced the proposition that they are incapable of reform. While some score highly on various indexes, others (often UN agencies such as UNESCO, UNEP, FAO) score far worse than bilateral donors.¹³¹⁴¹⁵¹⁶ The World Bank's inability to reform to include civil society participation has

¹⁰Center for Global Development, *Quality of Overseas Development Assistance*, 2014. Available here: <http://www.cgdev.org/publication/quality-official-development-assistance-2014>

¹¹<http://www.theguardian.com/global-development/datablog/2012/sep/21/why-is-uk-aid-going-to-uk-companies>

¹²Technically the Global Partnership for Education is a Financial Intermediary Fund of the World Bank. However, in practice it mimics many of the characteristics of GAVI and GFATM, and is increasingly moving in this direction.

¹³Center for Global Development, *Quality of Overseas Development Assistance*, 2014. Available here: <http://www.cgdev.org/publication/quality-official-development-assistance-2014>

¹⁴Easterly, William, and Claudia R. Williamson. 2011. "Where Does the Money Go? Best and Worst Practices in Foreign Aid." *World Development*, Vol. 39, No 11, pp. 1930-49

¹⁵Australian Multilateral Assessment, March 2012. Available here: <http://aid.dfat.gov.au/partner/Documents/ama-full-report.pdf>

been well noted and is a case in point.¹⁷ Civil society activists have lobbied to increase its accountability, transparency and partnership with civil society since at least the 1980s. The result: in 1995 President James Wolfensohn took the momentous step of appointing an ‘NGO liaison officer’.¹⁸

Similar concerns have been registered about other ‘Bretton Woods’ institutions such as the African Development Bank, which have proven themselves unable to deviate from a predictable policy path where they are accountable only to their largest shareholders; they fail to take into account civil society views.^{19,20,21}

The newer wave of multilaterals this essay focuses on — The Global Fund Against Aids, TB and Malaria; The Global Partnership for Education; The Global Alliance for Vaccines and Immunization — are different. They all have a number of strengths in their governance arrangements which increase their capacity to reform.

GAVI was, from the start, a collection of actors and is not dominated by any single one of them despite the majority of funding coming from the US, UK, Japan, France and the Netherlands.²² NGOs have held governments accountable for their use of GAVI funding,^{23,24} increased awareness with regard to countries’ immunization challenges, as well as fund raising.²⁵

¹⁶UK Multilateral Aid Review, March 2011. Available here:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67583/multilateral_aid_review.pdf

¹⁷Gómez and Atun: Emergence of multilateral proto-institutions in global health and new approaches to governance: analysis using path dependency and institutional theory. *Globalization and Health* 2013 9:18

¹⁸Ebrahim, A., Herz, S.: *Accountability in complex organisations: World Bank responses to Civil Society*. Cambridge, MA: Harvard Business School; 2007

¹⁹Gómez and Atun: Emergence of multilateral proto-institutions in global health and new approaches to governance: analysis using path dependency and institutional theory. *Globalization and Health* 2013 9:18

²⁰Kilby, C.: Donor influence in MDBs: The case of the Asian Development Bank. *Rev Int Org* 2006, 1(2):173–95.

²¹Gaddi, M.: The Asian development Bank’s uncivil engagements: the experiences of chasmaaffectedees”, in good governance or bad management: an overview of the ADB’s decision-making processes and policies. Bangkok, Thailand: Focus on the Global South; 2002.

²²Gómez and Atun: Emergence of multilateral proto-institutions in global health and new approaches to governance: analysis using path dependency and institutional theory. *Globalization and Health* 2013 9:18

²³GAVI: GAVI SCO Constituency. Geneva, Switzerland: GAVI; 2012.

²⁴GAVI: GAVI alliance CSO constituency. Geneva, Switzerland: GAVI; 2012.

²⁵The Partnership for Maternal, Newborn, & Child Health. Geneva, Switzerland:

Similarly the Global Fund allocates about 15 percent of its seats to civil society.²⁶ According to a review of civil society participation²⁷ this has resulted in:

- Greater resources raised for the Global Fund.
- More democratic decision-making processes and practices.
- Improved programmes.
- A better balance of power between civil society in developed and developing countries.

The GPE allocates six seats to developed countries and six to developing countries, and provides resources to facilitate the coordination and agreement between the developing country partner constituency positions.²⁸ All board decisions require the support of at least one developing country constituency and one civil society constituency. In developing countries, a civil society fund supports civil society in holding their governments to account.

The involvement of civil society in development-related decision making is vital and this was recognized at the Accra High Level forum on Aid Effectiveness as “developmental actors in their own right”. However, as is clear from this example, it can be remarkably difficult to include civil society if the institutional government arrangements do not incentivize this inclusion at the outset.

The key reason these global partnerships have shown themselves capable of reform is their institutional set-up. While their funding comes from donor nations, the composition of their boards reflects the inclusion of developing countries, civil society, private foundations and the private sector.

Allocation of resources

Another key area of strength for multilateral organisations over bilateral donors is their dominance in terms of allocating money. The Center for Global Development’s Quality of Overseas Development Assistance (QuODA) rankings find that of the top 10 donors by ‘maximising efficiency’ six are multilaterals. All eight of the multilateral donors considered scored in the top 20 and above major bilateral donors such as the United States, Germany,

GAVI civil society constituency calls on donors; 2011.

²⁶Center for Global Development, *Meet the Global Health Family A Cheat Sheet*, Fan, Silverman and Glassman 2012 Available here:

<http://www.cgdev.org/sites/default/files/CGD-Global-Health-Family-Cheat-Sheet-Final.pdf>

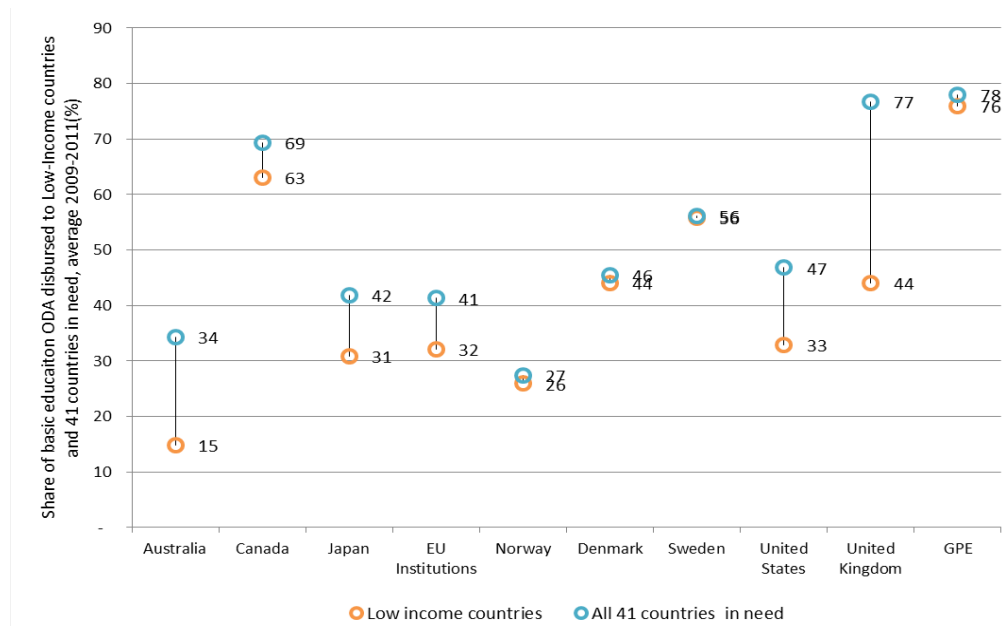
²⁷ International Center for Research on Women (ICRW): *Civil society participation in global fund governance: what difference does it make? Working paper*. Washington DC. ICRW Press. 2004

²⁸Charter of the Global Partnership for Education, Last updated: November 2013 (Decision BOD/2013/11-02) Available here: <http://globalpartnership.org/content/charter-global-partnership-education>

Norway, Netherlands and Australia.²⁹ This dominance is well-evidenced within the health and education sectors as well.

The comparison of figures showing where bilateral and multilateral donors allocate their money offers a stark contrast. In 2011, Sub-Saharan Africa received just 0.3 percent of Australia’s total bilateral aid for basic education.³⁰ By contrast 72.6 percent of GPE’s grants (and, therefore, Australian money to GPE) go to Sub-Saharan Africa.

Perhaps the most dramatic demonstration of this effect can be seen in the graph below.³¹



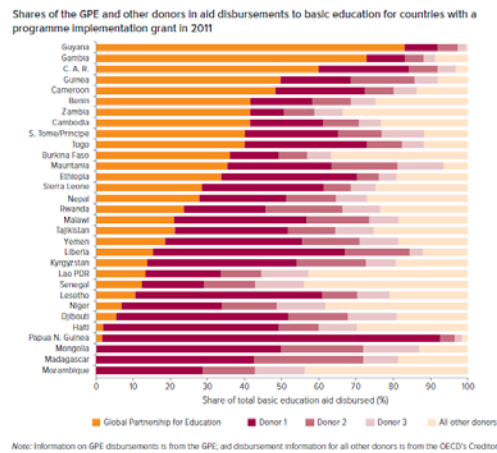
Certain ‘unloved’ countries, so to speak, are particularly unfortunate in this respect. Often, for geopolitical reasons, they receive very little funding from the major bilateral donors. The Central African Republic, for instance, received \$13 per child from multilateral and bilateral

²⁹Center for Global Development, *Quality of Overseas Development Assistance*, 2014. Available here: <http://www.cgdev.org/publication/quality-official-development-assistance-2014>

³⁰EFA Global Monitoring Report 2013/14, UNESCO. Available here: <http://unesdoc.unesco.org/images/0022/002256/225660e.pdf>

³¹ This diagram is based on background data from the Brookings Institution paper “Financing for Global Education Paper: Opportunities for Multilateral Action”, Rose, Steer, Smith and Zubairi 2013. Available here: <http://www.brookings.edu/research/reports/2013/09/financing-global-education>. Countries in need are defined as the countries which are low income or have the top 10 out of school populations. GPE does not currently fund the Philippines (although may do so in future through a leverage fund aimed at LMICs), India and North Korea.

donors. But GPE funds were an extra \$19 per child. The graph below shows that the GPE is a key player in supporting the education of smaller countries.³²



No allocation formula will ever be perfect. However, one which results from a transparent discussion and is based on relatively objective criteria is likely to be superior to the relatively ad hoc, political process that is inevitably the method used by bilateral donors. This was explicitly acknowledged by Hilary Benn in a speech in 2006:

“Most bilateral donors — including DFID — value their relationships with particular developing countries and are unlikely to volunteer to walk away..... So we’re not going to be able to achieve the evening out of aid flows we want, through changes in bilateral aid. I think the multilateral agencies or global funds will have to do this, to help us balance out aid flows across the world, not least because they’re less subject to some of the political pressure that individual donors face.”³³

Allocation of resources is also an area that demonstrates the readiness and ability of the Global Funds to reform themselves. It is an inherently political problem which often has clear winners and losers. It would, therefore, be an easy problem to shirk.

The previous Global Fund allocation model was widely criticized on a number of counts. Money was essentially allocated on a ‘first-come, first-served’ basis and thus rewarded countries with ambitious proposals over bidding for resources. The Fund has since reformed

³²EFA Global Monitoring Report 2013/14, UNESCO. Available here:

<http://unesdoc.unesco.org/images/0022/002256/225660e.pdf>

³³ Speech by Hilary Benn (6th and final White Paper speech), Secretary of State for International Development, 14th March 2006, Overseas Development Institute and All Party Parliamentary Group on Overseas Development. Available here:

<http://www.odi.org/sites/odi.org.uk/files/odi-assets/events-documents/1345.pdf>

its allocation model, which is now based on more objective criteria of disease burden, income level, external financing and a minimum required level.³⁴

The new formula of course is not without its detractors. Critics have questioned the political choice of maintaining historical ratios of 50 percent funding to HIV, 32 percent to malaria and 18 percent to tuberculosis. Measures of disease burden used are not consistent. The allocation model reforms could undoubtedly have gone further. However, one provisional estimate of the improvement in allocation, compared to the previous system, is that 'sub-optimally' allocated money is reduced by 40 percent — if implemented without graduated reductions — compared to the previous formula. This is surely, by any measure, an impressive and significant improvement.³⁵

The crucial and challenging point missing from this discussion, vis-à-vis the relative merits of the new funding model, is: which bilateral donor can claim to use a remotely objective or transparent formula to fund particular sectors? Was the UK commitment to spend up to £500 million per annum on malaria by financial year 2014/15³⁶ (a conveniently precise, eye-catching number) based on thorough analysis of resources or on comparative cost-effectiveness of interventions?

There is also strong evidence that countries are spending their education ODA inefficiently. Countries such as Japan, Germany, Canada and France spend a substantial proportion of their education ODA on scholarships for students to come to their country to study. A quarter of total aid for education is spent in this way. Eighty percent of aid towards scholarships is received by middle income countries.³⁷ While there may be benefits to the developing countries, this is effectively a subsidy to the donor countries' own institutions. By contrast, GPE resources from bilateral donors are targeted at the neglected basic education sector and also, as we have seen, on countries with greater needs.

The Global Partnership for Education has also recently introduced a New Funding Model (commencing operation in 2015). While previously eligibility was based on IDA eligibility criteria, it was later decided that this was insufficiently aligned with GPE's goals, and is now based on poverty, educational vulnerability and state fragility of aid recipients. On the thorny issue of allocations to countries, a formula has been developed which considers their

³⁴<http://www.theglobalfund.org/en/fundingmodel/>

³⁵<http://www.cgdev.org/blog/unanswered-questions-global-funds-new-allocation-methodology>

³⁶<http://www.theguardian.com/global-development/2012/apr/25/world-malaria-day-overseas-aid>

³⁷EFA Global Monitoring Report 2013/14, UNESCO. Available here: <http://unesdoc.unesco.org/images/0022/002256/225660e.pdf>

educational need, per capita income, state fragility, external aid to the education sector and school-age population.³⁸

In response to the significant challenge around domestic resource mobilization, the GPE has introduced requirements that developing country partners produce signed commitments from Ministries of Finance or Prime Ministers/Heads of State, that they will increase their contribution towards their education budget. It was estimated that this helped raise over \$26 billion at the replenishment event in June 2014 in additional commitments. The partnership model of the GPE means that the developing countries have agreed to impose these conditions on themselves — an interesting change from the now widely criticized conditionality that was used in previous decades. Similarly developing countries within GAVI and the Global Fund have had their chance to influence the discussion around graduation, away from financial support.

Transparency

The finding that multilateral agencies are more transparent compared to bilateral agencies is not new.³⁹ However, this difference is particularly stark when we consider the decision-making processes of the new wave of global partnerships such as the GPE, GAVI and GFATM.

Anyone can go to the website of the Global Partnership for Education and see what papers were sent to their board members, what decisions were made, when and by whom. The equivalent level of transparency in a governmental budgeting process is implausible. GAVI goes even further and actually holds many of its board meetings in public.

Political realities

The political realities of aid agencies hinder their ability to effectively implement their plans. USAID essentially transformed its entire operating model solely on account of political restrictions imposed by Congress. Reductions in operating expenses meant that the number of USAID direct hire staff declined by 37 percent between 1992 and 2012, while the number of countries USAID works in doubled and programme budget increased by more than 50 percent.⁴⁰

This has created substantial human capital vulnerabilities for USAID, specifically attrition of its more experienced foreign service officers, difficulty in filling overseas positions and limited opportunities for training and mentoring. The US General Accounting Office states

³⁸ 2014-02-GPE Board Meeting Funding Model Principles:

<http://www.globalpartnership.org/content/principles-and-options-revision-gpe-funding-model>

³⁹ Easterly, William, and Tobias Pfutze. 2008. "Where Does the Money Go? Best and Worst Practices in Foreign Aid." *Journal of Economic Perspectives*, 22(2): 29-52.

⁴⁰ http://www.foreignpolicy.com/articles/2012/07/18/hired_gun_fight

this has led to, “(1) the deployment of direct-hire staff who lack essential skills and experience and (2) the reliance on contractors to perform most overseas functions.”⁴¹ The United States actually has more than 50 different bureaucratic units involved in providing foreign assistance, with overlapping responsibilities for an equally high number of objectives.⁴² USAID is unable to narrow its focus to the poorest countries because of State Department pressure to keep open offices where they have geopolitical interests. The relative response of PEPFAR and the Global Fund to the AIDS crisis is a striking example of the vulnerability of bilateral donors to political decisions. From 2003–2008 the US Congress dictated that PEPFAR earmark one-third of its prevention funding towards abstinence and ‘be faithful/behaviour change’ approaches, despite concerns about the effectiveness of such approaches.⁴³⁴⁴⁴⁵ Similarly Congress also imposed restrictions on the promotion of condoms.⁴⁶

By contrast the Global Fund has been praised as a donor for its work on maximizing the efficiency of its spending. It targets the poorest countries, has low administrative costs and its projects are large. The Global Fund was ranked as the top donor in QuODA in terms of maximizing efficiency.⁴⁷

The issue of political interference is not limited to the US. The UK, in many ways, has the ideal institutional set-up for an aid agency. It is a fully fledged department with discretion to decide on funding to major multilaterals (which is often the preserve of a treasury

⁴¹ GAO Report 2003, Foreign Assistance Strategic Workforce Planning can help USAID address Current and Future Challenges GAO-03-946. Available here: <http://www.gpo.gov/fdsys/pkg/GAOREPORTS-GAO-03-946/pdf/GAOREPORTS-GAO-03-946.pdf>

⁴² Brainard, Lael. 2007. “Organizing U.S. Foreign Assistance to Meet Twenty-First Century Challenges.” In *Security by Other Means: Foreign Assistance, Global Poverty, and American Leadership*, chap. 2. Washington, DC: Brookings Institution Press.

⁴³ <http://www.pepfar.gov/reports/guidance/75837.htm>

⁴⁴ PEPFAR: Preaching Abstinence at the Cost of Global Health and Other Misguided Relief Policies; Leventhal, Ilene, 2010, Available here:

<http://heinonline.org/HOL/LandingPage?handle=hein.journals/tclj24&div=7&id=&page=>

⁴⁵ Was the “ABC” Approach (Abstinence, Being Faithful, Using Condoms) Responsible for Uganda's Decline in HIV? Elaine M Murphy, Margaret E Greene, Alexandra Mihailovic, Peter Olupot-Olupot

<http://www.plosmedicine.org/article/info%3Adoi%2F10.1371%2Fjournal.pmed.0030379>

⁴⁶ <http://blog.nibrinternational.no/#post12>

⁴⁷ Center for Global Development, *Quality of Overseas Development Assistance*, 2014.

Available here: <http://www.cgdev.org/publication/quality-official-development-assistance-2014>

department). It has received considerable credit for its effectiveness as an aid agency.⁴⁸⁴⁹ Yet DFID remains vulnerable to perverse political incentives.

Her Majesty's Treasury (HMT) allocated DFID a large amount of capital budget rather than resource budget in the most recent budget because under accounting rules capital is not recorded as an increase in the national deficit. The coalition government has protected the aid budget, but also has a strong commitment to reducing the deficit. Capital expenditure means spending money on assets such as infrastructure or making loans where there is a reasonable expectation of getting the money back. A cynic might therefore say that DFID is transforming its business model to meet capital expenditure targets in order to appease an HMT accounting sleight of hand.

Indeed, even in the UK we should be careful about assuming that this golden era of cross-party support for international development will last. While the coalition took the bold and welcome step of committing to spend 0.7 percent of gross national income on development, this state of affairs may prove temporary. Moreover, the UK public has broadly opposed the decision to ring-fence the aid budget,⁵⁰ and with the UK Independence Party polling 15 percent with an agenda to dramatically cut overseas aid it is unclear how long this current state of affairs can last.⁵¹⁵²

Predictability of funding: another advantage for multilaterals

The loss associated with the lack of predictability of aid has been estimated at 15 to 20 percent of its value, using financial market models to put a price on uncertainty.⁵³ Yet bilateral donors are helpless in that they cannot avoid moving into and out of sectors as the trend changes. Donor assistance for the health sector has been particularly volatile and poorly coordinated between donors.⁵⁴

⁴⁸Oliver Morrissey, British Aid Policy since 1997: Is DFID the standard bearer for Donors?, CREDIT Research Paper, University of Nottingham, 2002

<http://www.nottingham.ac.uk/credit/documents/papers/02-23.pdf>

⁴⁹Center for Global Development, *Quality of Overseas Development Assistance*, 2014.

Available here: <http://www.cgdev.org/publication/quality-official-development-assistance-2014>

⁵⁰Glennie, Straw and Wild, Institute for Public Policy Research & Overseas Development Institute, June 2012, <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7708.pdf>

⁵¹<http://ukpollingreport.co.uk/uk-polling-report-average-2> – accessed on 13th September 2014.

⁵²<http://www.ukip.org/issues>

⁵³Kharas, Homi. 2008 —Measuring the Costs of Aid Volatility, *Wolfensohn Center for Development Working Paper #3*, Brookings Institution. Available here:

http://www.brookings.edu/papers/2008/07_aid_volatility_kharas.aspx

⁵⁴R Manning, Development Cooperation report 2007 OECD J Dev, 9 (2007), pp 1-214

USAID, the largest aid agency by disbursements, is unable to make anything over a year-long commitments to organizations. The agency itself admits the complexity of its budget process, and tellingly states in an official presentation that “Congressional earmarks and directives may not always correspond to White House priorities.”⁵⁵

In education the element of ever-shifting donor priorities is particularly stark. The United States was formerly the largest bilateral donor to basic education. However, since 2010 it has halved its total resources to basic education.⁵⁶ The Netherlands was the fifth largest donor to basic education between 2002 and 2011; it has since taken a decision to pull out of the education sector entirely. Denmark too is phasing out bilateral aid to education and closing 11 programmes between 2011 and 2015.

Another way of considering this issue is to look at commitments to the Global Partnership for Education at its 2011 and 2014 replenishments. In 2011 the GPE raised \$1.5 billion through its replenishment while in 2014 it raised \$2.1 billion. However, the donors who provided this money, and the amounts they provided, changed dramatically over just a three-year period.

Australia more than halved its commitment in 2014, while the Netherlands completely withdrew from funding. Sweden more than doubled its commitment while Norway nearly trebled it and the EU increased it almost ten-fold to become the largest donor. These fluctuations, however, average out to an extent over the entire donor base. The aggregation of donors reduces this volatility, indicating that GPE has a greater potential to sensibly plan and manage resources for the longer term. Any bilateral donor is vulnerable to a single political change dramatically shifting the trajectory of their spending.

Transaction Costs

In theory, there are good reasons to suppose that multilateral institutions reduce transaction costs for developing countries. So, rather than dealing with multiple donors, the latter could, theoretically, deal with a smaller number of partners.

The academic literature has attempted to model this through the Herfindahl coefficient, which in essence is the probability that two randomly chosen aid dollars are from the same donor. Easterly et al. conclude that “the aid effort is splintered among many different donors, each agency’s aid effort is split among many different countries, and each agency’s aid effort is also splintered among many different sectors.”⁵⁷

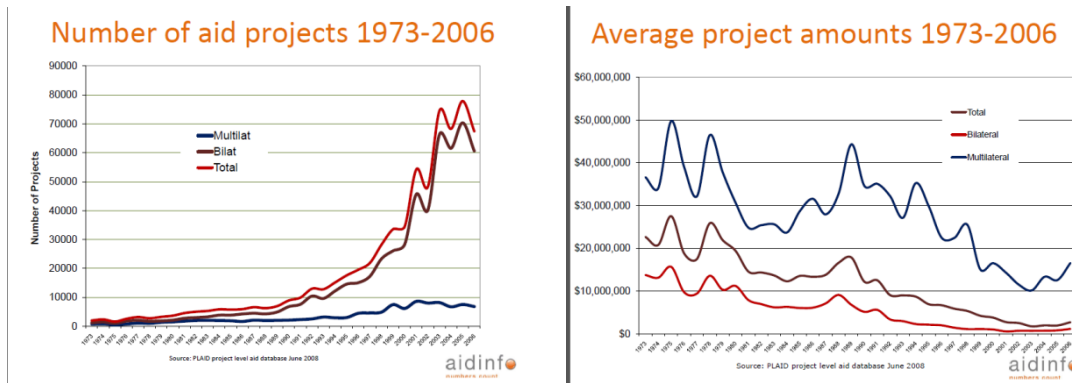
⁵⁵http://pdf.usaid.gov/pdf_docs/Pnadm951.pdf

⁵⁶ EFA Global Monitoring Report 2013/14.

<http://unesdoc.unesco.org/images/0022/002256/225660e.pdf> (page 133)

⁵⁷ Easterly, William, and Tobias Pfütze. 2008. "Where Does the Money Go? Best and Worst Practices in Foreign Aid." *Journal of Economic Perspectives*, 22(2): 29-52.

As the following two graphs demonstrate, bilateral donors are guilty of dramatically expanding the number of projects they funded in the past 15 years, while simultaneously reducing the size of the projects. Multilateral donors have proved considerably more resistant to these urges. Incredibly it has been estimated that over 80 percent of aid projects under way at any one time are worth less than \$1 million.⁵⁸



It is worth noting that the global partnerships have largely responded to this concern. The allocation models of both the Global Fund and Global Partnership for Education include a minimum required grant level. This is crucial given the preponderance of small aid projects with correspondingly large transaction costs.

The situation with regard to education is particularly bleak. Education aid is highly fragmented and this proliferation of monitoring, reporting and evaluations results in high transaction costs. Encouraging these non-significant donors⁵⁹ (see graph below) to invest through the multilateral system would reduce the transaction costs.⁶⁰

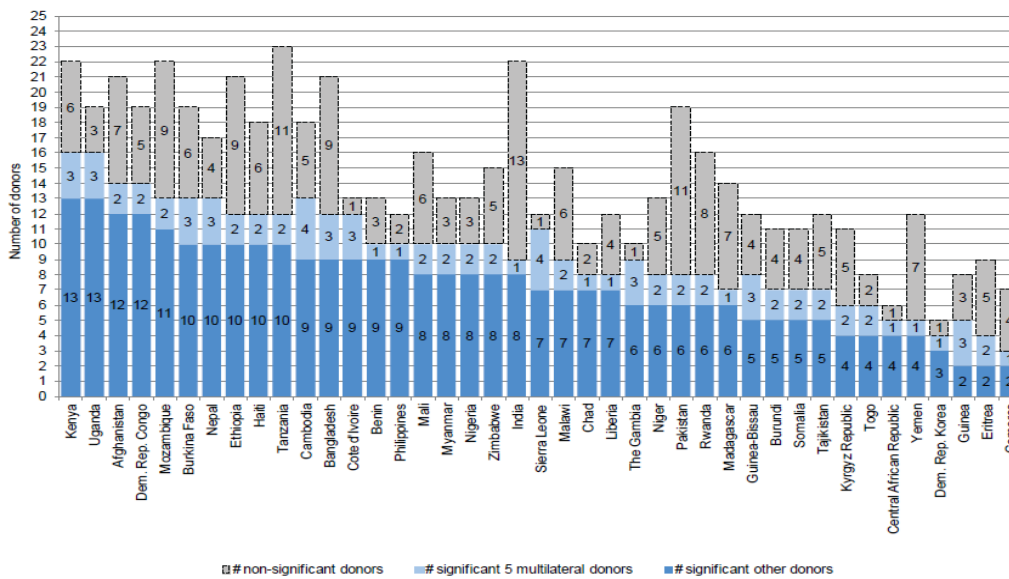
⁵⁸Speech by Hilary Benn (6th and final White Paper speech), Secretary of State for International Development, 14th March 2006, Overseas Development Institute and All Party Parliamentary Group on Overseas Development. Available here:

<http://www.odi.org/sites/odi.org.uk/files/odi-assets/events-documents/1345.pdf>

⁵⁹ A “significant” aid partnership is one where (a) the donor is among the top donors that cumulatively provide 90 percent of education aid to that country (i.e., the donor’s contribution is significant to the recipient country; or the donor is important to that country) and/or (b) where the donor provides a larger share of total aid to the education sector in the recipient country compared with its share of total aid in that country (i.e., the donor gives a higher-than-average priority to education compared with other sectors). The principle is that where an aid relation is neither significant from a donor perspective nor from a recipient’s point of view, there is an opportunity for rationalization (OECD 2011).

⁶⁰ Financing for Global Education: Opportunities for Multilateral Action, *Pauline Rose and Liesbet Steer*, Brookings Institution, September 2013

Figure 5. Number of Significant and Nonsignificant Education Aid Relationships Based on 2011 Levels of Country Programmable Aid



Source: OECD-DAC 2013.
 Note: This graph excludes general budget support.

Adopting new approaches

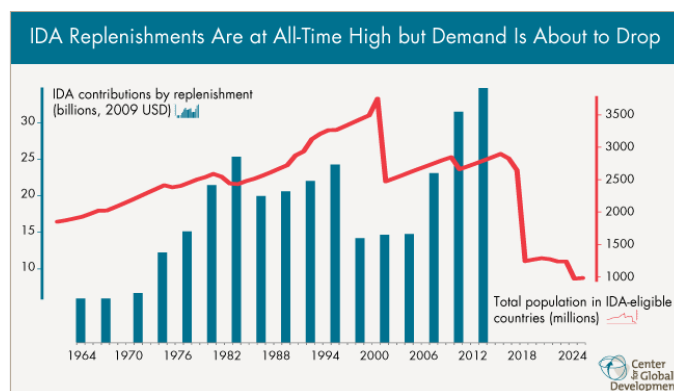
Focusing development assistance on results rather than on inputs has long been an objective for many in the international development community. Various novel suggestions have been made around results-based financing, payment for performance and cash on delivery.^{61,62}

Bilateral donors, however, have been slower to move on this agenda while multilateral organizations, particularly those with a global partnership mindset have shown their ability to move faster. To cite an example, the Global Partnership for Education developed a new funding model in less than two years, which introduced a 30 percent component of results-based financing to all their country implementation grants. For an organization that works at a systems' level across basic education in over 60 countries, this has now created a huge incentive for improved performance.

⁶¹ Glennie, Straw and Wild, Institute for Public Policy Research & Overseas Development Institute, June 2012, <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7708.pdf>

⁶² Radelet, Steven, Aid Effectiveness and the Millennium Development Goals (April 15, 2004). Center for Global Development Working Paper No. 39. Available at SSRN: <http://ssrn.com/abstract=1112641> or <http://dx.doi.org/10.2139/ssrn.1112641>

Consider the contrast between the rapid transformation of GPE’s funding model and the World Bank’s continuing use of IDA. The latter was created in 1960 to offer highly concessional loans to a large number of poor countries. It essentially hasn’t changed its nature over 16 IDA replenishments. Each new bank president aims to raise the largest IDA ever and all the institutional incentives lead in this direction. It has been apparent for at least a decade that demand for IDA is falling, and this will accelerate rapidly over the next 10 years.⁶³ The working group on Future of IDA was co-chaired by Todd Moss, former Deputy Assistant Secretary at the Bureau of African Affairs at the US Department of State, and Jean Michel Severino, former Director of Agence Française de Développement. These should be the people capable of effecting change at a major multilateral and yet the paper speaks to their frustration at the prospects for reform.



GAVI has taken a transformative and innovative step to use ‘vaccine bonds’ from donor governments to front-load financing. It has raised over \$4.5 billion to date, six times the donor funds received by IFFIm⁶⁴ over the same period, and has nearly doubled GAVI’s funding for immunization programmes. GAVI in particular was able to arouse the interest of Gordon Brown, showcasing their ability to win political buy-in.

A benefit of IFFIm — not always recognized — is that it forces bilateral donors into longer-term investments. So when governments draw up their budgets, IFFIm’s legally binding commitment (often for over 20 years) goes a long way in protecting these from cuts. This is the kind of predictability of funding that bilateral donors should be aiming to achieve. IFFIm retains an AA+ credit rating from Fitch ratings.⁶⁵

How the new institutions are making room for themselves in the aid architecture

⁶³ The Future of IDA Working Group. 2012. Soft Lending without Poor Countries: Recommendations for a New IDA. CGD Report (Washington, DC: Center for Global Development). www.cgdev.org/content/publications/detail/1426547/

⁶⁴ International Finance Facility for Immunisation (IFFIm)

⁶⁵ Fitch Ratings, International Finance Facility for Immunisation (IFFIm) Full Rating Report, May 2014

The fact that the international aid architecture is messy is well recognized. There are over 90 agencies in international health alone.⁶⁶ What we see in the case of GAVI, GFATM and GPE, however, is their significantly higher success rate at raising funds and proving their value; this when compared to many of the more traditional multilateral organizations.

The most recent GPE replenishment raised over \$2 billion for the first time, and the partnership has now grown to include over 60 developing countries. However, it still needs to scale considerably if it is to replace the basic education work done by bilateral donors, though it has already carved out a position for itself in a short space of time by pursuing a more independent identity (it rebranded in 2011).

They (the GPE) have been successful as a global advocate for education and have worked to bring in new donors such as Qatar and South Korea, while at the same time offering smaller donors a chance to invest in a more effective manner.⁶⁷

GAVI and the Global Fund have, even more rapidly, become major players in the health sphere.⁶⁸ Their high performance is recognized in both the UK and Australian multilateral aid reviews.⁶⁹⁷⁰ They have secured substantial support from private foundations and even managed to get significant amounts of money from donors who traditionally prefer to work bilaterally — such as the US. The upcoming GAVI replenishment in Berlin will again be a good test of whether the political prestige of hosting such an event is a way of getting money from a traditionally bilateral donor into an effective multilateral organization.

The Global Funds have proven adept at political lobbying to steadily increase their replenishment figures. In many cases they have successfully lobbied politicians to grant more money than was necessarily recommended by officials (for instance, GPE successfully lobbying Congress for more money than requested by USAID).

⁶⁶ Speech by Hilary Benn (6th and final White Paper speech), Secretary of State for International Development, 14th March 2006, Overseas Development Institute and All Party Parliamentary Group on Overseas Development. Available here:

<http://www.odi.org/sites/odi.org.uk/files/odi-assets/events-documents/1345.pdf>

⁶⁷ Their recent replenishment raised money from Belgium, Ireland, Switzerland, Luxembourg and Italy. These countries could not reasonably maintain bilateral programmes at scale in many countries but have the chance to contribute globally.

⁶⁸ McCoy, Chand and Sridhar, Global health funding: how much, where it comes from and where it goes, *Health Policy and Planning*, Vol 24, Issue 6, pp 407-17. Available here:

<http://heapol.oxfordjournals.org/content/24/6/407.full>

⁶⁹ Australian Multilateral Assessment, March 2012. Available here:

<http://aid.dfat.gov.au/partner/Documents/ama-full-report.pdf>

⁷⁰ UK Multilateral Aid Review, March 2011. Available here:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67583/multilateral_aid_review.pdf

Being cynical, the set piece replenishment events that the Global Funds organize on a regular basis can offer politicians a good opportunity to take some credit for the aid they give and attract favorable media coverage. This, however, should not be seen in a negative light. The alternative is perhaps to have politicians announce eye-catching numbers, or worse still, invent new priorities to gain headlines.

The Global Funds attracting money would inevitably mean less for some other organizations. This withdrawal of funding is a mechanism by which excess multilaterals can be weeded out. If the challenge lies in that there are too many organizations in health, then creating a strong GAVI or Global Fund should be seen as doing away with the need for a number of other organizations. The fact that both GAVI and Global Fund now spend a substantial proportion of their funding on training health workers and strengthening health systems arguably undermines the need for funding to a wide range of health organizations. It is also worth noting that overburdening the health workforce of developing countries was a perceived weakness of the Global Funds model, but they have since adapted in order to address this.

What should bilateral donors do instead?

Bilateral donors will continue to play a strong role in the international aid system, but they should be considerably more focused on improving the quality of multilateral donors. At present they spend relatively little time analyzing the multilateral system and investing in the necessary policy work to reform and improve these institutions. In DFID the Global Funds Department, which spends approximately 10 percent of the UK's ODA, has far less than 1 percent of staff resource.

Indeed the UK Public Accounts Committee criticized DFID for making “only limited assessments of the relative cost-effectiveness of multilateral and bilateral aid in achieving its objectives.”⁷¹ This is surely a core consideration for an aid agency, namely, what is the most effective delivery mechanism to achieve our objectives? This is an area where the bilateral aid agencies need to strengthen their capacity. Devoting more staff time to these global institutions will better evidence the donors' positions and give them more capacity for influencing and negotiating when they participate in board meetings. It would also give them the intellectual firepower to evidence withdrawal if they deem it appropriate. This should lead to generally stronger institutions.

Conclusion and Suggestions

Bilateral donors should devote larger amounts of their budgets to organizations such as the GPE, GAVI and GFATM, while at the same time focusing their efforts on improving the work

⁷¹House of Commons, Committee of Public Accounts, The Department for International Development: The multilateral aid review, Twenty-sixth report of session 2012-13 HC 660, 2013. Available here:

<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/660/660.pdf>

of these funds, rather than trying to replicate or duplicate their efforts through their bilateral programmes or even through other multilateral alternatives. Their aim should be to become multilateral by default — particularly if they can invest through the newer wave of multilateral system. Besides, they should accept that their own business models are inevitably flawed, and hence seek to limit their own role in the international aid system.

Multilateral organizations are capable of significant improvements in the allocative efficiency of aid. However, they too have their weaknesses. The new brand of global partnerships typified by GAVI, the Global Fund against Aids, TB and Malaria and the Global Partnership for Education show strong potential, and have reformed themselves substantially since their inception. They do respond to the shifting patterns of poverty, in a way that UN agencies and other parts of the multilateral system struggle to.

The aid system is congested and sectors will differ in their ways. However, other sectors should be open to funding new multilateral organizations that have strong governance arrangements and are flexible enough to reform. Closing down multilaterals is famously difficult but it is better to have one effective organization which takes the lion's share of funding amidst dwindling, ineffective organizations than to solely rely on the latter and hope for unlikely reform. These new institutions should be funded at scale; they should include developing country and civil society representation and should have aid effectiveness principles embedded in their approach.

These global partnerships should of course be judged on the basis of what they achieve. But they should also be judged by their potential to improve. There is clear evidence that they are capable of reforming, while more traditional institutions (particularly those within the UN system) are not. There is also strong evidence that they are capable of sustaining themselves and attracting political support and financial resources. Bilateral donors have the chance to make these organizations better and bigger, and they should not miss this chance.